# REPORT ON THE BALANCE OF PAYMENTS

2023

MAY

*'We may not always be able to do what must be done,*
*but we must always do what can be done.'*

*Letters 27*
*Gábor Bethlen*

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*In accordance with Act CXXXIX of 2013 on the Magyar Nemzeti Bank, the primary objective of the MNB is to achieve and maintain price stability and, without prejudice to its primary objective, the central bank is also responsible for maintaining the stability of the financial intermediary system. Developments in the external balance are key to financial stability, as processes relating to the balance of payments allow for conclusions to be drawn concerning the sustainability of economic growth and the relevant risks. Moreover, the analysis of the balance of payments allows for the earlier identification of economic problems, when they are developing, and thus steps can be taken to avoid such problems.*

*To this end, the Magyar Nemzeti Bank regularly performs comprehensive analyses of the trends relating to Hungary's external balance, examining a number of indicators to assess macroeconomic imbalances and identifying elements and processes which are of critical importance for Hungary's vulnerability.*

*Given the lessons from the financial crisis and the recent period, a country's balance of payments and the trends therein indicating potential dependence on external financing are particularly important in the economic media. Developments in the external balance position are also closely monitored by market participants and analysts. The primary goal of the Report on the Balance of Payments is to inform market participants about the developments in the balance of payments by way of this regular analysis, and thus provide deeper insight into the workings of the economy.*

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*The Report is based on information pertaining to the period ending 28 March 2023.*

# Summary

*The external balance indicators of the Hungarian economy continued to decline in 2022 in line with the surge in energy prices, a phenomenon that was generally observed in the rest of the region as well. In 2022, Hungary's net lending position was close to the average typical for the countries in the region: the current account deficit-to-GDP ratio amounted to 8.1 percent, while net borrowing of the economy corresponded to 6.1 percent of GDP.*

*Changes in the external balance indicators were primarily driven by developments in the trade balance: in the first half of the year, deterioration in the trade balance was driven by the global shortage of semiconductors, disruptions in production chains caused by the conflict between Russia and Ukraine, the expansion in demand due to strong household consumption and the import-increasing effect of the drastic rise in commodity and energy prices. Towards the end of the year, adjustment by consumers, which started from the second half of the year in view of the rising utility costs, as well as the upswing in export growth driven by the easing of disruptions from the aforementioned factors, slowed down the deterioration in the balance of goods and services. At the same time, the income balance deficit remained relatively stable, due to a decline in the profit balance deficit and an increase in interest expenditures. The absorption of EU funds attenuated the impact of the unfavourable developments in the trade balance to roughly the same degree as in the previous year.*

*The increase in the current account deficit due to surging energy prices was primarily financed by a rise in external debt, but net foreign direct investment inflows also rose compared to the previous year, as a result of strong growth in investments in Hungary and Hungarian investments abroad. Net debt liabilities increased on a transactional basis at an annual level, with the general government and the banking sector as the main contributors, while a net outflow of funds was recorded for companies. The debt inflow observed in the case of the government was attributable to the foreign exchange expenditures of the State Treasury, the negative effect on FX reserves of conversions related to foreign currency needs for energy imports and the central bank swap instruments, the increase in non-residents' government securities holdings and issuance of the two-week central bank discount bond. At the same time, the central bank facilities provided to banks did not result in net inflows of funds at the whole-economy level, as they curbed banks' net external debt.*

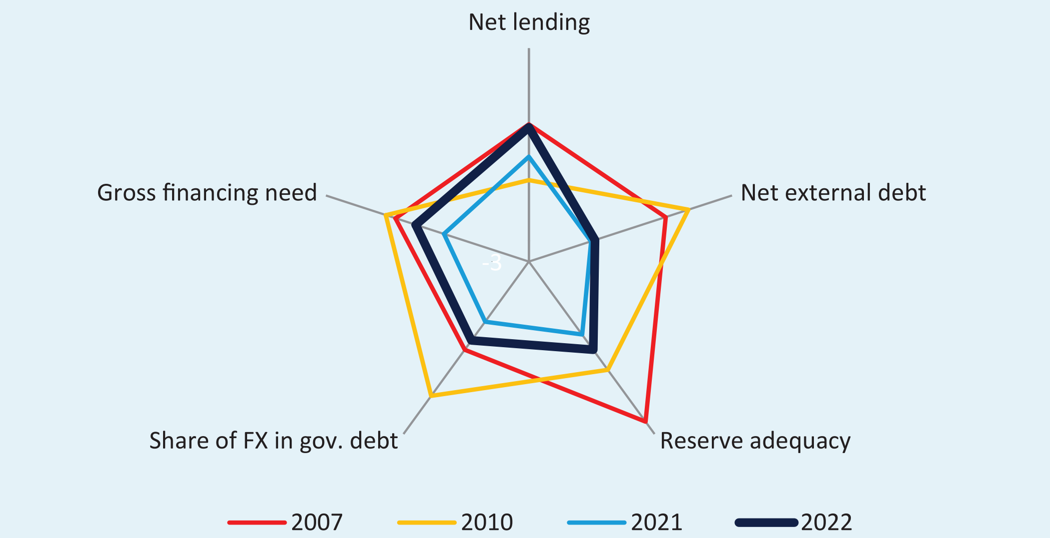
*On the whole, debt indicators, which are crucial in terms of external vulnerability, remained favourable in 2022. The decrease in Hungary's net external liabilities continued in parallel with a decline in non-debt liabilities, which was primarily attributable to portfolio investments and revaluation. Net external debt initially fell temporarily in the first half of the year, and then rose to 9.4 percent of GDP, which was related to the current account deficit, while gross external debt corresponded to 64 percent of GDP. The mild increase in debt indicators was a result of the fact that the effect of debt inflows was partly offset by revaluation, which slowed down the expansion in outstanding debt and primarily materialised due to a rise in yields, as well as by the growth in nominal GDP. The increase in the net debt index was linked to the debt inflow of banks, the net external debt of companies decreased, while that of the government did not change significantly compared to the end of 2021. Gross external debt was increased by a rise in banks' and corporations' foreign liabilities, FX bond issues by the state, a rise in non-residents' government securities holdings and the discount bond issuance by the central bank. In parallel with short-term external debt, which is crucial in terms of Hungary's external vulnerability, foreign exchange reserves also increased, and thus reserves exceeded the level expected by investors by EUR 4.1 billion.*

*In parallel with a gradual decline in the private sector's net savings, the general government deficit rose again by the end of the year, after a temporary decline in the first half of the year. In conjunction with the high inflation and a decline in real wages, households' net financial savings fell in 2022, while the corporate sector's net borrowing increased further, owing to buoyant investment activity and inventory accumulation. The temporary sharp decline in the budget deficit during the year was driven by strong growth in tax revenues, the effect of which was already mostly offset by higher fiscal expenditures due to rising energy prices (energy expenditures of the state, utility subsidy to households and the filling of gas storage facilities) by year-end. The government debt-to-GDP ratio declined, in line with the robust nominal GDP growth. As a result of FX bond issues, the share of foreign currency within government debt advanced to 25 percent by the end of 2022, and the ratio of government debt held by foreign investors rose slightly.*

*According to the most important indicators, Hungary's external balance position deteriorated versus 2021, but is much more favourable than it was in the period of the 2008 crisis (Chart 1). The external balance position was significantly better*

*than in the year preceding the 2008 crisis, meaning that the Hungarian economy was in a much more favourable position when it faced the more uncertain economic environment due to the pandemic, the war between Russia and Ukraine and the resulting energy crisis. Against the background of low external debt ratios on par with the regional level and lower exchange rate risk, reserve adequacy is ensured.  Thus, the position of these indicators are much more favourable than before the outbreak of the 2008 crisis, which also mitigates the risk of a rise in short-term external debt that is partially responsible for the higher gross net borrowing. The share of foreign exchange within government debt grew as a result of FX bond issues but remains significantly lower than the levels seen in the 2010s.*

**Chart 1: Stylised depiction of Hungary's external balance position**




*Note: The chart presents the deviation of individual indicators from the long-term average scaled by dispersion. Values closer to the centre – in practical terms, the shrinking of the 'net' – signal lower vulnerability for the given indicator.*

*In the special topic presented in this Report, we compare the changes in Hungary's external balance indicators to developments in the countries of the region. Hungary's net lending was near the average for the countries in the region in 2022. In the rising inflation environment, savings in the region did not keep up with the general growth in gross capital formation expenditures. The deterioration in the countries' external balance position was mainly driven by a decline in the goods balance, primarily due to the unfavourable impact of higher energy prices. At the same time, the services balance surpluses and transfer balances throughout the region continued to contribute strongly to reducing the negative impacts from the goods balances. Developments in the income balance, which lowered the external balance position across the region, continued to be primarily determined by the profit balance deficit. The rapid increase in net borrowing was covered to a large degree from net foreign direct investment in the countries of the region, but in addition to Hungary, debt-type financing was significant in Czechia and Slovakia as well. External debt indicators also varied in the region in 2022, while in terms of magnitude the figures for Hungary continue to correspond to the regional average.*

