INTERNATIONAL INVESTMENT BANK

Hungary |

Investment climate

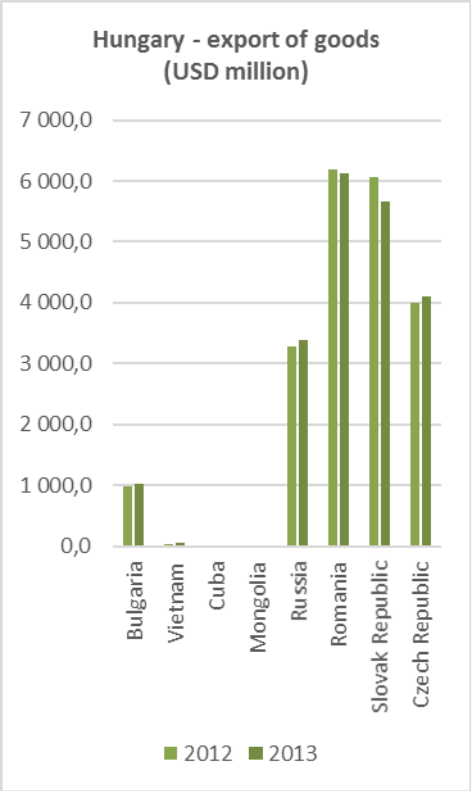
The World Bank Doing business report 2015[1] ranks Hungary 54th among the world's most attractive countries for doing business, improving its position compared to the previous year (58th in 2014). In 2014, the Economist Intelligence Unit (EIU)[2] listed Hungary 6th in its regional rating of business environment attractiveness among other eastern European countries; the listing has not changed compared to 2013.

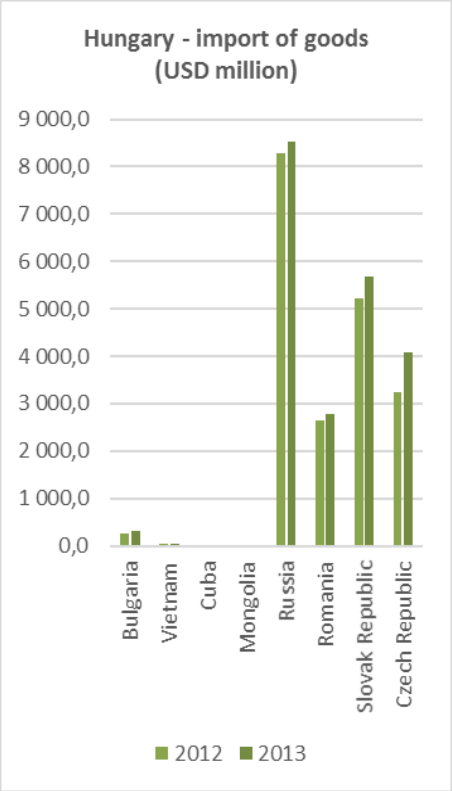
Hungary remains one of the most open transitional economies in eastern Europe. Level of Hungarian exports reaches 95% GDP. Given that, Hungary is an important link in the global value chain. And as part of this value chain, industrial products exported from Hungary become elements of goods exported by other countries.

The EIU points out that higher tax burden, conflicting and unpredictable nature of governmental fiscal policy as well as a still existing and quite substantial sovereign debt (146.0% GDP in 2014) are the disadvantages of the country's business environment. However, Hungary's EU membership had a positive influence on the level of its economic openness.

International rating agencies acknowledge the country's quite stable financial state (Moody's – Ba1; Fitch – BB+; S&P – BB+). Ratings levels are currently dwelling below investment grade; however, it is worth pointing out, that since 2013 it has stabilized and now possesses good chances to be upgraded if the country's GDP will continue growing.

