Risk indicators regarding Hungary have improved

According to the CMA Datavision ranking of the second quarter of 2012, Hungary is no more among the world top 10 of the highest risk countries and it has achieved the second best improvement compared to the risk perception of the previous quarter. The favourable result has been primarily due to the introduction of the Széll Kálmán Plan 2.0 and the positive developments with regard to the EU/IMF negotiations.

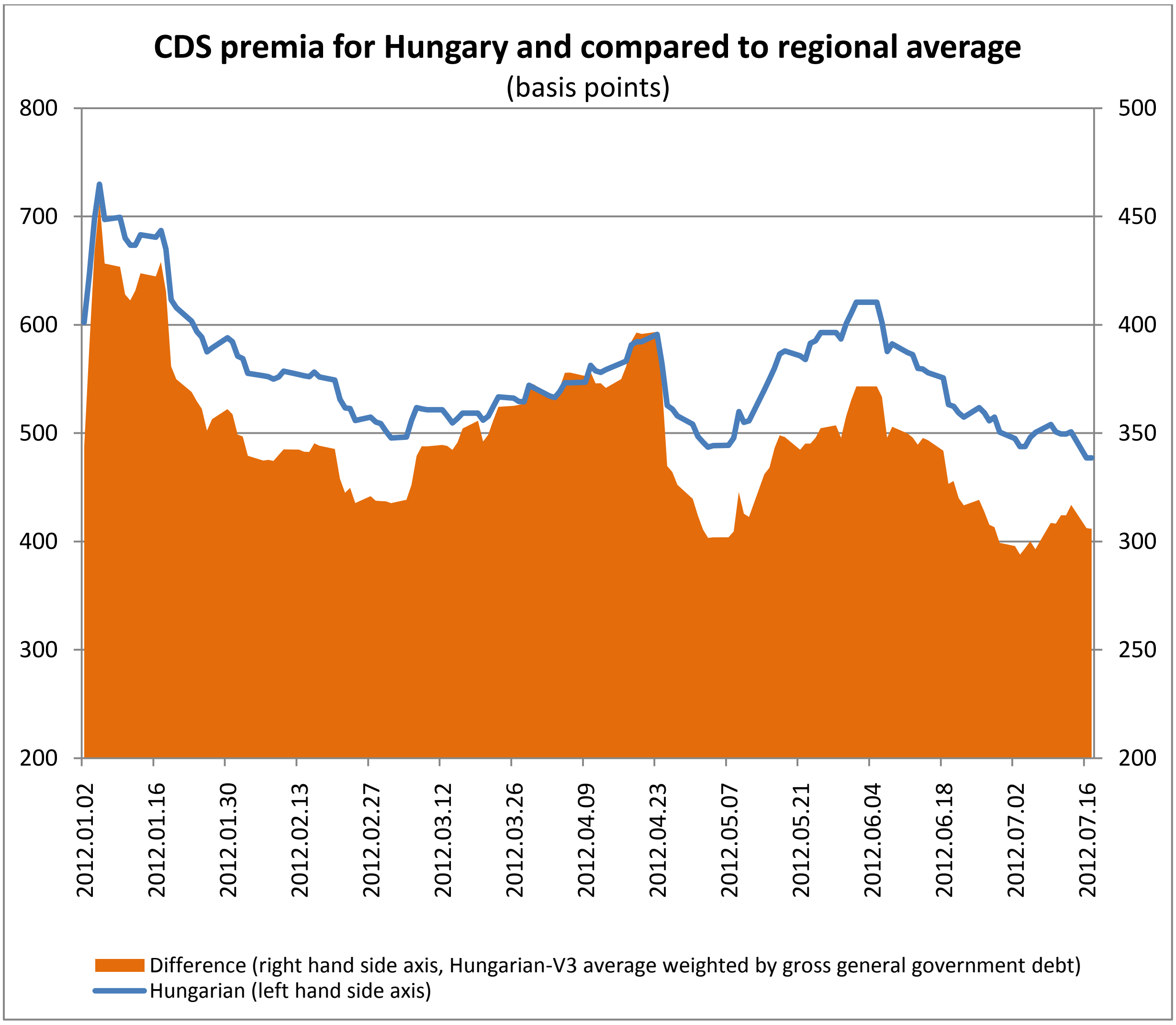
At the end of Q1 2012 the 5-year risk premium which hedges against a default on Hungarian government securities was **544 points** which declined to **497 points by the end of the second quarter**. The change of **8.8 percent** in the observed period has been **the second greatest improvement** after Portugal's. As a result, **after three consecutive quarters Hungary is off the list of the top 10 of the highest risk countries.**

5 countries which achieved the greatest improvement in their risk perception

Countries	CDS premium for 5 years		Change
	30 March	29 June	
Portugal	1136	805	-29,2%
Hungary	**544**	**497**	**-8,8%**
Israel	186	170	-8,6%
Japan	100	94	-5,8%
Netherlands	115	110	-4,7%