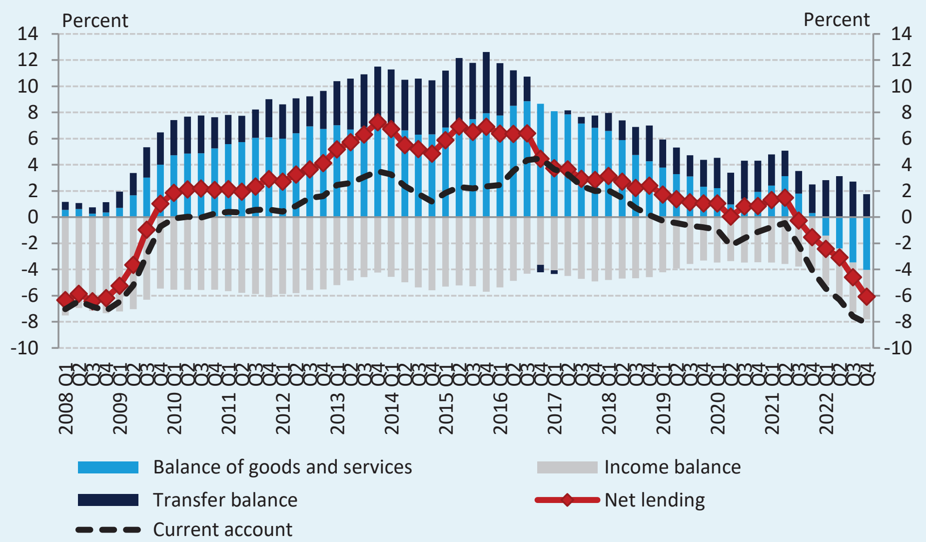
# Content

# 1 Real economy approach

The external balance indicators of the Hungarian economy deteriorated in 2022 as a whole. Changes in the current account and net borrowing were primarily determined by developments in the trade balance: for the year as a whole, the sharp rises in commodity and energy prices, the expansion in demand due to household consumption, the global shortage of semiconductors and the disruptions in production chains caused by the conflict between Russia and Ukraine resulted in a deterioration of the trade balance. At the same time, a mildly contrasting effect was exerted by consumers' adjustment, which emerged in view of the higher utility costs in the latter half of the year, as well as by the upswing in export growth thanks to easing disruptions from the aforementioned factors. As a result of the contrasting effects, the size of the income balance deficit was similar to that in the previous year. The absorption of EU funds attenuated the impact of the unfavourable developments in the trade balance to roughly the same degree as seen in the previous year.

**According to the real economy approach, compared to 2021 the economy's external balance indicators deteriorated considerably in 2022, declining to levels lower than those observed at the end of the previous year.** Accordingly, the current account showed a deficit of 8.1 percent for 2022 as a whole, while net borrowing amounted to 6.1 percent of GDP (Chart 2). Based on seasonally unadjusted figures, net borrowing in the fourth quarter amounted to EUR 4,044 million, as the result of a deficit of EUR 4,336 million on the current account and a surplus of EUR 292 million on the capital account. The evolution of the external position was primarily driven by developments in the balance of goods and services as well as the level of the income balance, which contributed to worsening external net borrowing for the year as a whole. Four-quarter data reveal that the trade balance, and in parallel with it the current account balance, showed a rising deficit for the whole year, primarily as a result of the huge jump in commodity and energy prices. In 2022, the transfer balance improved the external balance position by 1.7 percent of GDP. On the whole, the result of these developments was that the four-quarter current account deficit as a percentage of GDP increased continuously during the year, to reach 8.1 percent of GDP by the end of the period.

**Chart 2: Developments in net lending and its components (four-quarter values as a percentage of GDP)**

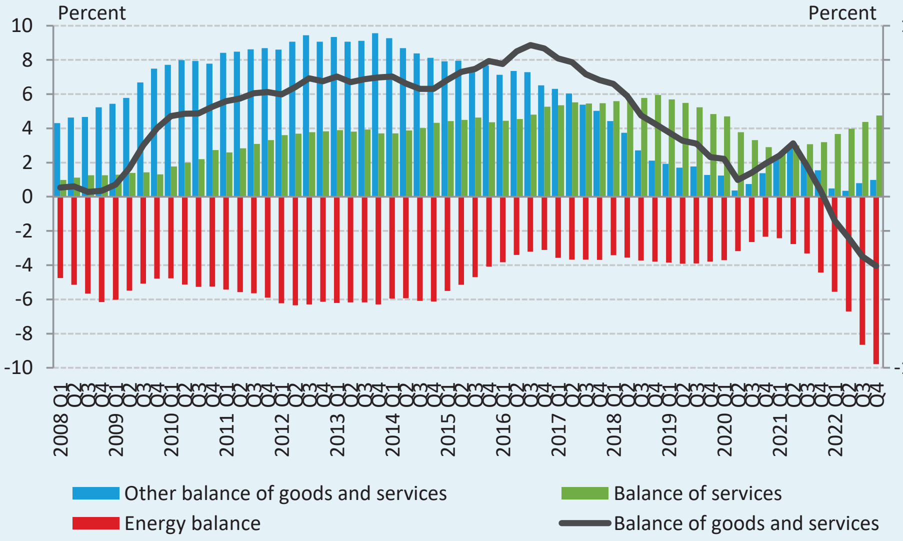



*Source: Unless otherwise indicated, the source of the charts is the MNB*

## 1.1 Trade balance

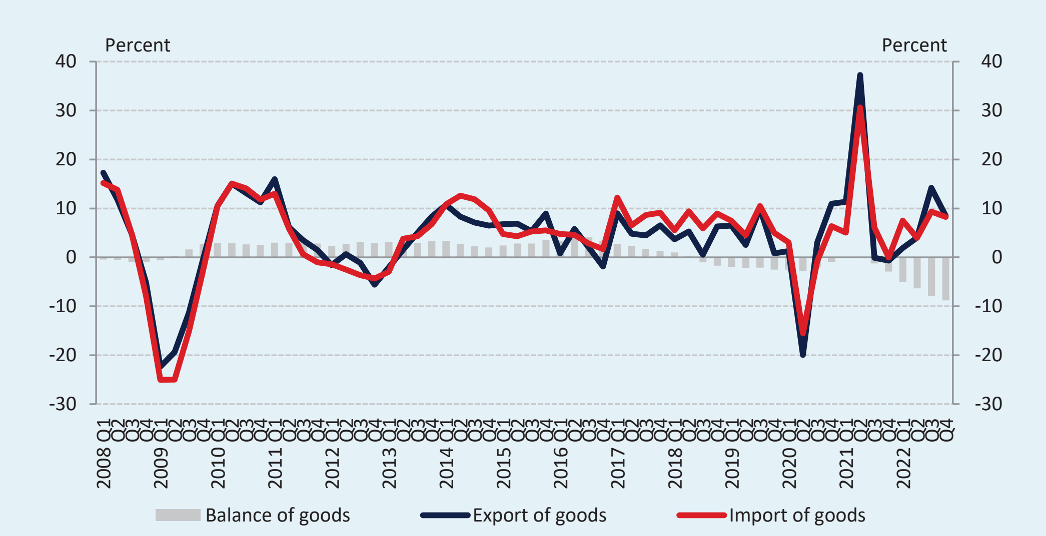
**At end-2022, the four-quarter trade deficit corresponded to 4 percent of GDP, in conjunction with a significant rise in the deficit on the goods balance (and the energy balance within that) and a mild increase in the surplus on the services balance** (Chart 3). The deficit on the trade balance (and the goods balance within that) deteriorated considerably in 2022 as a whole, as a result of the much higher commodity and energy prices, the expansion in demand due to the realisation of households' postponed consumption, the shortage of chips and the disruptions in production chains due to the conflict between Russia and Ukraine. At the same time, consumers' adjustment, which evolved in view of the higher utility costs in the second half of the year, as well as the easing of the disruptions from the aforementioned factors had a contrasting effect. The gradual deterioration in the services balance observed since 2019 came to an end in early 2021 and a continuous improvement was seen since the second quarter. Accordingly, the four-quarter services balance surplus advanced to 4.8 percent by the end of the 2022. The dynamic expansion of tourism and the recovery in the balance of transport services played an important role in the improvement of the balance of services. Nevertheless, even the improvement in export growth and in the services balance was unable to prevent deterioration of the trade balance.

**Chart 3: Developments in the balance of trade and its components (four-quarter values as a percentage of GDP)**




**As supply disruptions eased, there was a strong upturn in the dynamics of goods exports in 2022 H2.** At the same time, the deterioration in the goods balance (which was mainly due to the rise in energy prices) was mitigated by the slower expansion of goods imports owing to more subdued domestic absorption (Chart 4). Starting from end-2016, along with exports, dynamic growth in investments was a key factor behind the growth rate of imports of goods, with investments expanding at an even faster pace than exports. Falling short of the previously typical level, annual real growth in exports amounted to just 3 percent in 2022 H1, after a significant surge in the previous year in line with the post-pandemic recovery and in a period burdened by steep rises in commodity and energy prices, the disruption of production chains and the Russian-Ukrainian conflict. In 2022 H2, as a result of recovering supply chains, year-on-year real growth in exports rose significantly versus the first six months, while the slowdown in household consumption and in investment moderated import growth.

