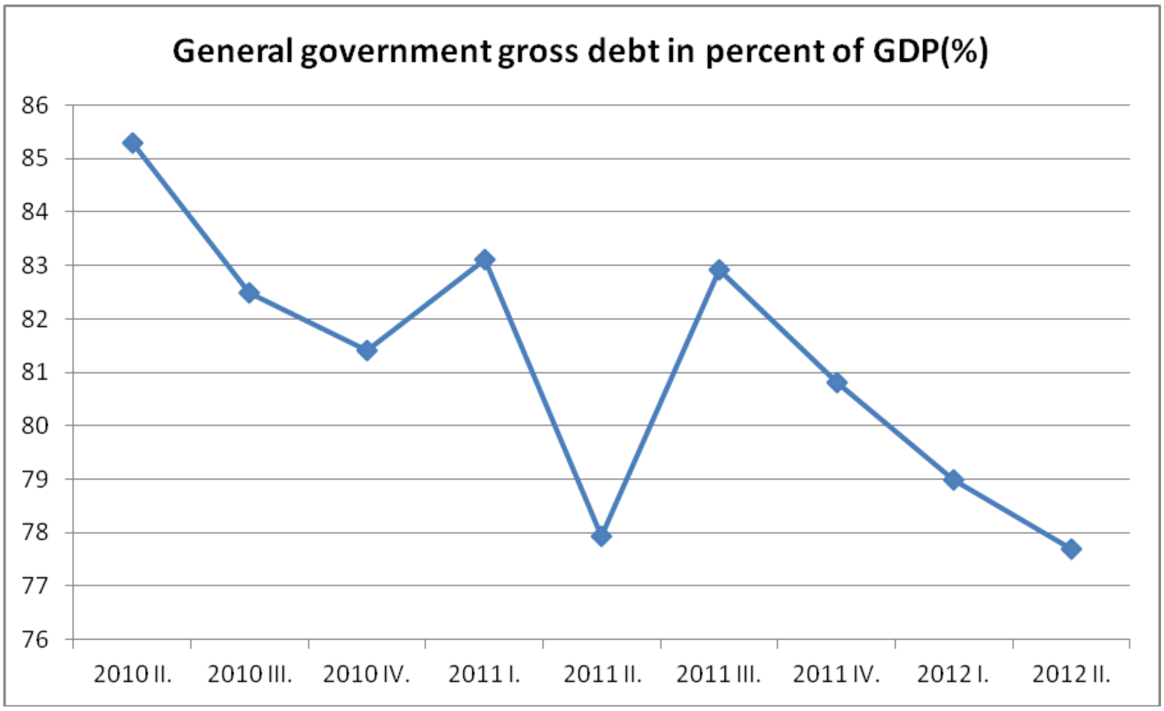
MINISTRY
FOR NATIONAL ECONOMY

Favourable fiscal indicators

General government gross public debt in percent of GDP, except for two quarters, has been actually on a declining path since the second quarter of 2010, and since the third quarter of 2011 this decline has been even more pronounced. General government net lending in percent of GDP has also significantly improved in the past couple of quarters. Public sector net borrowing as of GDP has not been as favourable as in Q2 2012 for the last 11 years.

General government consolidated gross debt as of GDP calculated at nominal value moderated to 77,7 percent by Q2 2012 after a period of significant decline. From the second quarter of 2010 general government debt has been diminishing which **downward trend**, although **reversed for two quarters**, **has been intact again** according to statistics **since Q3 2011**. During this period the GDP-to-general government debt ratio declined steep from **85.3 percent,** by **7.6 percentage points**, since the beginning of the observed period which has been a consequence partly of integrating private pension fund assets into state funds. Government securities of the portfolio were redeemed by the state as they had been returned to the issuer and this transaction resulted in a cut in general government debt. Proceeds from the sale of some other instruments of the portfolio have also been spent on debt reduction. On the other hand, the **improvement of the past quarter** has been a consequence of the **exchange rate impact which forint appreciation had on part of the debt denominated in a foreign currency.**



Source: National Bank of Hungary (MNB)

In the second quarter of 2012 general government net lending was equal to -1,1 percent of GDP after a period of constant improvement. **In 2010** this indicator oscillated **between -2,1 percent and -8,2 percent of GDP**, and data from the four quarters ending with the current three-month period were within a **-4.4 percent to -5.5 percent band**. **Net lending** indicates the **value change of net financial instruments of the state budget resulting from their transactions** in a certain period. **In the past 12 months ending with Q2 2012** net lending of the sector corresponded to **-3.6 percent of gross domestic product**, which indicator **even excluding private pension fund asset transactions signals improvement**. **Adjusted data** present **indices calculated without private pension fund asset transactions.**

