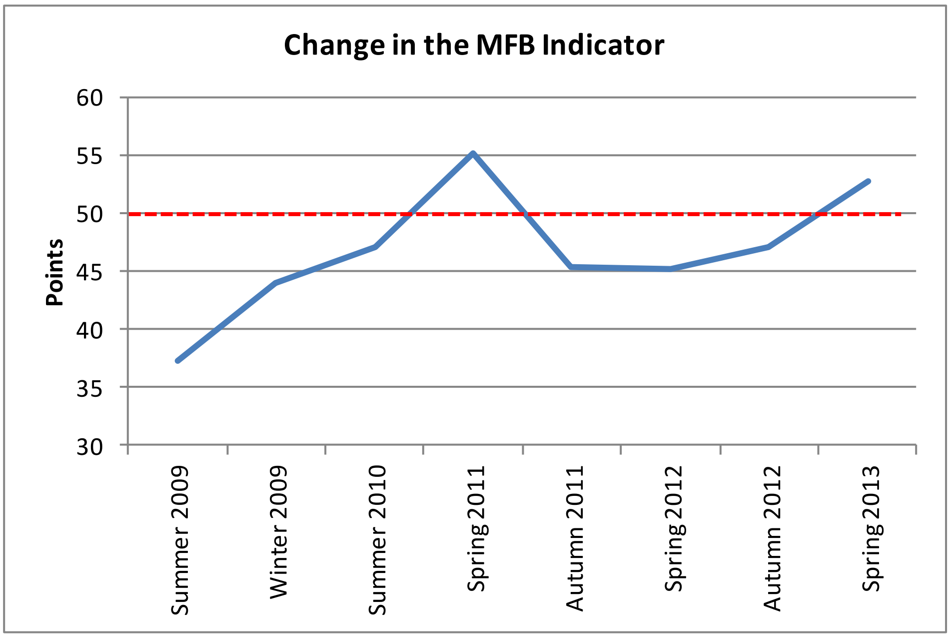
MINISTRY
FOR NATIONAL ECONOMY

Positive economic indicators in Hungary

Over the past couple of months, several favourable processes emerged within the Hungarian economy: according to GDP data published two weeks ago, Hungary's quarter-on-quarter output increased by 0.7 percent, the third best figure in the EU. **Positive changes are also anticipated for the future, as major economic indicators show that the expectations of domestic economic stakeholders have been turning optimistic:** the latest reading of the economic sentiment indicator of the Hungarian Development Bank – due mainly to an improvement regarding companies' future investment plans – jumped to a two-year high, the Purchasing Managers Index of the Hungarian Association of Logistics, Purchasing and Inventory Management (HALPIM) signals expansion of the manufacturing sector and the GKI-Erste indicator points to rebounding business and consumer sentiment.

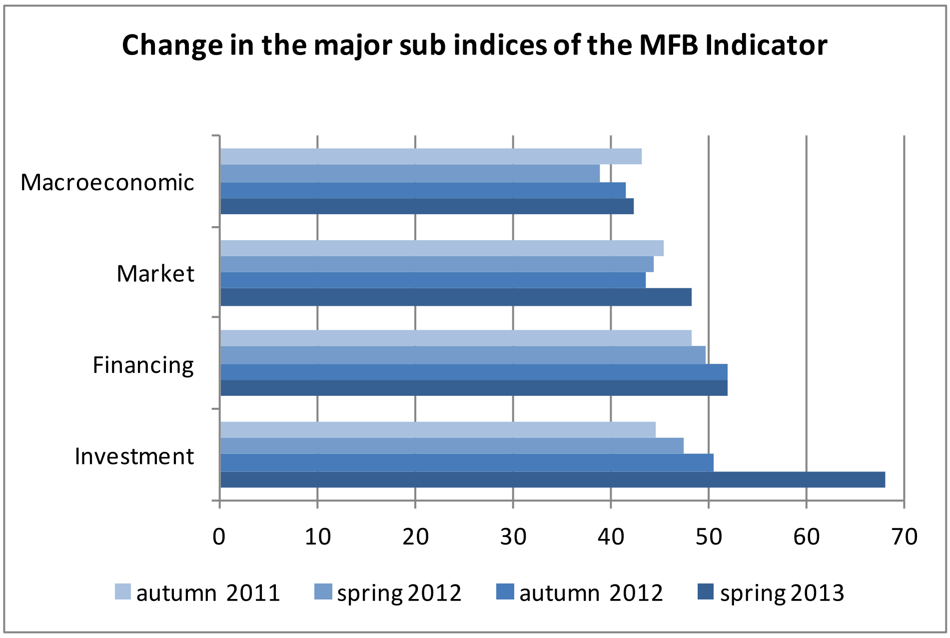


Source: Hungarian Development Bank (MFB)

The economic indicator of the Hungarian Development Bank (Magyar Fejlesztési Bank, MFB), which is based on responses by businesses, provides a comprehensive picture of the current status and future expectations of Hungarian enterprises, the key domestic and external market trends they are involved in as well as their borrowing needs and conditions. The impression the spring survey of 2013 gives of Hungarian enterprises' business sentiment is highly favourable: **the**

MFB indicator leaped up from 47.0 points last autumn to 52.7 points. Thus, the indicator overshot the 50-point threshold for the first time in two years; readings above 50 points indicate an improvement of current perceptions and future expectations of market stakeholders.