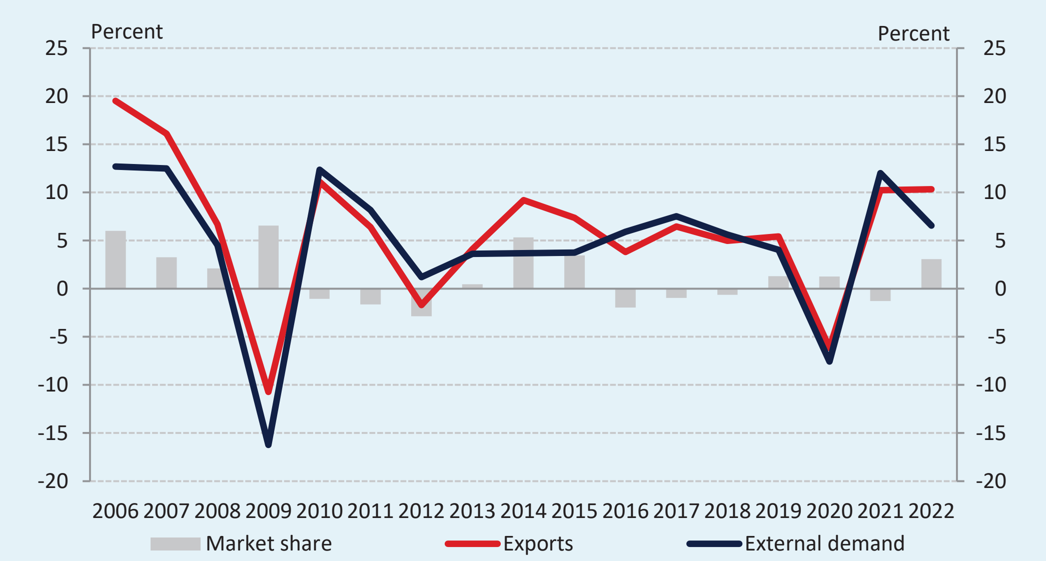
**Chart 4: Annual volume growth in exports and imports of goods and the four-quarter balance of goods relative to GDP**




*Source: HCSO, MNB*

**The exports of Hungarian companies rose strongly again in 2022, despite the volatility of commodity and energy prices, the global shortage of semiconductors, disruptions in production chains and the conflict between Russia and Ukraine** (Chart 5). In 2022 H1, Hungarian companies' foreign trade opportunities were impacted negatively by the above factors, as well as the weaker external demand. Subsequently, however, as the aforementioned factors eased in 2022 H2, prospects for goods exports also improved. On the whole, in addition to the rise in exports, the Hungarian economy's export market share grew significantly last year.

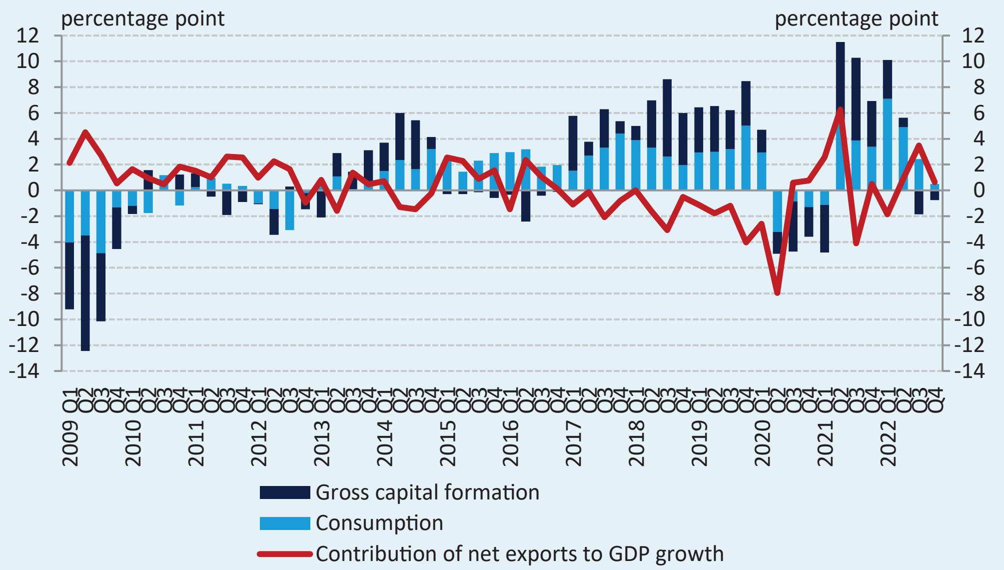
**Chart 5: Real growth in exports and external demand* and developments in Hungary's export market share**




**Weighted by export markets.*

**From 2022 Q2, with the emerging adjustment of the private sector, deceleration was seen in domestic absorption items, resulting in a positive GDP contribution from net exports** (Chart 6). In terms of domestic absorption items, the expansion in demand due to households' postponed consumption as well as the significant government transfers of PIT refunds and pension increases also fuelled household consumption in H1, but demand was more subdued in the latter half of the year, in parallel with high inflation and consumer adjustment, which evolved due to the rising utility costs. Simultaneously, investment declined in year-on-year terms as well in 2022 H2, and in parallel with this the growth contribution of net exports expanded considerably in the second half of the year.

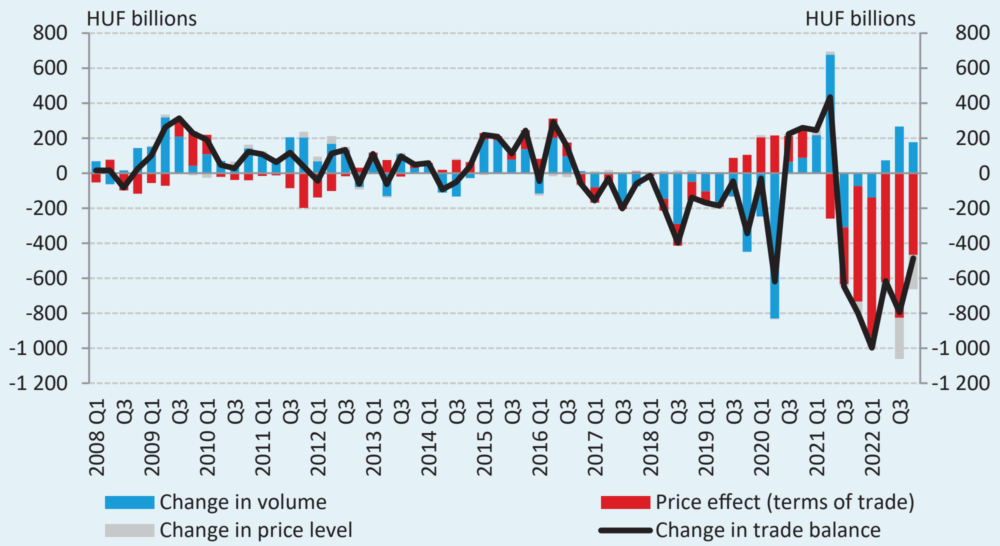
**Chart 6: Main domestic absorption items and the contribution of net exports to GDP growth**




*Source: HCSO*

**Last year, the trade surplus declined steadily, almost entirely as a result of deterioration in the terms of trade** (Chart 7). In 2022, the contribution of the terms of trade to the increase in the trade deficit continued to be negative, while in parallel with the adjustment of the private sector and a pick-up in export growth, changes in the volume of net exports had a mildly opposing effect. The deterioration in the terms of trade due to the sharp rises in commodity and energy prices over the course of the entire year had a significant negative impact on the trade balance.

