

## Hungarian Outlook – Favourable trends in Hungary 2.

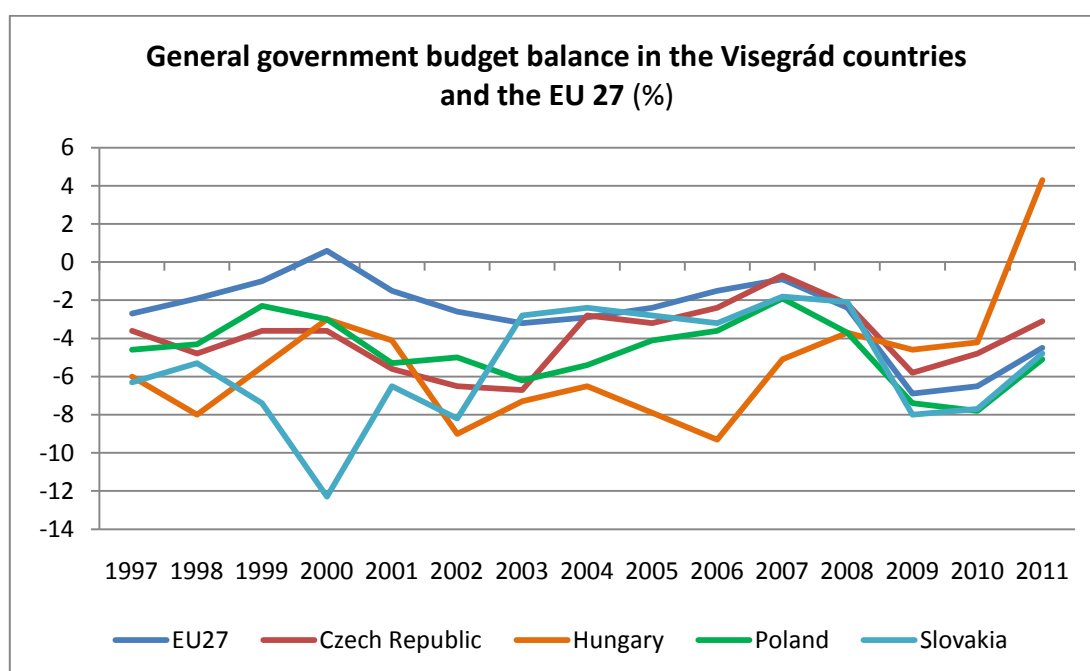
Recently several favourable economic trends have developed in Hungary. Some of these can be identified by data published by the Hungarian Central Statistical Office (KSH) and others are manifested by various international comparative studies. The below study presents, after the paper of last week, further trends, which now rather focus on changes identifiable from economic statistics, but we will also analyze competitiveness and purchasing manager indices.

### 1. General government budget deficit

#### *Deficit of 2011*

In Hungary budget deficit increased from 3.7 percent in 2008 to 4.6 percent one year later. After the change of government in 2010, however, responsible fiscal policy gained significance and as a result the **deficit-to-GDP ratio declined to 4.2 percent**, which was the lowest figure among the Visegrád countries.

**In 2011**, having continued the strict fiscal policy, Hungary achieved a **budget surplus of 4.3 percent**, which is unprecedented in the EU, and it puts us into a significantly more favourable fiscal position in comparison to both the EU 27 and the Visegrád countries (allowing that the result was due to several one-off items). Without the unplanned one-off items, the budget deficit was 2.43 percent instead of 2.94 percent.



