

COUNTRY PROFILE:
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REPUBLIC OF HUNGARY
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IES/02: ATTACHMENT A

Recent Political Highlights

- ❑ Chief of state since August 2005 has been President Laszlo Solyom. The president is elected by the National Assembly for a five-year term and is eligible for a second term.
- ❑ The next election is due by June 2010.
- ❑ Hungary's main opposition party Fidesz, encouraged by a strong showing in the European Parliament elections, called on the minority ruling Socialist Government in Budapest to resign and called for early elections. Fidesz' demands include a halt in privatisation, the withdrawal of a property tax bill and a freeze on Hungary's participation in the Russian-led South Stream gas pipeline.
- ❑ Slovak Prime Minister Robert Fico expressed fear over rising extremism after neighbouring Hungary's far-right opposition party won three seats in the European parliament elections. He says that party openly speaks of autonomy (of ethnic Hungarians in Slovakia) and believes its extremist opinions will cause great instability in the region. The party called for the re-establishment of a Greater Hungary, reincorporating regions previously cut from its territories after WWI.

Recent Economic Highlights

- ❑ Population of this centrally-planned market is 10m, with an estimated population growth rate of -0.3% for 2009.
- ❑ The National Bank of Hungary (NBH) cut interest rates by 200 basis points between November 2008 and January 2009, but the substantial weakness of the forint (projected at Ft213.6:\$1 in 2009 from Ft172.1:\$1 in 2008) in early 2009 has forced the NBH to proceed cautiously on further rate cuts. The economy is expected to contract until 2010 due to subdued domestic demand before a modest recovery in 2011. The Economist forecasts GDP contraction of 6.3% in 2009 and -1% in 2010 from 0.6% growth in 2008.
- ❑ Industrial output fell at a slower pace in May from April this year after a stimulus plan that was granted to the European car industry boosted demand, but production was still down 22.1% on May 2008. Exports recorded a fourth monthly trade surplus in May and came in at €500m from €430m in April and a deficit of €30m in May 2008. Imports plunged 32% in May after the 35.4% drop in April. The economy would need a large boost in exports and imports in order to recover.
- ❑ In the first quarter of 2009, investments fell 7.7% compared to the same period of 2008. In this decline, investment in machinery and equipment fell 9.9%, and it fell 6.8% in the manufacturing industry. Construction activity was down 10% in May from May 2008, with output decreasing 6.9% in the first five months of this year. While the building arm activity fell by nearly 25%, civil engineering works were up 7.9%.
- ❑ Standard and Poors (S&P) revised downward its Banking Industry Country Risk Assessment on Hungary from Group 6 to Group 7. The change reflects increased economic risks and structural weaknesses in the Hungarian economy and in its banking industry. S&P expects Hungarian banks' profits and capital to erode in 2009-2011 due to a material increase in credit losses and nonperforming loans.
- ❑ The EU approved a €6.5bn lifeline in November 2008 as part of an IMF-led bailout. The loan was to have come from a special €12bn EU funding facility to help non-euro members of the 27-nation bloc experiencing balance-of-payment problems. In addition, the IMF and World Bank threw the embattled country a €12.5bn lifeline last year to fight the financial crisis. The IMF mission and the Hungary authorities have reached an agreement on an economic programme supported by the loan under a 17-month stand-by arrangement.
- ❑ Hungary met the public deficit limit required to join the eurozone last year and expects to do so again this year, a goal which analysts consider increasingly difficult under the current circumstances.

Latest Trade Developments

- ❑ Main export commodities: machinery and equipment, other manufactures, food, raw materials, fuels and electricity.
- ❑ Main import commodities: machinery and equipment, fuels and electricity, food and raw materials.
- ❑ Main industries: mining, metallurgy, construction materials, processed foods, textiles, chemicals (in particular pharmaceuticals) and motor vehicles.
- ❑ Major trading partners: Germany, Italy, France, Austria, Romania, UK, Slovakia, Poland, China, Russia and Netherlands.
- ❑ SA's exports to the Hungary totaled R236m in 2007, R495m in 2008 and R52.6m in the year to April 2009.
- ❑ SA's imports from Hungary totaled R4.1bn in 2007, R3.4bn in 2008 and R705m in the year to April 2009.