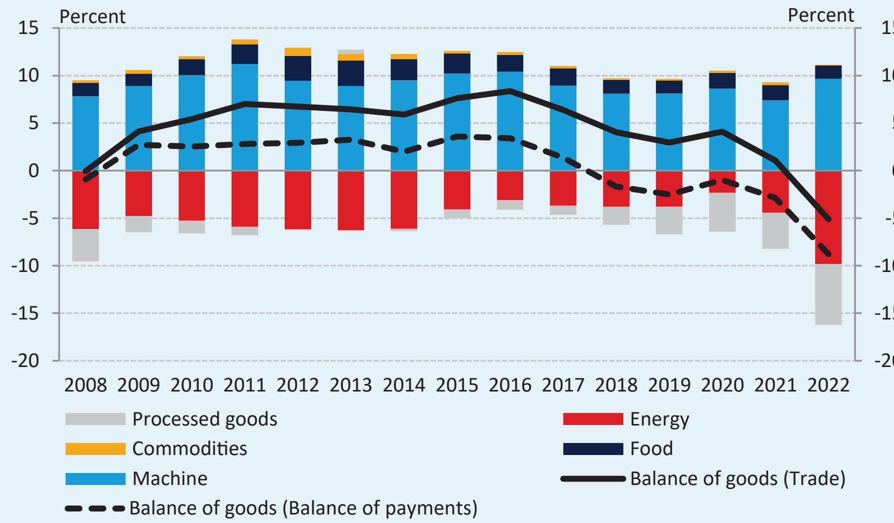
**Chart 7: Development of trade balance factors according to GDP (year-on-year)**




*Source: HCSO*

**The fall in the goods balance in 2022 amounted to 6.2 percentage points of GDP; this was primarily attributable to a rise in net imports of energy and processed goods** (Chart 8). Against the background of surging prices, the shortage of chips and the disruptions in supply chains caused by the conflict between Russia and Ukraine, increases of 5.4 percentage points in net energy imports and of 2.6 percentage points in imports of processed goods were observed compared to the previous year. In addition, as a result of the easing of the global shortage of semiconductors and the disruptions in production chains in the latter half of the year, a 2.3 percentage point increase in net exports of machinery was observed in 2022, following a decline in the previous year. It is worth noting that in addition to the real growth in exports, the large increase in the export price index also contributed to the higher exports of machinery, i.e. the exports sector was able to partly pass on the higher energy prices. Due to the drought conditions, the food industry surplus was somewhat lower than in the previous year.

**Chart 8: Net external trade in goods by main groups (as a percentage of GDP)**



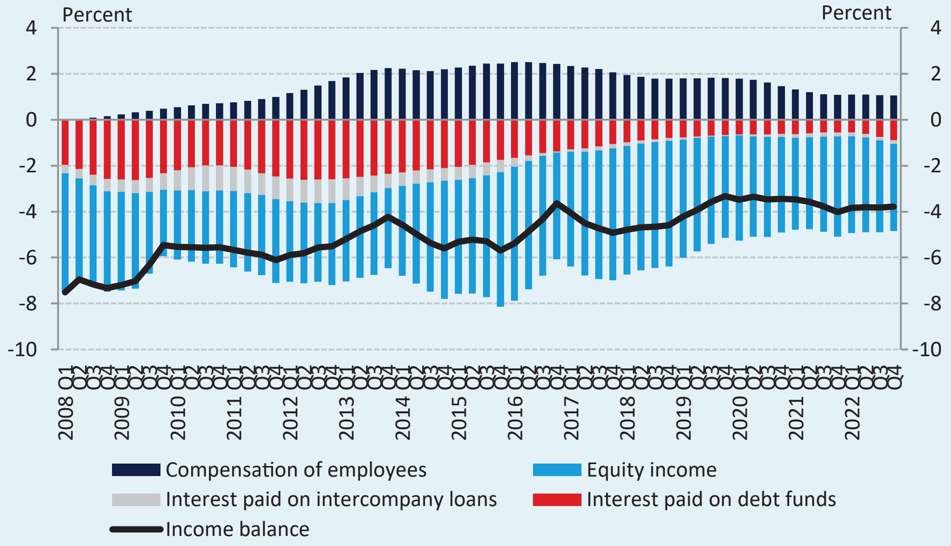

*Note: The difference between trade in goods according to the trade balance and the balance of payments depends on the different requirements of the methodologies and the content of data sources. We obtain the trade in goods figures of the balance of payments by means of adjustment factors derived from the external trade statistics (for more details, see the publication on the methodology of the balance of payments statistics).*
*The two types of data have been similar in recent years, so they are suitable for analysing the trends.*
*Source: HCSO, MNB*

## 1.2 Income balance

**As a result of contrasting effects, the size of the deficit on the income balance as a percentage of GDP amounted to 3.8 percent in 2022, similar to the previous year** (Chart 9). The bulk of the income balance is constituted by the profit of foreign-owned companies,[1] the amount of which, as a percentage of GDP, declined significantly during the year (presumably in relation to the extra profit tax), and thus corresponded to 3.8 percent of GDP by the last quarter of 2022. This was offset by a rise in net interest on loans to and from abroad in line with the international increases in yields, which resulted in a higher income balance deficit. Due to the effects of the pandemic, the earned income of those working temporarily abroad steadily declined in 2020 and 2021, stabilising at a low level of 1 percent of GDP in 2022. Accordingly, this item continued to improve the indicator only moderately. As a result of these effects, the income balance deficit stood at nearly the same level of below 4 percent of GDP at end-2021 and end-2022 as well.

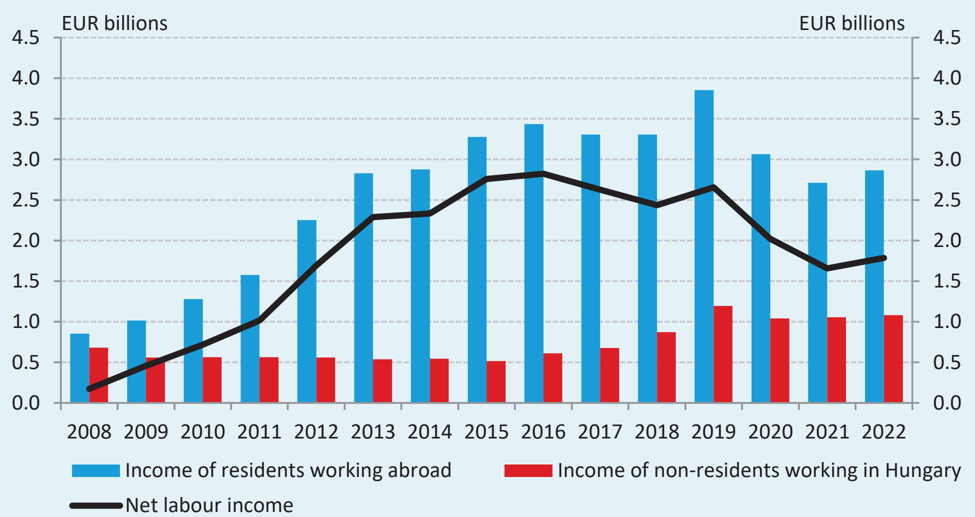
[1] We only have limited quarterly data concerning the profits of foreign-owned companies in 2022. Therefore, the information on profit outflows is based on estimates until the company questionnaires are received at the end of the summer. For more details, see the publication 'Methodological notes to the balance of payments and international investment position'.

**Chart 9: Development of income balance items (four-quarter values as a percentage of GDP)**




**Following declines in the previous two years, the nominal balance of the compensation of employees working abroad for less than one year increased slightly in 2022, in parallel with a rise in the income of Hungarians working abroad and stagnation in the income of foreigners working in Hungary** (Chart 10). In 2008–2015, the compensation of Hungarian employees working temporarily abroad rose dynamically, which helped to improve the income balance. This trend reversed from 2016, and the balance started to shrink slightly, due to a fall in the compensation of Hungarian residents working abroad temporarily and a rise in the compensation of foreigners working in Hungary for less than a year. In 2019, the indicator temporarily rose moderately, but in 2020–2021 the compensation of those employed abroad dropped sharply, as a result of the pandemic. Presumably as a result of the fading of the effects of the pandemic, the income of Hungarians working abroad increased again in 2022. At the same time, in 2020–2022, the income of foreigners working in Hungary for less than one year stabilised at a relatively high level of EUR 1 billion, i.e. the pandemic did not affect the income of foreigners working temporarily in Hungary, as opposed to the income of Hungarians working temporarily abroad.

