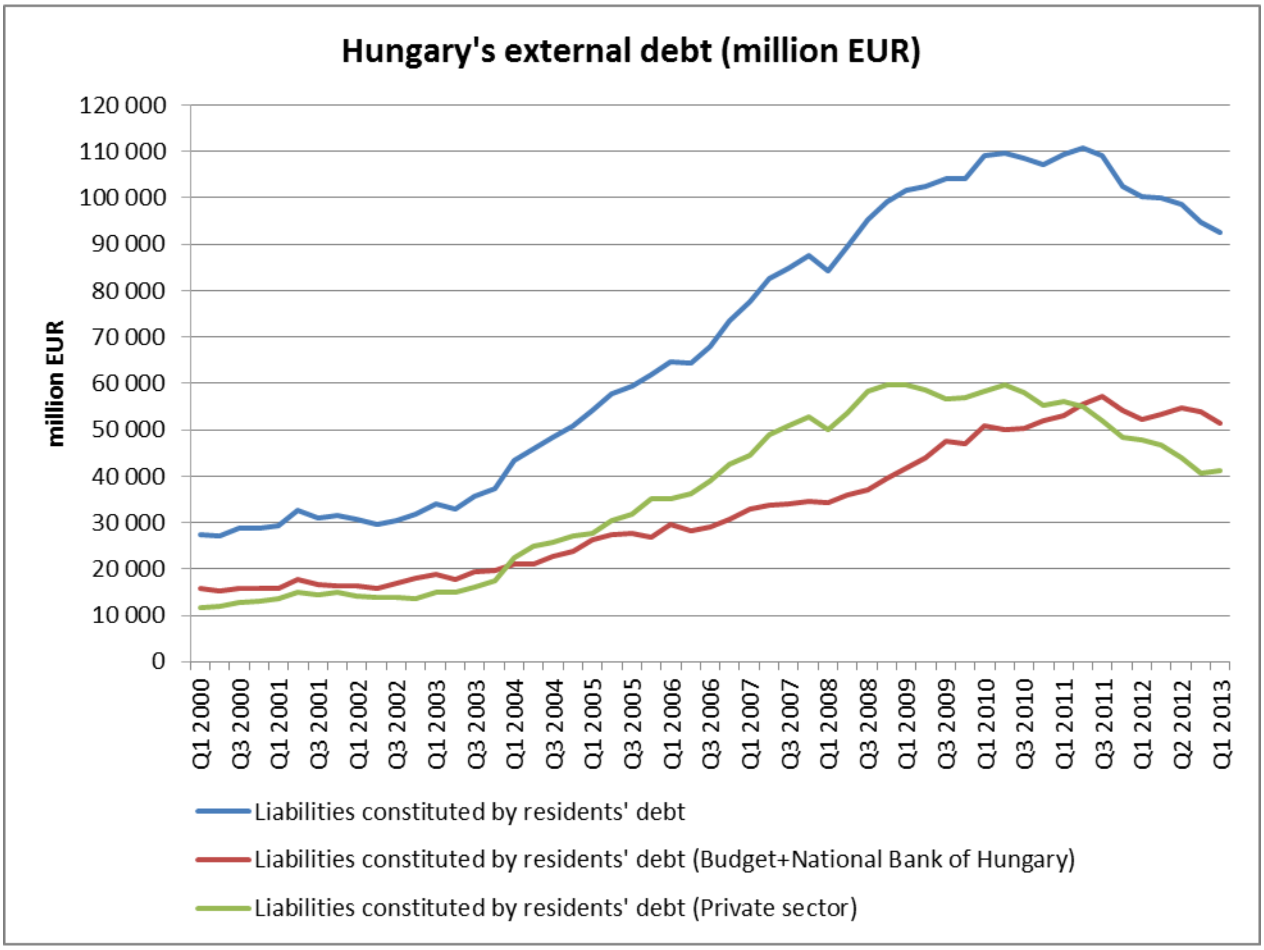
MINISTRY
FOR NATIONAL ECONOMY

Level of Hungarian economy's external debt decreasing steadily

Hungary's external debt level is characterized by a positive trend which has been in place for almost two years: since the third quarter of 2011, the external debt of the Hungarian economy has decreased by some 18.7 percent of GDP. The improvement of the external debt indicator – a key benchmark for Hungary's risk assessment – is a favourable change from the aspect of the stability of the country in general and the financial status in particular.