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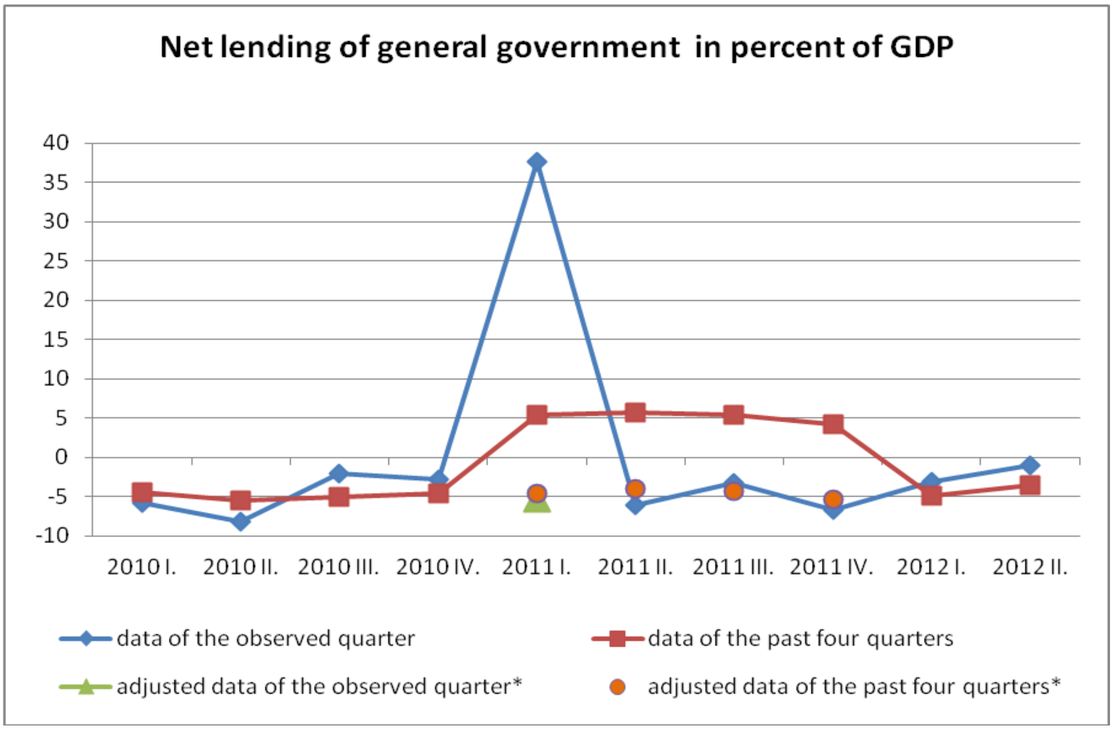

Source: MNB

Public sector net borrowing as of GDP – which stands for borrowing needs to cover the expenditure-revenue gap from external resources – **has not been this favourable as it is in Q2 2012 for 11 years (78,9bn HUF)** when this **deficit amounted to 1,1 percent of gross domestic product.** This corresponds to **an improvement of 3,4 percentage points** in the balance **compared to the previous quarter**; in comparison to the same period of 2011 statistics indicate a **3,6 percent decline in net borrowing.** The reason for this development has been the **increase of revenues (13,5 percent) which has been greater than that of expenditures (4,5 percent). In the first half 2012 public sector net lending was equivalent to -2,8 percent of GDP. Regarding the entire observed period general government net borrowing on average amounted to almost 5 percent of GDP.**

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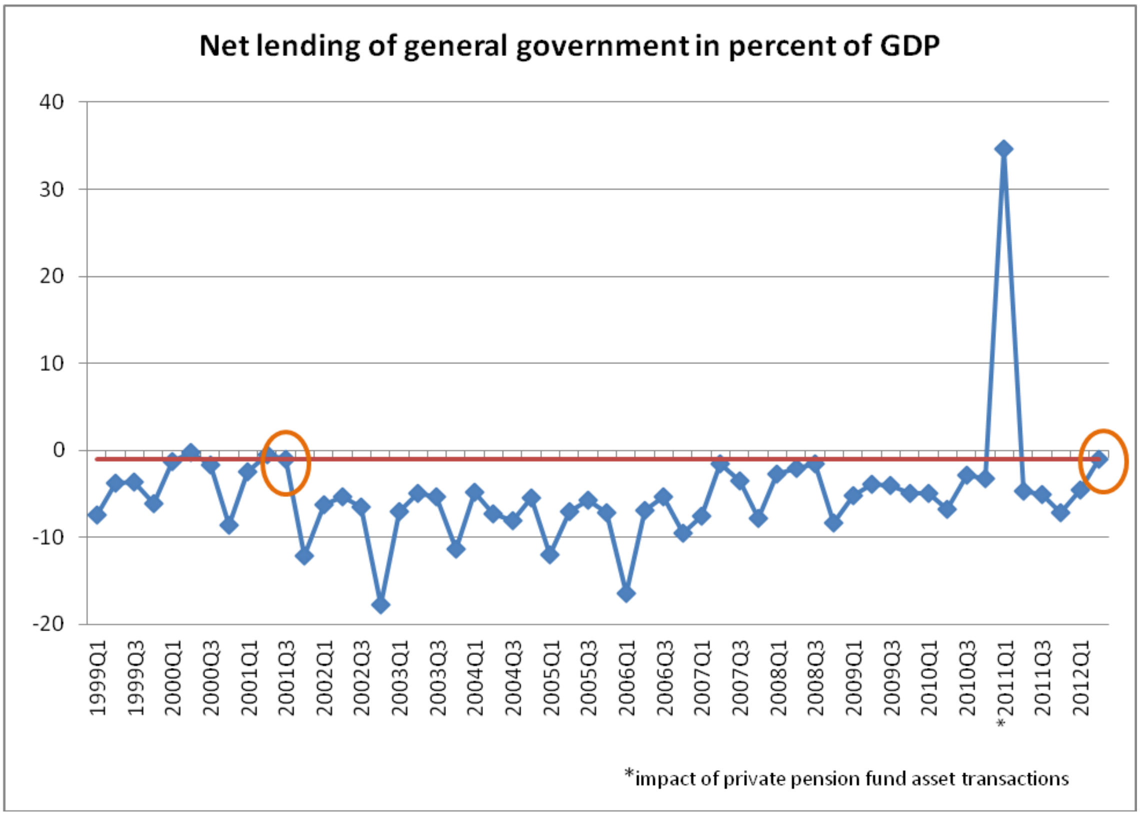

Source: Hungarian Central Statistical Office (KSH)