**Chart 10: Compensation of employees working abroad temporarily**

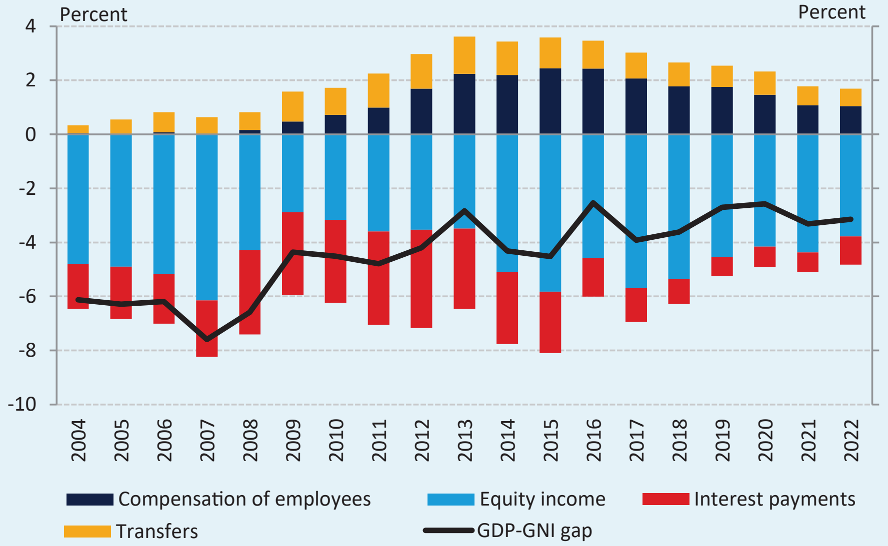



*Source: HCSO, MNB*

**Box 1: GDP-GNI gap**

**The GDP-GNI gap declined somewhat in 2022, as a result of which the disposable income of domestic sectors fell some 3.1 percent of GDP short of the income produced in Hungary** (Chart 11). The difference between gross domestic product (GDP) and gross national income (GNI) shows the balance of income movements vis-à-vis the rest of the world, based on which conclusions can be drawn regarding domestic actors' actual disposable income (disregarding secondary incomes). The significant improvement in this indicator in 2008 and 2009 was primarily attributable to the fall in profitability of companies in foreign ownership, as a result of which the difference, which had previously exceeded 6 percent of GDP, fell to 4 percent of GDP, before fluctuating moderately around 3–4 percent. As opposed to the expected effect of the pandemic, the difference did not grow smaller in 2020–2021. This was because the pandemic did not significantly reduce the profits of foreign-owned companies operating in Hungary, and thus corporate profitability also did not deteriorate significantly during this period. In parallel, however, the decline in the employee compensation balance resulted in an increase in the GDP–GNI gap: the decline in the income of Hungarian employees working abroad in the past years was accelerated by the pandemic. In line with the rise in energy and commodity prices and the extra profit tax imposed by the state, corporate profitability may have declined in 2022. At the same time, in conjunction with the international yield increases, the interest expenditures of economic sectors rose. At the same time, the balance of compensation of employees and transfers was stagnant compared to the previous year, and thus, as a result of the above effects, the GDP–GNI gap narrowed slightly in 2022.

**Chart 11: GDP-GNI gap in Hungary (as a percentage of GDP)**

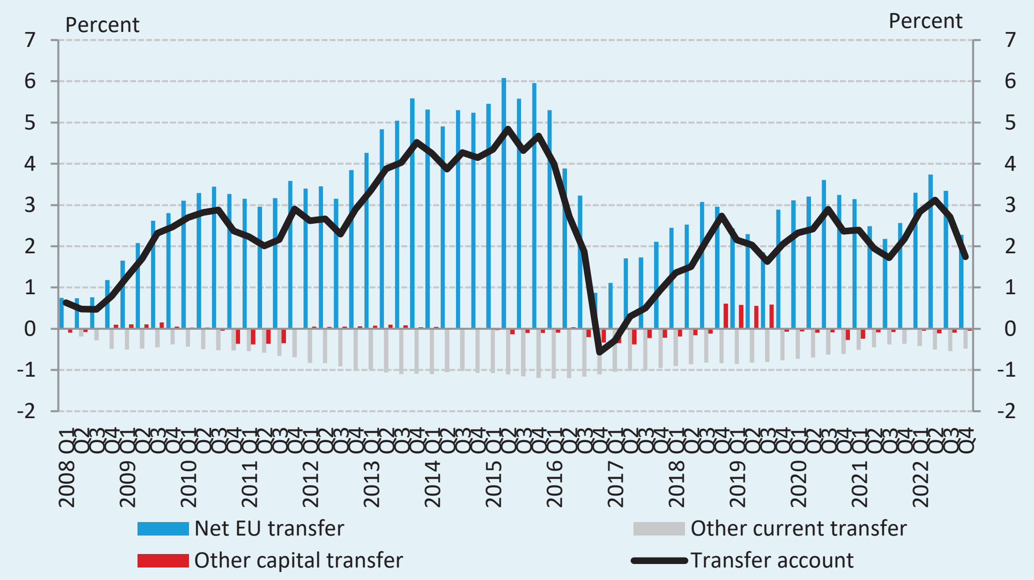



*Note: At present, no official GNI data (published by the HCSO) are available for 2022. The data are based on the primary income of the balance of payments data release (excluding SPEs, containing a tentative estimate for the profit of foreign-owned companies).*

## 1.3 Transfer balance

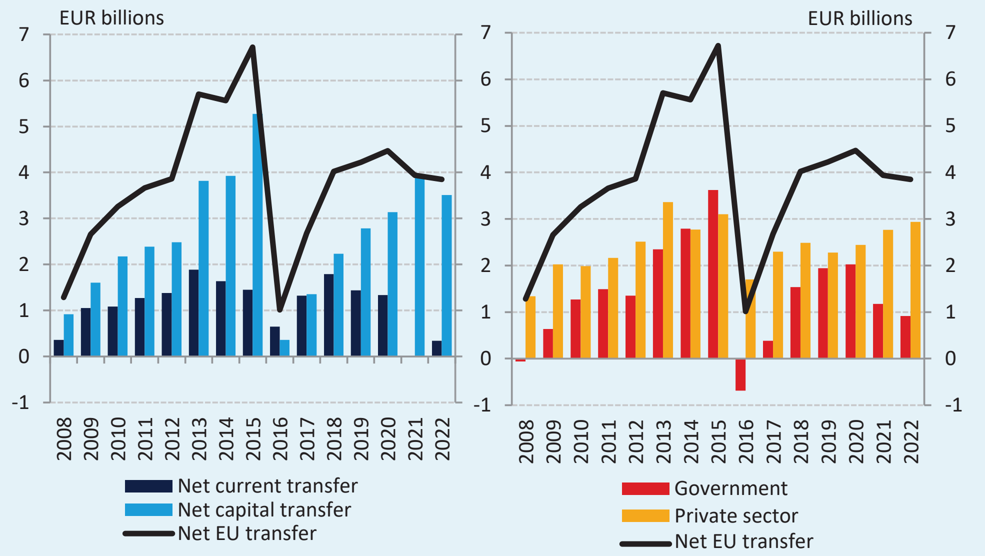
**The surplus on the transfer balance declined to 1.7 percent of GDP at the end of 2022, owing to changes in EU transfers** (Chart 12). In 2019 and 2021, a temporary downturn was observed in the four-quarter absorption of EU funds, but that was normally followed by an upturn, and thus in the past years the absorption of net EU funds was around 2.5–3.0 percent of GDP on average. At end-2022, the four-quarter transfer balance amounted to 1.7 percent of GDP, as net EU transfers, which had been relatively high in the first three quarters, at 3.5 percent of GDP, declined by the end of the year, while other current transfer expenditures were stagnant at the previous year's level, i.e. 0.5 percent of GDP. The four-quarter value of other capital transfers also remained unchanged compared to the previous year.

**Chart 12: Development of the transfer balance (four-quarter values as a percentage of GDP)**




**As in the previous year, the absorption of EU funds in 2022 was around EUR 3.9 billion, resulting from a decline in the absorption of the general government and a moderate increase in the absorption of the private sector** (Chart 13). As a result of the EU programming period and the related rules on using funds, the absorption of EU transfers reached a low in 2016. Following this, the annual absorption of funds increased year after year until 2020, supported by advance payments as well. Starting from 2021, however, a decline was observed: the inflow of current transfers dropped, adjusting only slightly in 2022 as well, and after the previous year's high peak, there was a moderate deceleration in capital transfer inflows in 2022. In a sectoral breakdown, absorption remained at an unchanged level, in parallel with a decline in the general government (which is explained by the negative impact on investment of the high inflation and surging energy prices), while absorption by the private sector expanded slightly in 2022 as well, just as in previous years.

**Chart 13: Development of net current and capital transfers with the EU and breakdown by sector**

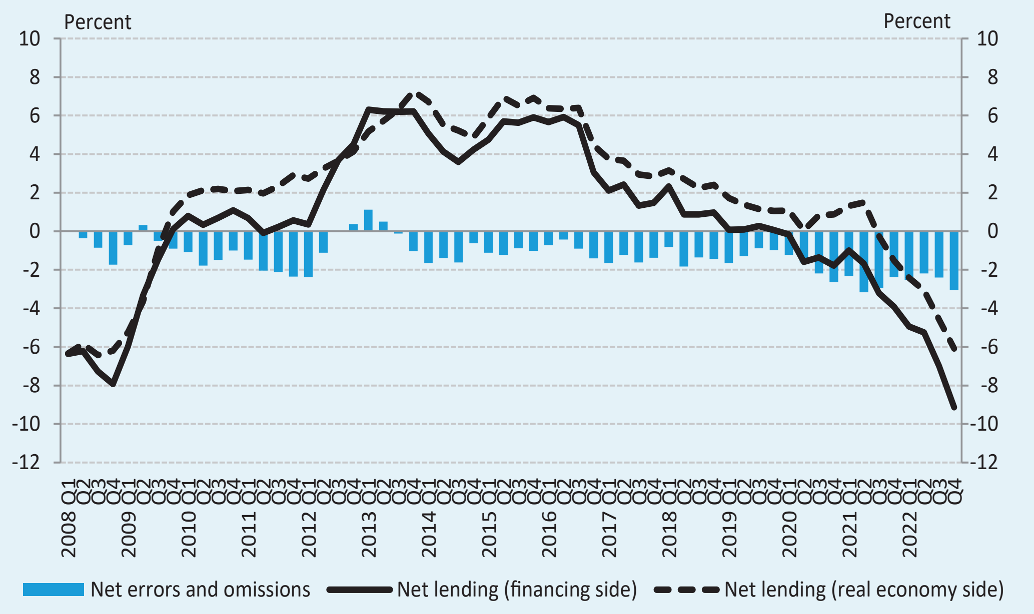


# 2 Financing approach

In 2022, net borrowing calculated on the basis of the financing side expanded to around 9 percent of GDP. The increase in the current account deficit due to the jump in energy prices was primarily financed by higher external debt, but net foreign direct investment inflows also rose versus the previous year, as a result of strong growth in investments in Hungary and Hungarian investments abroad. Net debt liabilities increased in year-on-year terms, with the general government and the banking sector as the main contributors, while net outflow of funds took place in the case of companies. The inflow of debt observed in the case of the state was linked to the foreign exchange expenditures of the State Treasury, the negative impact on FX reserves exerted by conversions related to foreign currency needs for energy imports and the central bank swap instruments, the increase in non-residents' government securities holdings and issuance of two-week central bank discount bonds. At the same time, the central bank facilities provided to banks did not result in net inflows of funds at whole-economy level, as they curbed banks' net external debt.