*Source: European Commission*

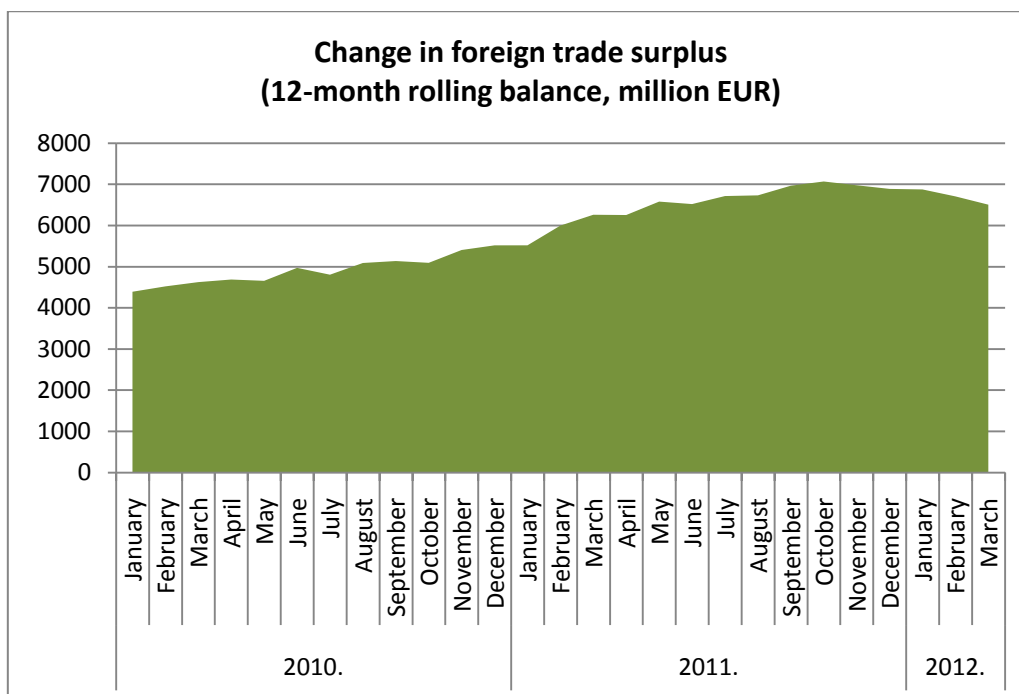
### Deficit of April 2012

In the month of April 2012, the **central sub sector of the state budget registered a surplus of 289.3bn HUF**. With regard to the *pro-rata temporis* deficits of the central sub sector for the years of 2011 and 2012 excluding one-off items, which are therefore calculated on the same base, the figure of 27.6 percent registered this year is substantially more favourable than last year's 50.2 percent.

## 2. Foreign trade turnover

According to data by the KSH, in Q1 2012 the volume of exports increased by 1.6 percent and imports grew slightly less, by 0.9 percent, in comparison to the same period of the previous year. Foreign trade balance therefore registered a surplus of 513bn HUF in the initial three months of the year.

In the January-March period the volume of exports and imports was 5 934bn HUF and 5 421bn HUF, respectively, and our foreign trade balance thus registered again a significant surplus.



### **3. Foreign trade balance deficit vis-a-vis China has declined**

Our foreign trade balance deficit moderated to 199.2bn HUF in the period of January-March 2012. In comparison to the corresponding period of the previous year, **imports from China declined by 4.2 percent whereas exports increased by 27.6 percent.**

### **4. Domestic retail turnover increased significantly in the month of March**

According to the latest flash report of the KSH, in March 2012 the volume of retail sales was almost 645.2bn HUF and in Q1 2012 it amounted to 1758.7bn HUF in Hungary. Consequently **the volume of retail sales increased by 0.9 percent** in comparison to the same period of the previous year. A determining factor of the increase has been sales at **food, beverages and tobacco stores (+2.7 percent)** which correspond to almost half of total turnover. According to a Eurostat report, in comparison to the corresponding period of the previous year the volume of retail sales declined by 0.2 percent in the euro-zone countries, therefore from this point of view Hungary has delivered better results than the euro area.

### **5. In Hungary employment growth continued unabated**

In February-April 2012 the increase of the number of employed, which has been a trend of the past two years, continued in comparison to the same period of the previous year – the KSH reported. The number of employed among the population aged 15-74 years increased significantly by 52 000 and therefore **the rate of employment in this age group increased to 49.7 percent.** Among the population aged 15-64 years the number of employed increased by 48 000 and thus the rate of employment in this segment has increased to 56.1 percent.

