



Hungary

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Commentary

■ **Political outlook** - Prime Minister Ferenc Gyurcsany led the Socialist Party (MSZP) to a second term victory in April 2006. Since the election, the government's popularity has weakened owing to the introduction of fiscal austerity measures and the leaking of a tape in September 2006 in which the prime minister lied about the performance of the economy to the electorate. The comments sparked violent protests in September and October 2006 and there were further brief protests in March 2007. Although the PM managed to survive a confidence vote in local elections last year, there is a risk that the PM could be ousted before the next parliamentary election in 2010.

■ **Economic growth** - Economic growth is forecast to slow sharply to 2.0% in 2007, but recover to 3.6% in 2008. The slow down has been due to lower disposable income growth, high levels of consumer debt and slowing investment. However, economic growth is expected to recover next year to 3.6% as lower inflation could boost real income growth. With continued strong export performance and low import demand due to weak domestic consumption, the current account balance will continue to improve, averaging 3.4% of gdp this year and 2.9% of gdp in 2008. Unemployment is expected to gradually decline over the next two years.

■ **Inflation and prices** - Consumer price inflation is high and is running above the central bank target of 3% and the Maastricht criteria. It peaked at 9.1% in March 2007 but has since subsided. Hungary's fiscal austerity measure, such as higher rates of vat, has boosted inflation. We expect inflation to average 7.5% this year, declining to 4.1% in 2008 as the effect of tax increases gradually wanes.

■ **Interest rates and Forex** - The central bank cut the benchmark interest rate by 25bp for the second time this year in September, to 7.50%. We expect interest rates to remain on hold for the remainder of the year but we expect another 25bp cut in Q1 2008 as inflation moderates. The exchange rate is currently pegged to the euro within a band of +/-15% vs a central parity of 282.36 forint/euro. The forint has gained 8.0% against the euro during the past 12 months and we expect it to end 2007 at 251.4.

Key economic and market indicators

	2006	2007f	2008f	2009f
Annual % change				
Gdp growth	4.0	2.0	3.6	4.6
Industrial production	11.0	7.4	5.7	4.2
Consumer spending	1.9	2.0	2.4	3.0
Consumer price inflation	4.1	7.5	4.1	3.0
Average earnings (whole economy)	8.2	9.0	6.9	6.2
Unemployment rate (% average)	7.5	7.1	7.0	6.9
Current account balance (% gdp)	-5.8	-3.4	-2.9	-3.4
Budget balance (% gdp)	-9.2	-6.0	-4.0	-3.4
Short-term interest rate (3m interbank, % average)	6.8	7.7	6.2	4.6
Exchange rate (€/Huf, end year)	264.0	251.4	253.3	252.0

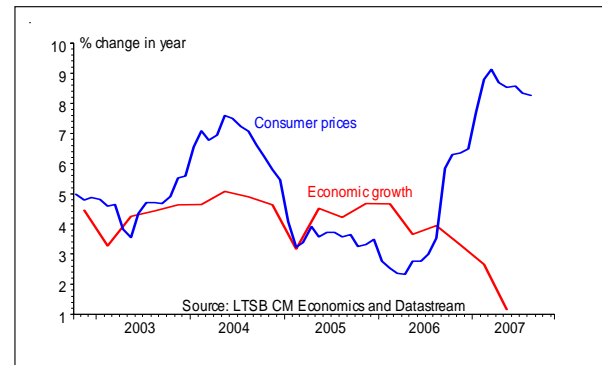
Country profile

- Prime Minister: Ferenc Gyurcsany (MSZP)
- Parliament: Centre-left majority coalition (MSZP, SZDSZ)
- Next election: 2010 (parliamentary and presidential)
- Nominal GDP: US \$109.1 bn (2005)
- Population: 10.06 million (2006)
- Exchange rate: € / HUF 250.70 (Oct. 2007)
- Interest rates: base rate 7.5% (Oct. 2007)
- 10-year government bond yield: 6.64% (Oct. 2007)
- Long-term debt rating: (A1, Moodys), (BBB+, S&P)

Trade statistics (2004)

Main export markets		Main suppliers	
Germany	31.6%	Germany	29.3%
Austria	7.2%	Austria	8.1%
Italy	5.5%	Italy	5.6%
Key country exports		Key imports	
Machinery & transport	61%	Machinery & transport	52.4%
Telecom equipment	17.1%	Manufactured goods	16.7%

Growth and inflation



Short and long term interest rates



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