**In 2022 Q4, the four-quarter net borrowing of the economy according to the financing approach was around 9 percent of GDP.** The net borrowing of approximately 9 percent according to financing data exceeded the figure of 6.1 percent of GDP calculated from the real economy side (Chart 14). Accordingly, net errors and omissions, i.e. the difference between the real economy and financing balance indicators amounted to around 3 percent of GDP, slightly exceeding the average for previous years.[2]

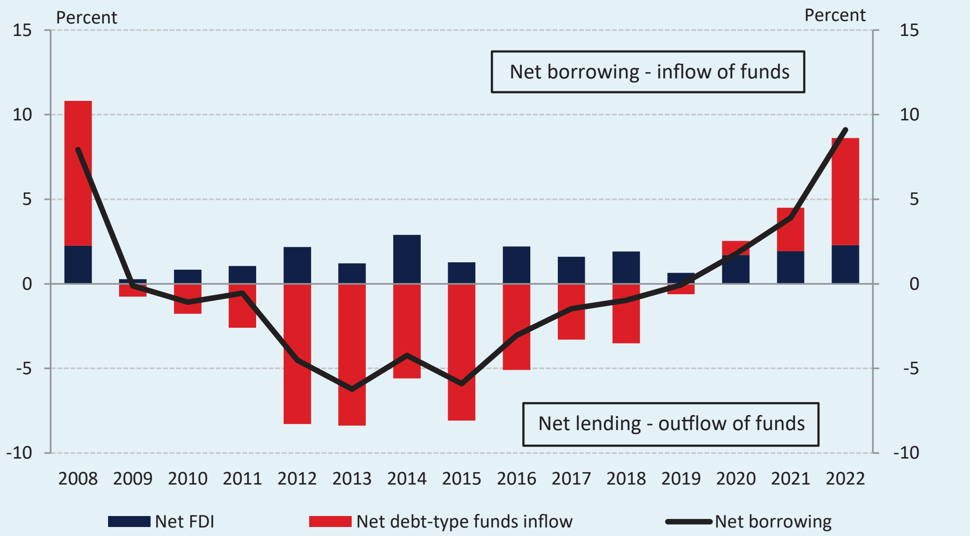
**Chart 14: Development of the two types of net lending position (four-quarter data as a percentage of GDP)**




**In 2022, a transactional basis net FDI inflows as a percentage of GDP exceeded the previous years' figures and reached 2.3 percent, while the inflow of debt liabilities was also significant** (Chart 15). Due to transactions, the net external debt of the economy increased by roughly 6.3 percent of GDP in 2022, resulting from a rise of EUR 22 billion in external liabilities and an expansion of EUR 11 billion in external assets. Foreign-owned companies' direct investments were mainly related to reinvested earnings, while residents' investments abroad also continued.

[2] Developments in the balance of payments can also be described in terms of the financing of real economy transactions. The financial account shows what kinds of transactions affecting net financial worth were used by resident economic agents to finance real economy transactions. While data derived from the real economy approach and the financing approach should be identical in theory, differences are likely to arise in practice due to non-integrated data sources, incomplete observation and the different treatment of exchange rates, as indicated by the category 'Net errors and omissions'.

**Chart 15: Development of foreign direct investment and debt liabilities transactions (as a percentage of GDP)***

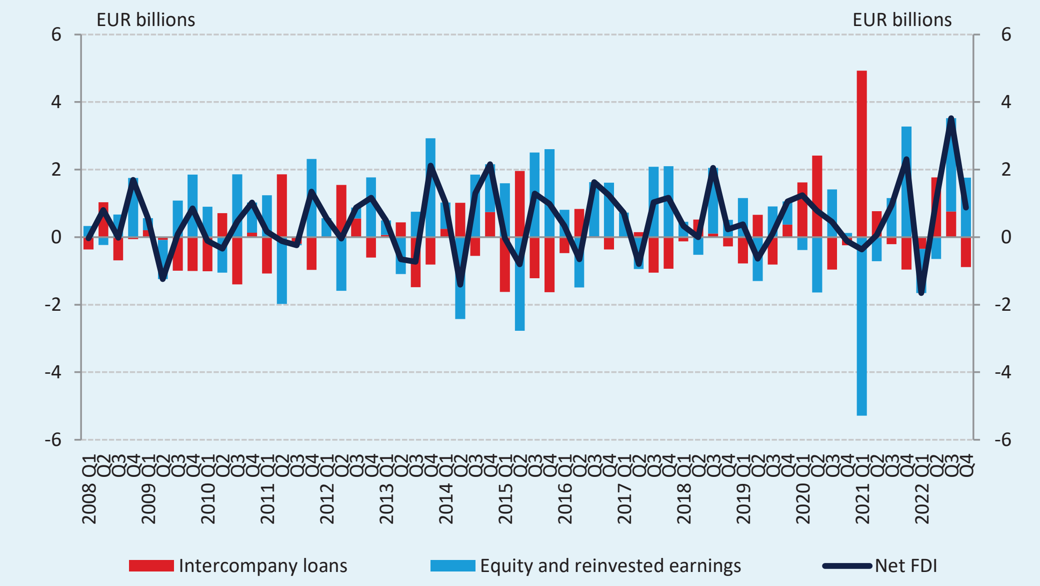



** In addition to the components presented in the chart, net borrowing also includes the equity transactions of portfolio investments and transactions associated with derivatives, as well as the non-debt receivable (bullion, equity securities) transactions of international reserves.*

## 2.1 Non-debt liabilities

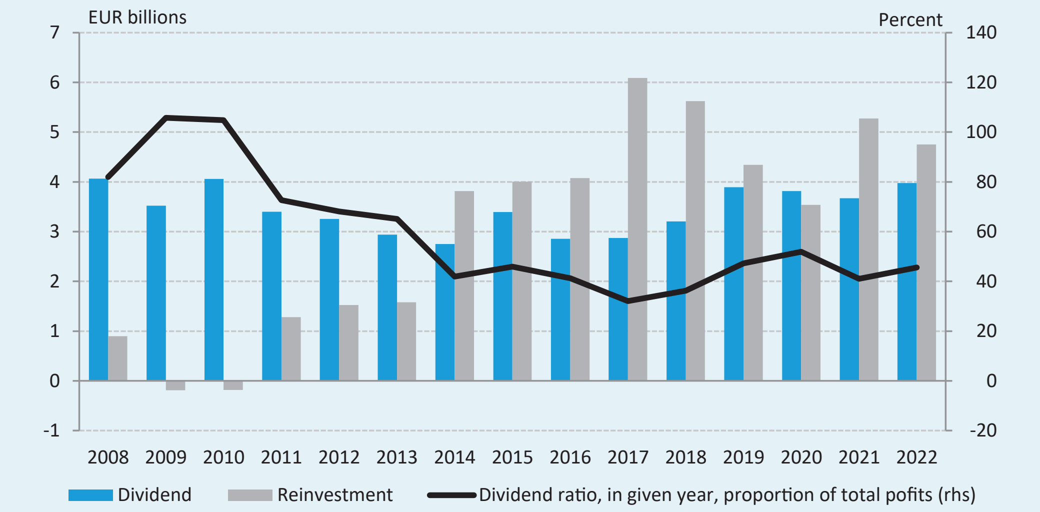
**FDI inflows in Hungary were around EUR 8 billion in 2022, while net FDI inflows amounted to EUR 3.9 billion** (Chart 16). Inflows of foreign direct investment to Hungary amounted to approximately EUR 8 billion last year as a whole, representing a strong increase compared to 2021. Hungarian investments abroad expanded by a total EUR 4.1 billion during the year, resulting in net FDI inflows of EUR 3.9 billion in 2022 as a whole. Equity-type liabilities were reduced by outstanding and regular dividend disbursements in 2022 H1, most of which were related to a large international corporation. However, the net FDI stock declined to a lesser degree than that, as the approved but unpaid dividend temporarily remained with the Hungarian subsidiaries of many companies, including the aforementioned corporation, as intercompany loans. At the beginning of the year, Hungarian investments abroad (including the shares acquired by a Hungarian financial institution in a bank in a country in the region) and the acquisition of foreign-owned companies in Hungary were higher, whereas in the second half of the year major equity-type investments took place in the electronics industry (and within that in the production of batteries and electric motors), resulting in an unprecedented quarterly net FDI inflow of EUR 3.5 billion in the third quarter. The trend observed following the financial crisis continued in 2022 as well, i.e. in terms of the structure of foreign direct investment, the changes in equities and intercompany loans followed differing paths (this is one of the factors why the MNB considers intercompany loans as equity-type liabilities, and does not take them into account in the developments in external debt). Accordingly, net FDI rose significantly versus 2021.

