

COUNTRY PROFILE:**HUNGARIAN REPUBLIC****DATED:****MAY 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<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 President 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.
- ❑ Hungary is a multiparty democracy. The president, who is elected by parliament, has little power. In April 2006 the Government led by the Hungarian Socialist Party (MSZP), became the first to win re-election. The MSZP renewed the coalition with its junior partner, the SZDSZ-Hungarian Liberal Party (SZDSZ), but the SZDSZ left the coalition in April 2008 following a dispute over reforms with the MSZP now governing in minority.

Recent Economic Highlights

- ❑ Hungary has a population of 10m people that is expected to grow at a rate of -0.3% in 2008.
- ❑ GDP growth slowed last year as domestic demand slowed, but is projected to rebound and positively affect growth during 2008-09. GDP growth forecasts will be 2.3% in 2008, 3.4% in 2009 and 3.9% in 2010 from 1.3% in 2007.
- ❑ Inflation accelerated to 8% in 2007 due to regulatory price changes, but is forecast to decline to 5.9% in 2008, 3.4% in 2009 and 2.7% in 2010.
- ❑ Hungary has experienced a turnaround in its public finances, with the budget deficit falling from about 10% of GDP in 2006 to 5.7% in 2007. Prospects look promising for the deficit to reach 4% of GDP in 2008.
- ❑ Financial markets see Hungary as one of the more vulnerable east European countries. Having been outmanoeuvred by the opposition, its economic policy is inflexible and its population is resentful. A Government referendum showed that over 80% of Hungarians rejected charges for doctors' visits, hospital stays and tuition fees in higher education. Poverty and decades of state provision leave Hungarians reluctant to pay for services they already financed through taxes. Hungary has the heaviest tax burden in the region with some 20% of workers paying four-fifths of income tax.
- ❑ The European Central Bank urged Hungary to press ahead with economic reform despite most of its population opposed to large parts of the reform programme. The bank warned that if Government slowed the partial privatisation of the health insurance market out of fear of another defeat in a second referendum in September, reforms in general could come to a halt. The bank insisted that additional structural reforms would maximise the benefits of joining the euro zone and advised of relentless pursuit of fiscal consolidation.
- ❑ Following the March referendum, Standard and Poors downgraded its outlook for Hungary to negative from stable due to a weakening perspective for sustained consolidation of the country's public finances.

Latest Trade Developments

- ❑ After the fall of communism, trade flows were reoriented towards the West, and about 80% of Hungary's exports are now directed to the EU.
- ❑ Major exports: machinery and equipment, other manufactures, food products, raw materials and fuels and electricity.
- ❑ Major imports: machinery and equipment, other manufactures, fuels and electricity, food products and raw materials.
- ❑ Main trading partners: Germany, Italy, France, Austria, UK, Romania, Poland, China and Netherlands.
- ❑ Main agricultural products: wheat, corn, sunflower seed, potatoes, sugar beets, pigs, cattle, poultry and dairy products.
- ❑ Slovakia and Hungary are keen to end a 40-year battle over who has the right to put the Tokaj name on wine produced in the cross-border area by recognising it as a single region. The agreement is currently being discussed.
- ❑ Hungary recently became the latest country to sign up to Russia's politically sensitive South Stream gas pipeline despite a warning by a senior US official. Hungary will be an even more important link for energy supplies to Europe and its own energy security will increase. The gas pipeline is Russia's grip on Europe's gas market.
- ❑ South African exports to Hungary totaled R240m in 2007, R112m in 2006 and R9m in January 2008.