In the second quarter of 2011, Hungary's external debt (i.e.: liabilities constituted by the debt of residents calculated with the exclusion of other capital within foreign direct investment) peaked at EUR 110.8bn after the level of foreign debt had soared following 2002-2003. **In the first quarter of 2013, external debt totalled already only EUR 92.5bn,** as domestic macroeconomic stakeholders (enterprises, the public sector, households and non-profit organizations) had **cut the amount of their external debt by some 18.3bn euros**. The foreign debt level of the Hungarian economy has not been this low since Q3 2008, when it amounted to EUR 95.2bn. **The EUR 18.3bn decrease achieved within hardly two years corresponds to approximately 18.7 percent of domestic GDP of 2012.**

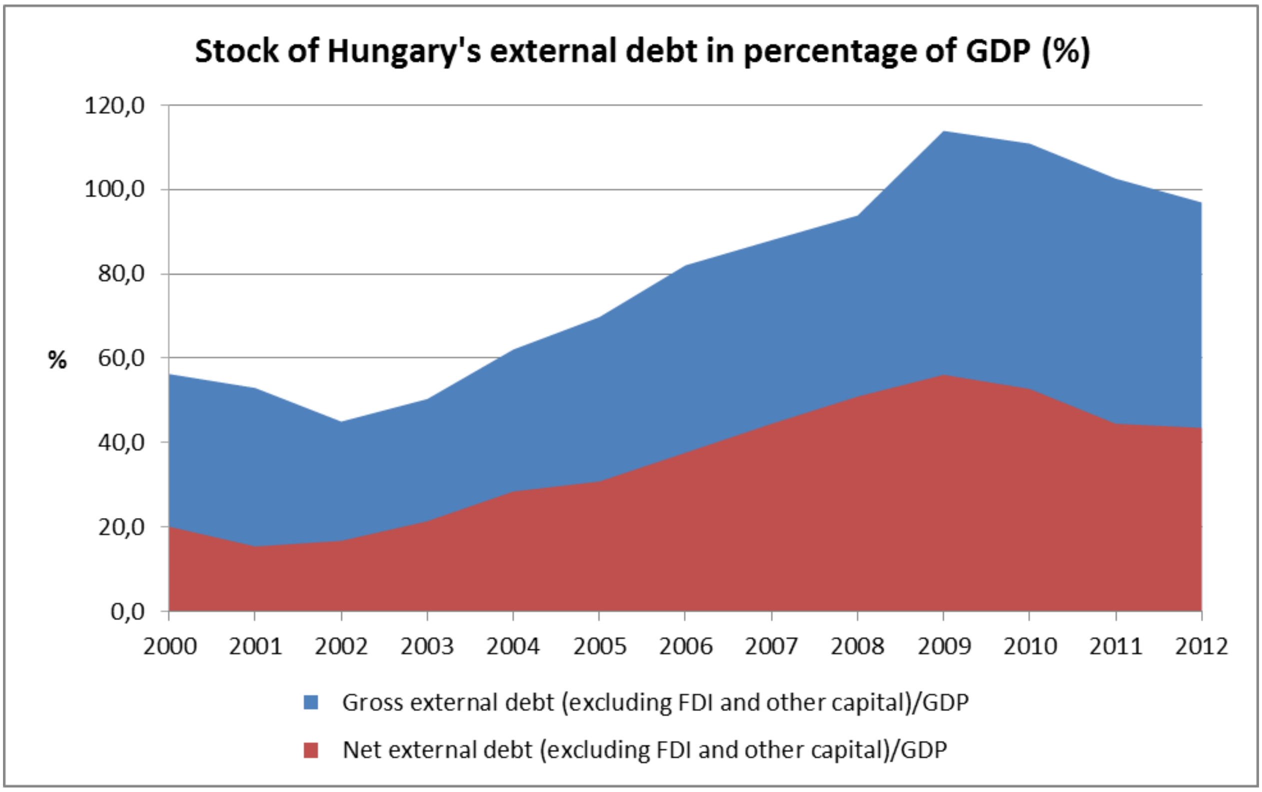


Source: National Bank of Hungary (MNB), Ministry for National Economy (NGM)

As the above chart aptly demonstrates, the reduction of debt is mainly attributable to households and enterprises. **While in the first quarter of 2009 and the second quarter of 2010, the amount of the private sector's external debt totalled EUR 59.7bn, this figure was only EUR 41.2bn in Q1 2013.** Thanks to the 30 percent cut in the stock of debt, **the private sector's external debt reached a low level unseen since the third quarter of 2006** (EUR 39bn at the time). The external debt of the public sector was EUR 51.3bn at the end of March 2013, which is more than 10 percent below the peak of EUR 57.1bn recorded in Q3 2011.

The level of Hungary's external debt has decreased significantly while nominal GDP calculated in euros has not changed markedly over the past years: on the basis of Eurostat data, Hungary's GDP totalled EUR 96.5bn in 2010, EUR 99.8 in 2011 and EUR 97.7bn in 2012.

Gross external debt in percentage of GDP fell below 100 percent in Q3 2012 for the very first time since the onset of the crisis, while the level of the country's net external debt reached 45 percent of GDP. Declining external debt, which was down by EUR 2.1bn in Q1 2013 compared to Q4 2012, and the economic upturn expected for 2013 are **anticipated to result in a further cut of the external debt-to-GDP ratio until the end of this year.**



Source: National Bank of Hungary (MNB), Ministry for National Economy (NGM)

From the aspect of the country's financial stability, external debt repayable within one year is of outstanding importance. Parallel to the diminishing stock of external debt, the proportion of debt repayable within one year is also shrinking, and that allows more manoeuvring room of the National Bank of Hungary concerning foreign currency reserves. Thus, some of these reserves could be utilized for boosting the economy without jeopardizing Hungary's monetary equilibrium.