**Chart 16: Development of net direct investment (net of capital in transit)**




**Foreign-owned companies' income fell slightly short of the 2021 figure in nominal terms as well.** Within that, there was a minor increase in the dividend ratio, and thus both factors contributed to the decline in reinvestments. In 2022, the income of foreign-owned companies fell to EUR 8.7 billion, which was attributable to the extra profit tax as well.[3] Following a small rise, dividend disbursements were around EUR 4 billion, and thus the dividend ratio increased to slightly above 45 percent. This ratio roughly corresponded to the regional average, representing significant reinvestment at the same time (for more details, see Section 5.6 of the October 2022 Report on the Balance of Payments). Despite the slight decrease, the reinvestment of earnings presented in the balance of payments statistics continued to make a strong contribution to the inflow of foreign direct investment (Chart 17).

**Chart 17: Distribution of profits generated by foreign-owned companies in Hungary**

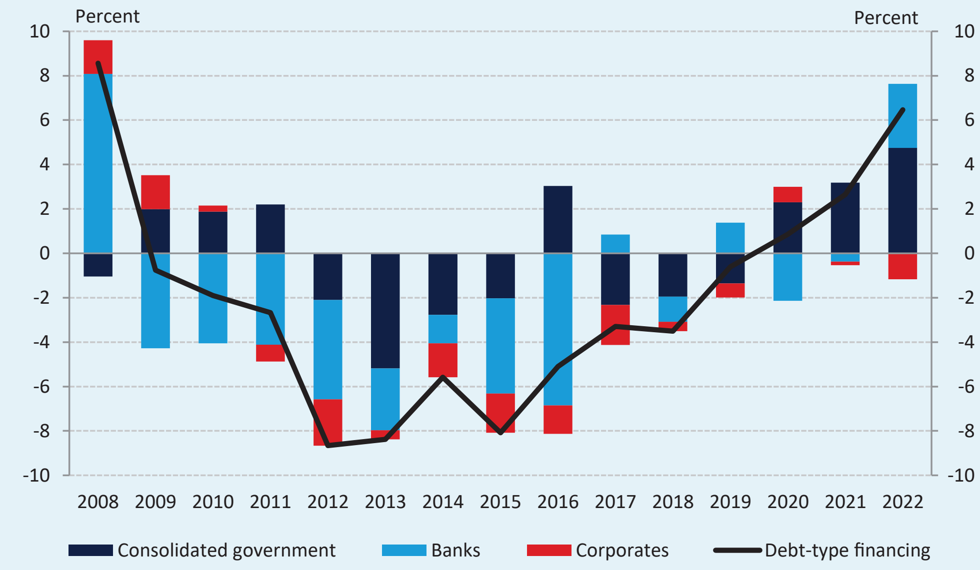



[3] The profit of foreign-owned companies and the reinvested income shown in the income balance are based on an estimate for 2022, which will be replaced by actual figures based on corporate surveys together with the publication in September 2023.

## 2.2 Debt liabilities

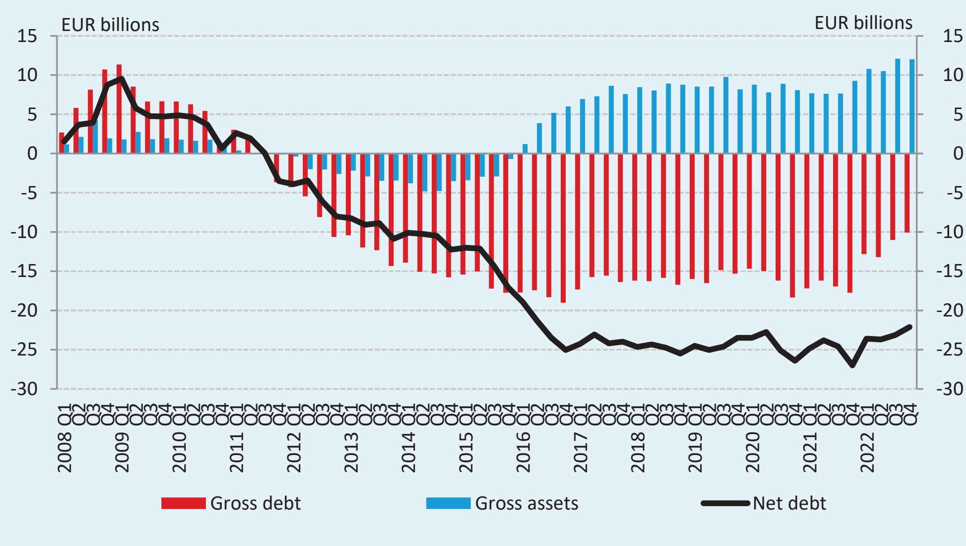
**The net external debt of the economy grew by more than EUR 5 billion in 2022 Q4 and by some 6.5 percent of GDP in 2022 as a whole, as a result of transactions, with the general government and the banking sector as the main contributors, while the indicator for the banking sector declined** (Chart 18). In 2022, in parallel with the higher net borrowing, the net external debt of the economy increased to a much greater degree than in the previous year: due to transactions, the net external debt of the consolidated general government and of the banking sector grew by EUR 8.1 billion and EUR 4.9 billion, respectively, while the indicator for the corporate sector declined by EUR 2 billion.

**Chart 18: Changes in the debt liabilities of individual sectors (as a percentage of GDP)**




**The banking sector's net external debt increased sharply last year, primarily owing to a significant rise in foreign liabilities** (Chart 19). Banks' foreign liabilities moved on an upward trend in 2022, advancing by EUR 7.6 billion. This effect was partly offset by an annual increase of EUR 2.8 billion in foreign assets. Accordingly, banks' net external debt rose by EUR 4.9 billion in total.

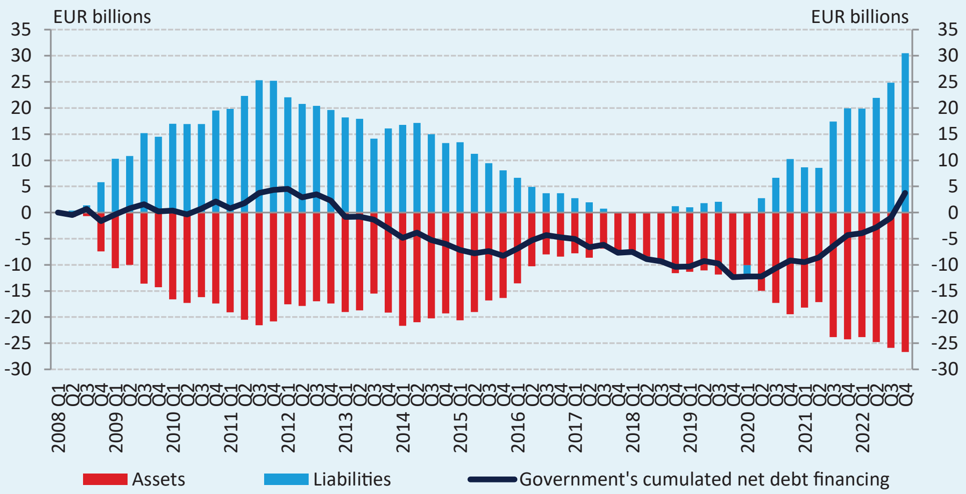
**Chart 19: Development of the banking sector's external debt and receivable transactions (cumulative transactions)**



**The net external debt of the consolidated general government including the MNB increased significantly in 2022 Q4 as well, which was attributable to growth in gross liabilities, which exceeded the rise in foreign receivables** (Chart 20). Considering the year as a whole, the net external debt of the consolidated general government including the MNB was shaped by the following key factors:

- The absorption of EU funds (via agricultural programmes and capital transfer) reduced net external debt for the year as a whole.
- In spite of the decline observed in the second quarter, non-residents' forint government securities holdings expanded by roughly EUR 1.2 billion in 2022 as a whole.
- Foreign exchange expenditures of and FX interest payments by the state as well as the conversions related to foreign currency needs for energy imports contributed to the decline in FX reserves, adding to the net external debt of the state.
- The foreign currency bond issues during the year also boosted foreign exchange reserves, in addition to gross debt, and thus had no effect on net external debt.
- Recourse to the MNB's repo agreements vis-á-vis international organisations results in an increase in gross external debt, but at the same time it also adds to the FX reserves, and thus this transaction alone does not affect net external debt.
- The expiry of the central bank' forint liquidity-providing swaps and – temporarily – the use of the euro liquidity-providing swap instruments both reduced foreign exchange reserves, thus contributing to the rise in the government's net external debt. However, the foreign currency liquidity provided to the banking sector via these instruments has the effect of reducing banks' debt ratio.
- The two-week central bank discount bond issued to ease swap market tensions added roughly EUR 1.4 billion to the net external debt of the consolidated general government, but it also had the opposite effect on the indicator for banks.