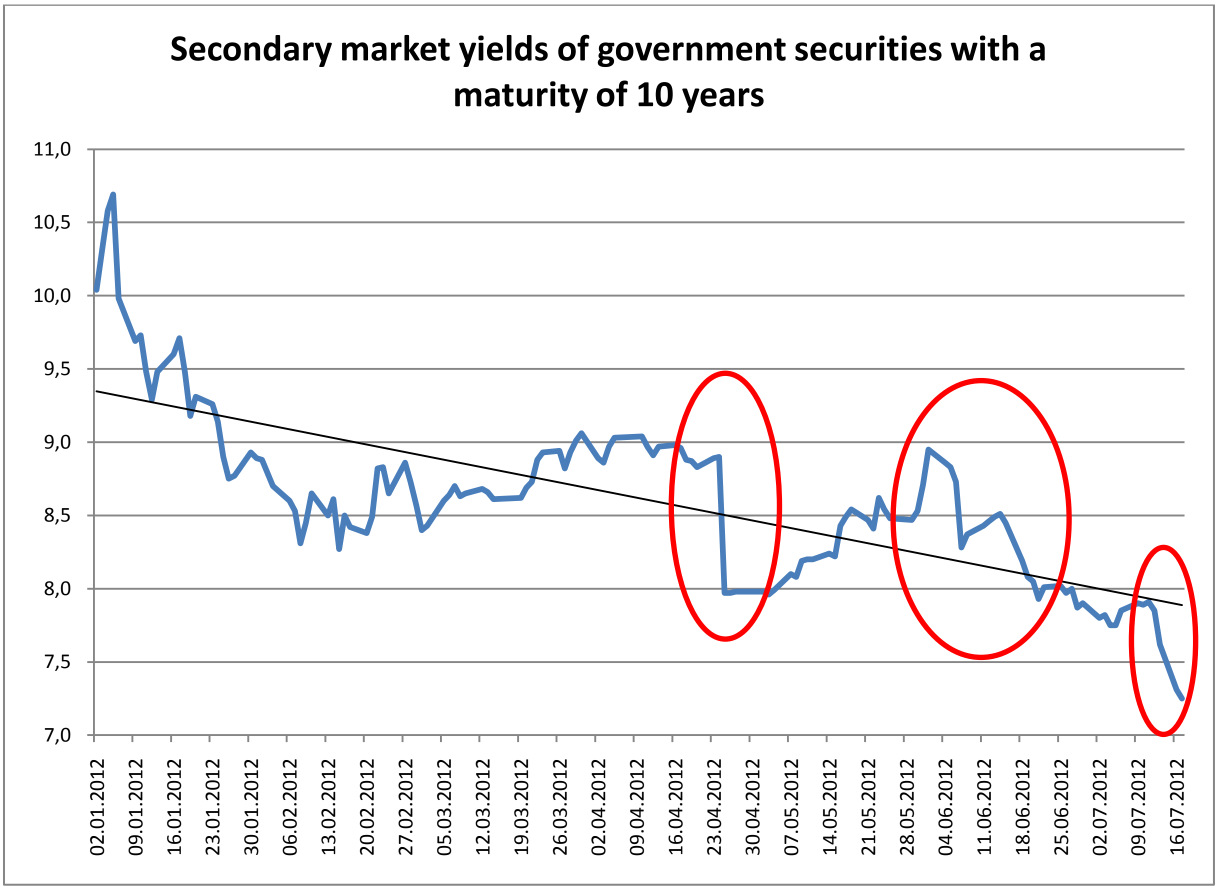
Source: cmavision.com

Analyzing **5-year CDS premia** one can conclude that the improvement of risk perception with regard to Hungarian government securities **has been a trend since the beginning of 2012 instead off a statistical outlier.** Compared to the peak of 730 basis points at the beginning of January after a huge decline of 253 points risk spread was at 477 points by 17 July. Parallel to this phenomenon, risk perception has also **significantly improved in comparison to the countries of the region (V3). Compared to the regional average** weighted by gross general government debt, payable **risk premium for Hungary was 400 points higher at the beginning of 2012**. Since then, the gap with the V3 average **has been narrowed by approximately 100 basis points.**



Source: Reuters

There has been a tendency similar to the trend of CDS premia regarding the secondary market yields of Hungarian government securities with a maturity of 10 years. Benchmark yields for this maturity of about 10 percent at the beginning of 2012 declined to 7.25 percent by 17 July after a drop of 2-2.5 percent. Yields dropped significantly after the **Széll Kálmán Plan 2.0** was announced at the end of April in addition as the **European Commission** and after that the **ECOFIN favourable reports on fiscal outlook** were published. Thereby the **Excessive Deficit Procedure against Hungary was lifted** and that has been warmly welcomed by investors. In addition, **risk perception has further substantially improved recently** which was a consequence of the **announcement of the concrete and official commencement of EU/IMF negotiations due to central bank bill amendment.**



Source: ÁKK

Due to the aforementioned positive developments, by Q2 2012 on the **cumulative probability of default (CPD**) ranking – the probability that a certain country defaults within a given period – **Hungary is off the top 10 of highest risk countries**. With regard to **Hungary CPD was 30.1 percent** in the second quarter of 2012, while this figure for **Greece,** perceived as the riskiest, is **96.7 percent** and **71.1 percent for Cyprus** as the second in the ranking.

Top risk ranking according to cumulative probability of default (CPD), Q2 2012			
Rank	**Countries**	**CPD (%)**	**5 year CDS premium (basis points)**
1	Greece	96,7	10 667
2	Cyprus	71,1	1 415
3	Argentina	58,6	1 215
4	Portugal	49,8	805
5	Pakistan	49,6	941
6	Venezuela	47	864
7	Ukraine	45,1	842
8	Ireland	38,6	554
9	Spain	37,2	525
10	Egypt	35,9	617
11	Italy	34,9	480
12	Croatia	30,6	506
13	**Hungary**	**30,1**	**497**

Source: cmavision.com