### **6. In the first quarter gross average wages increased by 4.4 percent in Hungary**

In Q1 2012 **gross average wages of the national economy increased by 4.4 percent,** whereas net wages excluding family tax benefits grew by 1.6 percent in comparison to the corresponding period of the previous year – the KSH has reported in its statistical release.

### **7. Agricultural output increased in 2011**

The volume of agricultural output in 2011 was 10 percent higher than in the previous year according to preliminary data by the Economic Accounts for Agriculture (MSZR). Within this, **the output of crops increased by 17 percent and animal farming output grew by 2 percent.** The agricultural output of the year of 2008 was extraordinarily high, and it declined in the next two years after that, so the low base figure of the previous year also contributed to the improvement in 2011. With regard to the foreign trade of agricultural goods, Hungary achieved a **surplus of altogether 751bn HUF in 2011;** within that, the export surplus of the country vis-a-

vis 113 countries totaled 880bn HUF, and in relation to 43 countries imports outweighed exports by altogether 128bn HUF.

## 8. Production launched at the Mercedes plant

Production has been launched in the new automobile plant of Mercedes-Benz in Kecskemét. Dieter Zetsche, CEO of Daimler AG, announced at the press conference of the opening ceremony of the plant held at the end of March that due to the great demand for the latest model of the compact car department, **the number of employees at the factory will be increased to 3000.**

## 9. Hungary's competitiveness improved

According to the Competitiveness Yearbook for the year of 2012 of the Switzerland-based IMD which was published on 31 May, Hungary's competitiveness has improved. **In comparison to the ranking of year 2011 we have advanced by two places to rank 45** in the survey which evaluates the competitiveness of 59 -- mostly advanced -- economies. **The greatest improvement was mostly due to indicators which gauge economic performance**, but Hungary has also improved with regard to government and corporate efficiency.

In the ranking of 2012 Hungary managed to beat Columbia and Brazil, **but the relative position of Hungary within the group of Visegrád countries has also improved**: the performance of the Czech Republic and Poland, which countries are right ahead of us in the ranking, deteriorated or stagnated, whereas albeit the ranking of Slovakia, which has been lagging behind Hungary's, improved but only by one place.

### Rankings of Eastern and Central European countries

|                | 2011 | 2012 | Change |
|----------------|------|------|--------|
| Czech Republic | 30.  | 33.  | +3     |
| Poland         | 34.  | 34.  | -      |
| Hungary        | 47.  | 45.  | -2     |
| Slovakia       | 48.  | 47.  | -1     |
| Slovenia       | 51.  | 51.  | -      |
| Romania        | 50.  | 53.  | +3     |

## 10. PMI signals manufacturing industry expansion in May

According to an article by the Wall Street Journal (which quotes an analysis by J P Morgan), manufacturing industry Purchasing Managers' Index (PMI) in Hungary **increased significantly, even by international comparison, from 46.9 points in April to 52.2 points.** Figure 50 signals

unchanged situation and **figures above 50 point to expansion of manufacturing industry**. In the calculation of PMI the below components are taken into consideration: quantity of turnover, new order index, transport duration, purchased stocks, employment index.

According to the analysis, global PMI fell 0.8 point to 50.6. **In Europe most of the countries registered a decline, and despite this fact the Hungarian index grew by 5.3 points.**

| Country        | May PMI | April PMI | Change |
|----------------|---------|-----------|--------|
| Hungary        | 52,2    | 46,9      | 5,3    |
| Poland         | 48,9    | 49,2      | -0,3   |
| Euro-zone      | 45,1    | 45,9      | -0,8   |
| Germany        | 45,2    | 46,2      | -1     |
| Czech Republic | 47,6    | 49,7      | -2,1   |
| United Kingdom | 45,9    | 50,2      | -4,3   |