The MFB indicator consists of four indices (macroeconomic, market, financing and investment indicators) and two sub-indices (domestic and foreign market). **The Macroeconomic index increased by 0.8 points since the previous survey to 42.3 points**; this was chiefly a result of the more favourable perception of last year's economic processes. **Expectations among surveyed enterprises with regard to inflation have decreased substantially, and companies are increasingly optimistic about domestic demand as well. The Market index was up by 4.7 points to 48.4 points:** the majority of enterprises anticipate growing domestic sales, and expectations concerning sales abroad are also more upbeat (especially among companies active on markets outside the EU).

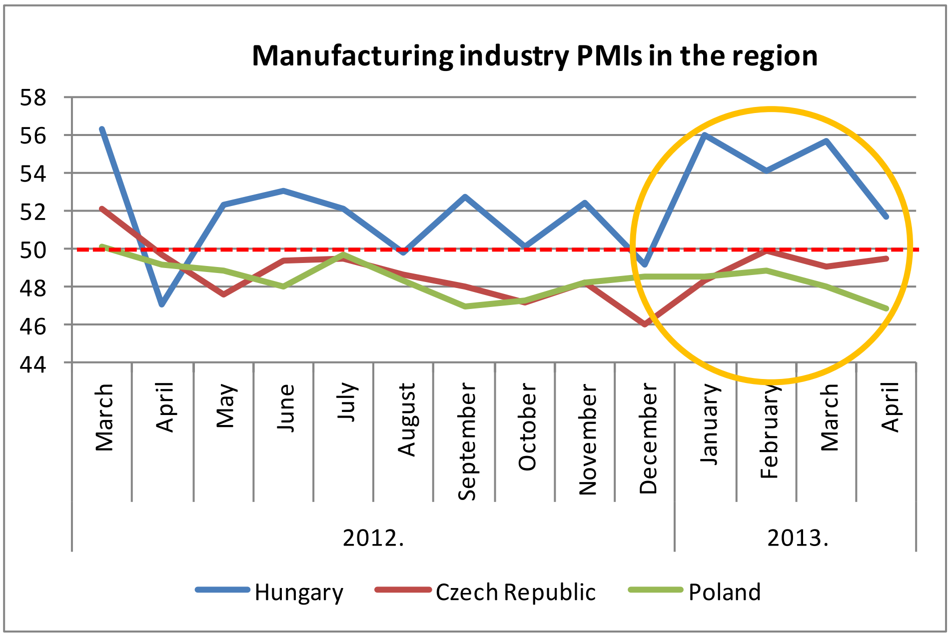


Source: Hungarian Development Bank (MFB)

In light of the Financing index, the financing status of enterprises remained unchanged over the past one year, and future fund-raising plans also show that companies have adopted a waitand-see stance. **Along with exchange rate expectations, those for borrowing conditions were also perceived to be more auspicious compared to autumn 2012**, and responses by enterprises also signal that the string of interest rate cuts is seen to be gradually translated into lower interest rates on corporate loans. The largest improvement among the MFB sub-indices was recorded in the **Investment index**, which **increased to 68.2 points after having gained 17.6 points according to the survey of spring 2013.** This development was mainly the result of improvement with regard to willingness to invest: the share of enterprises which are certain to carry out developments in the coming 12 months exceeded 50 percent. **The main driving forces behind more willingness to invest were fierce market competition and overdue investment plans, but in comparison to the former survey the significance of an anticipated expansion of external and internal markets as well as higher sales revenues has also increased.**

The Manufacturing Industry Purchasing Managers Index of HALPIM gauges the current performance and future prospects of the manufacturing industry, one of the most significant sectors from the aspect of the growth of the national economy, on the basis of purchasing managers' responses who are active in this field. The release of the institution published at the beginning of May shows that **Hungary's Purchasing Managers Index has been above 50 points – and thus within the domain signalling the expansion of the manufacturing sector -- for the fourth month in a row. The seasonally adjusted index stood at 51.7 points in April**, which is albeit below the 54+ readings recorded in the previous months, but still well above the level registered in April last year.