Trade and economic relations with the Bank's member states[3]





Area 93 030 sq. km
Population (2014) ▼ 9.9 million
Unemployment (2014) ▼ 7.9%
GDP (2014) ▲ $137.0 billion
GDP growth rate (2014) ▲ 3.6%
Inflation (2014) ▼ -0.2%
Average annual exchange rate (2014) ▲ 311.85 HUF/EUR
Sovereign debt (2014) ▼ 76.9% GDP
FDI inflow (2014) ▲ $ 4.7 billion
FDI outflow (2014) ▲ $ 2.6 billion
Main industries:
- car manufacturing, technology
- food processing, petrochemicals, IT
- pharmaceuticals and health-care products

National Development Bank:
- Hungarian Development Bank (MFB)

Participation in IDBs (share in authorized capital):
- World bank Group – IBRD (0.50%), IFC (0.47%), IDA (0.70%)
- IMF (0.44%), CEB(0.82%), EIB (0.72%), EBRD (0.79%), AIIB (-)

Hungarian Eximbank[4] has cooperation agreements with:
- TDB Mongolia, Eximbank Romania
- Eximbank SR, Vnesheconombank,
- Roseximbank, Gazprombank

and cooperates closely with:
- Bulgarian Development Bank
- EGAP Czech Republic, Exiar Russia

Exports / imports (2014):
▲ $ 124.9 billion / ▲ $ 114.7 billion
Exports / imports (Hungary's share) (2013):
- Bulgaria 0.9% / 0.3%
- Vietnam 0.1% / 0.0%
- Cuba 0.0% / 0.0%
- Mongolia 0.0% / 0.0%
- Russia 3.1% / 8.6%
- Romania 5.7% / 2.8%
- Slovak Republic 5.2% / 5.7%
- Czech Republic 3.8% / 4.1%

[1] Source: World Bank Group - Doing Business 2015.
[2] Source: Economist Intelligence Unit, Hungary: Business environment ranking summary, May 2015.
[3] Source: UNCTAD.
[4] Unites Eximbank and ECA.

Economic development forecast

Real GDP growth based on growing investments in infrastructure projects as well as application of funds received from the EU reached 3.6% in 2014. The growth is forecasted to slow down to 3.3% in 2015, reaching, on average, 2.1% in 2015-2019[5]. Domestic consumption will become slightly stronger owing to population's growing income against the background of low inflation levels. This will provide basis for economic growth in 2015.

External trade became the main driving force for the country's economic growth in the past years. It is expected, that 2015 will also see its positive contribution to the country's GDP growth. Eurozone's restoring confidence, low oil prices and weak national currency will outweigh growing domestic consumption. Trade surplus reached 7.5% GDP at the end of 2014. Current account surplus reached 4.2% GDP. It is forecasted to grow to 4.7% in 2015 and will account, on average, for 2.9% GDP between 2016 and 2019.

Average annual deflation amounted to 0.2% at the end of 2014. Falling prices, to a large extent, mirror falling global oil prices and domestic energy prices. Improving consumer demand and weak forint are expected to push the inflation upwards to 0.3% in 2015. Average annual inflation in 2016-2019 will reach 2.1%.

Hungary's trade surplus will support national currency, however tighter monetary policy applied by US Federal Reserve combined with low domestic interest rates will apply pressure on the currency in 2015. Hungarian forint will depreciate on average to 295 HUF/1 USD and 308 HUF/1 EUR. Appreciation towards US dollar is not expected to happen until 2017, when the European Central Bank will tighten its monetary policy.

In order to avoid sanctions, Hungarian government will concentrate on harnessing governmental budget deficit (which reached 2.6% GDP at the end of 2014) within the limits of 3% established by the EU.

Unemployment level shrank to its record of 7.8% since 2007.

Banking sector

Hungarian government is currently taking significant efforts to support the country's banking sector. It reported an unprecedented loss in the amount of 1.4% GDP at the end of 2014. The system's main threat is the volatility of forex rates due to a significant share of forex lending.

Banking sector has already faced negative consequences of the decisions passed by Swiss National Bank to eliminate the ceiling for the national currency exchange rate. Since this decision has been made (in January 2015), Swiss franc appreciated to forint by 18.8%. Total amount of mortgage loans in Swiss francs reached HUF 3.9 trillion at the end of November 2014 (86% of all mortgage loans and 26% of the total amount of loans).

Amidst low inflation levels, the MNB continued to loosen its monetary policy (last time basis rate was lowered in April 2015 to 1.80%). It is expected to be reduced further to 1.60% in 2015 in order to boost lending. Its growth is not expected to exceed 1.0% after its reduction by 3.5% in 2014.

[5]Sources hereinafter if not stated otherwise: Economist Intelligence Unit, ViewsWire, May 2015; Business Monitor International, Hungary - Country Risk Report, Q2 2015.