

COUNTRY PROFILE:**REPUBLIC OF HUNGARY**

IES/02: ATTACHMENT A

DATED:**MAY 2007****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	2B	No Restrictions

Recent Political Highlights

- Chief of state since August 2005 has been Laszlo Solyom. The President is elected for a five-year term and is eligible for a second term. The next election is scheduled for June 2010;
- The alliance between the ruling Hungarian Socialist Party (MSZP) and the Hungarian Liberal Party (SZDSZ) was renewed after the April 2006 parliamentary election, but Government's support remains weak due to the introduction of the fiscal austerity measures. Should Government's popularity continue to remain weak, the president is likely to be ousted before the next election.

Recent Economic Highlights

- Hungary has a population of 10m that is estimated to grow at a rate of -0.3% in 2007;
- GDP growth is expected to slow to 2.5% in 2007 owing to the impact of the austerity measures but is expected to bounce back to 3% in 2008. Growth was 3.9% in 2006 and The Economist expects it to be 3.4% in 2011, from 3.7% in 2009 and 3.8% in 2010. The IMF expects GDP growth of 2.7% in 2007 and 3% in 2008;
- The general budget deficit reached 9.2% of GDP in 2006 and is expected to fall to 6.4% in 2007 with some progress on reform. Government has admitted that its target of adopting the euro in 2010 is no longer realistic and that entry into the euro zone is unlikely to take place before 2013;
- The deputy finance minister has stated that Hungary will delay the adoption of the euro until it has completed a plan to overhaul the social welfare system. Its road map for euro adoption, which it will prepare together with the central bank by mid-2008, is not expected to include a date. He said that Government was forced to abandon its initial adoption date of 2010 after it incurred the widest budget deficit in the EU last year;
- According to the IMF, despite much being achieved on fiscal consolidation, Hungary's financial vulnerabilities have not been completely eliminated and the challenges that remain are formidable. Despite the impressive achievements in tax administration and expected revenues, the IMF expects the fiscal deficit to be about 6.5% of GDP in 2007 and 4.5% in 2008 – lower than the EU's estimates. The Fund believes that public debt of 66% of GDP will remain largely within that range for the next few years;
- Inflation averaged 4.1% in 2006 and is expected to rise to 7% this year. Concerns about the high inflation prompted the National Bank of Hungary to raise interest rates 200 basis points to 8% between June and September last year. The central bank's latest forecast for inflation stands at 7.3% in 2007 and 3.6% in 2008 as higher oil prices feed through the CPI. It expects inflation to fall to 2.8% in 2009;
- The European Commission has asked Hungary to reduce its proposed cap for industrial carbon dioxide emissions in the 2008-2012 period by more than 12%. The EC set Hungary's cap at 26.9m tonnes of CO2 annually, 12.4% less than the country had proposed. Hungary's plan covers additional emissions in sectors which did not report emissions in 2005 of roughly 1.4m tonnes of CO2;
- This year's fruit harvest is expected to be half the original expectation due to frost that seriously damaged most of Hungary's orchards. Although other EU countries experienced the same problem, it is more serious in Hungary and will result in short supply and higher prices all over the continent. The value of last year's harvest totaled Ft100bn and is estimated to fall to Ft45bn this year;
- Vodafone is planning to build a \$49m Shared Service Centre in Budapest, which will eventually employ 700 people. The service centre will deal with common financial processes and transactions across the group. Hungary's third mobile phone and service provider is expecting the backing of Government's investment-incentive scheme. Vodafone has a 20% market share in the country.

Latest Trade Developments

- Main exports: machinery and equipment, food, raw materials, fuels and electricity;
- Main imports: machinery and equipment, other fuels and electricity, food and raw materials;
- Major trading partners: Germany, Italy, Austria, France, UK, Russia, China and Netherlands;
- SA's exports to Hungary totaled R112m in 2006 and R55m in the year to March 2007.

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