Out of sub indices, **the steady uptrend of the employment index, in place since January, continued in April. The stock of inventories purchased has increased for the eighth month**. It has been another positive sign that the export index also improved compared to the level of the previous month, and **readings recorded in January-April 2013 show renewed expansion after the sub-50 level in December 2012.**

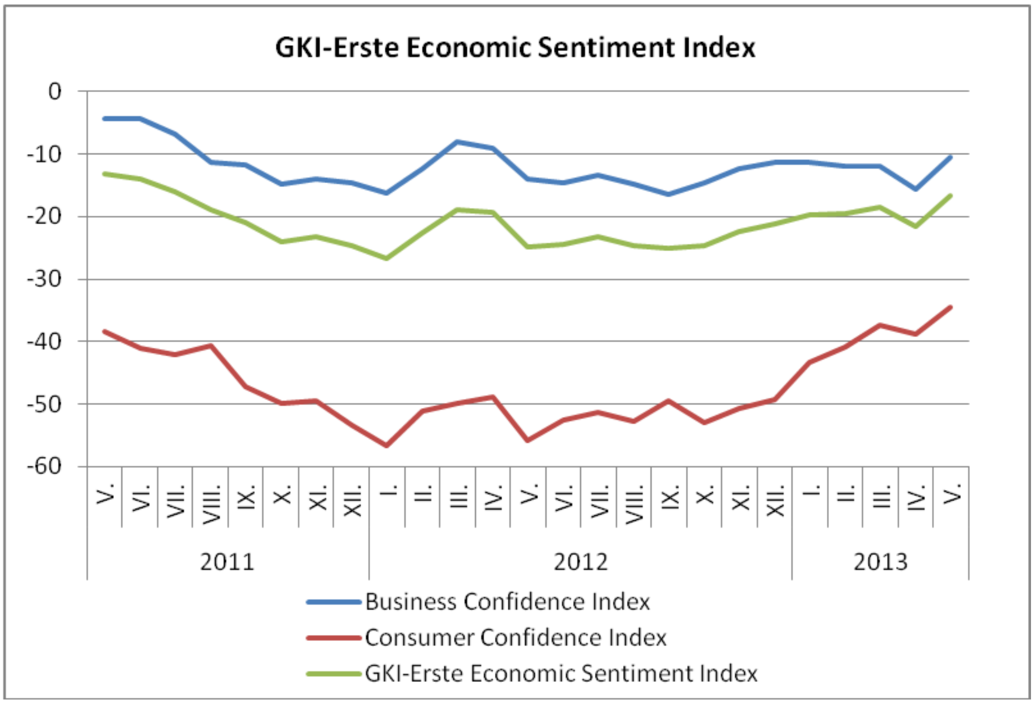


Source: Reuters

Changes in Hungary's PMI are highly advantageous from a regional aspect. The HSBC/Markit research institution calculates a Purchasing Managers Index, with a methodology similar to the respective Hungarian indicator's, **for Poland and the Czech Republic** among the Visegrád countries. The index for both countries has been below 50 points since April 2012. In the fourth month of the year, Poland's PMI slipped from 48 points in March to 46.9 points, undershooting prior analyst expectations. This figure signals that **recession in the sector is deteriorating. In the Czech Republic, the PMI increased from 49.1 points in March to 49.5 points** in April which indicates that respondents from the Czech manufacturing sector are not anticipating recovery any time soon.

The GKI-Erste economic sentiment index gauges business and consumer sentiment as well. The survey is conducted by the evaluation of responses to questions on the state of business and expectations on turnover and employment on the one hand, and on the basis of perceptions of households concerning their financial position, prospect of savings and their opinion of the country's economy and jobless situation on the other. **The seasonally-adjusted index increased to -16.7 points in May, the best result in almost two years:** it is the most favourable figure recorded since July 2011.

The business confidence index, a sub-index of the GKI-Erste indicator, has not been as high as it was in May for over one year. In light of the survey's conclusions, **with the exception of service providers, expectations have significantly improved in every segment within the business sector. In the industry, the evaluation of the production level of the past and next periods, as well as that of orders improved spectacularly.** In construction, positive changes in expectations since the beginning of the year have accelerated by May. Compared with April, the assessment of the production level and the stock of orders of the previous three months improved significantly as well. In trade, the assessment of sales positions and expected orders picked up. **With regard to intentions to employ, the number of companies planning cuts in employment dropped, thus their proportion is now slightly less than those intending to hire.**



Source: Hungarian Economic Research Institute (GKI)

Consumer expectations were above the May level for the last time more than two years ago, in February 2011. The **consumer confidence index has been rising steadily since October 2011.** As households are anticipating their financial situation to improve over the coming year, **it may result in a rebound in domestic consumption.**

MFB's economic indicator, HALPIM's Manufacturing Industry Purchasing Managers Index and the Economic Sentiment Indicator of GKI-Erste have all improved over the past couple of months; **the better indices are signalling that the economy can continue to expand.**