**Chart 20: Breakdown of the change in the net external debt of the consolidated general government including the MNB (cumulative transactions)**




**Companies' net external debt fell by nearly EUR 2 billion in 2022.** Companies' foreign assets rose by EUR 6 billion year on year, with foreign short-term deposits and commercial loans granted as the main contributors. The expansion on the liabilities side amounted to EUR 4 billion, with companies' foreign long-term loans as the main contributing factor, in addition to commercial loans. As a result, the net external debt of companies declined considerably overall.

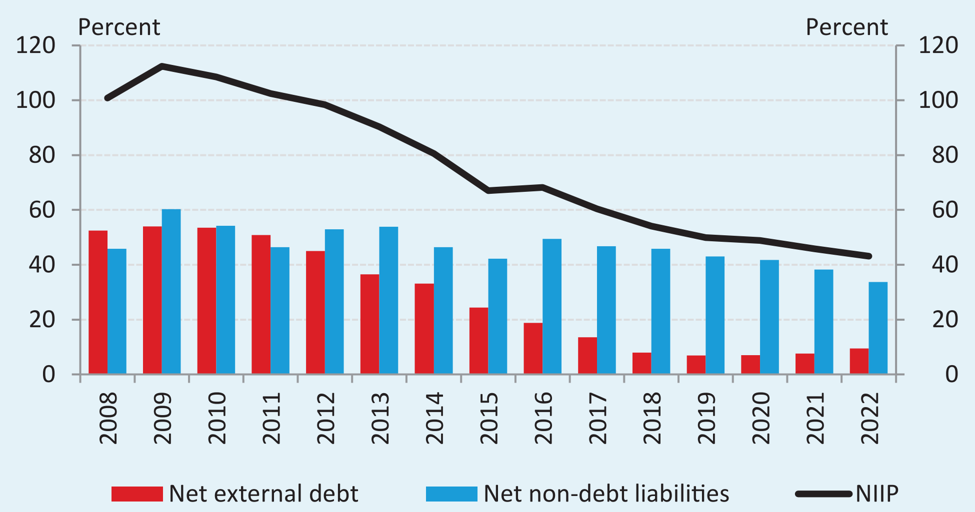
# 3 Developments in debt ratios

Debt indicators, which are crucial in terms of external vulnerability, remained favourable in 2022 on the whole, in spite of the temporary increase in net borrowing. Hungary's net external liabilities declined in parallel with an outflow of non-debt liabilities, while net external debt rose to 9.4 percent of GDP following a temporary drop in 2022 H1. The mild increase in net external debt resulted from the fact that the effect of debt inflows was partly offset by revaluation, which curbed the increase in debt and primarily materialised due to a rise in yields, as well as by the growth in nominal GDP. The increase in the net debt indicator was related to banks' debt inflows, and companies' net external debt declined, while that of the state remained practically unchanged compared to end-2021. The private sector's debt indicator became positive again, i.e. the foreign liabilities of the sector exceeded its assets at end-2022. Hungary's gross external debt advanced slightly to nearly 64 percent of GDP, driven by a rise in banks' and corporations' foreign liabilities, FX bond issues by the state, non-residents' higher government securities holdings and the issuance of discount bonds by the central bank. The increase in the gross indicator was curtailed by revaluations and GDP growth. Foreign exchange reserves at end-2022 amounted to EUR 38.7 billion, exceeding the level of short-term external debt, which is closely monitored by investors, by EUR 4.1 billion.

## 3.1 Net external liabilities

**In 2022, Hungary's net external debt-to-GDP ratio decreased further as a result of debt inflows and a decline in non-debt liabilities, in conjunction with strong GDP growth** (Chart 21). Following deceleration in 2020, the gradual decline seen since the 2008 crisis in net external liabilities, also comprising external debt and non-debt liabilities (including foreign direct investment, portfolio equities and derivative liabilities), continued in 2022 again, just as in 2021, with the indicator dropping to 43 percent of GDP by the end of the period. The annual decline of nearly 3 percentage points was related to a decrease in non-debt liabilities, while net external debt was slightly higher compared to its historically low levels typical of the previous years. The decline in net external liabilities as a percentage of GDP occurred in the private sector: corporations' net external liabilities fell considerably, and the indicator for the banking sector decreased to a lesser extent, while that of the government remained practically unchanged. The decline in non-debt liabilities was primarily driven by net outflows of portfolio investments: residents' portfolio investments abroad now exceed the stock of investments in Hungary. The value of net direct investment as a percentage of GDP declined during the year, as the effect of net FDI inflows, which continued in 2022 as well, was offset by a decrease in liabilities due to other changes in stock (revaluation and non-recurring items) and GDP growth.

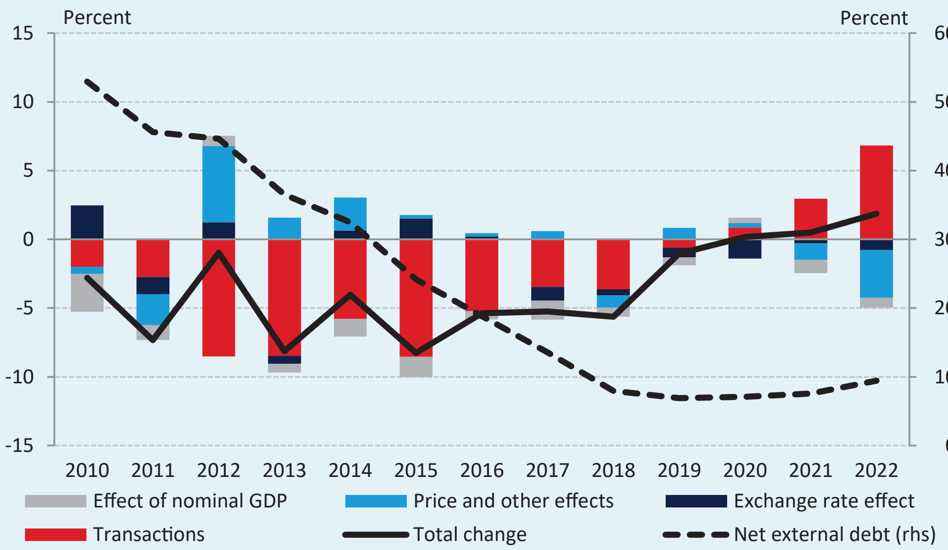
**Chart 21: Development of net external liabilities (period-end values as a percentage of GDP)**



## 3.2 Net external debt

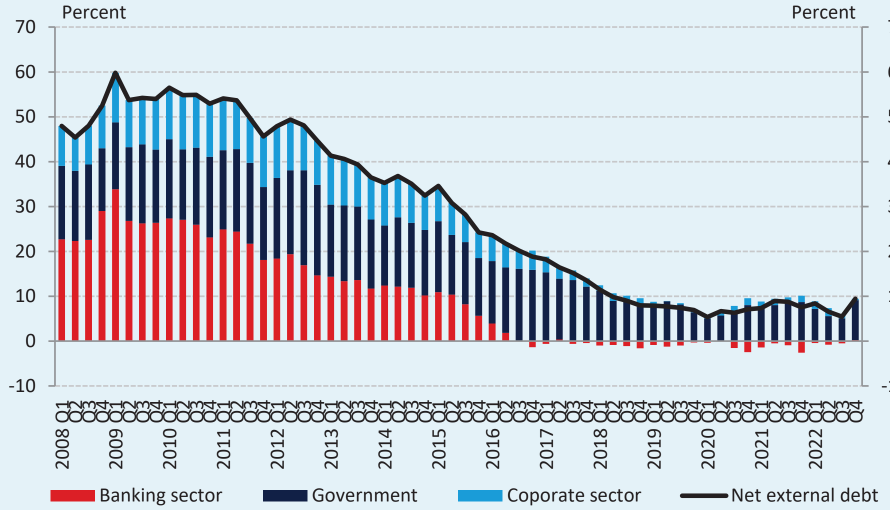
**In parallel with the higher net borrowing of the economy, net external debt rose moderately in 2022, but the indicator remained close to a historically low level, at below 10 percent.** The rise in the debt indicator occurred because the revaluation of stocks and strong growth in nominal GDP were able to offset the debt-increasing effect of the inflow of debt liabilities (Chart 22). The net external debt accumulated in the years before the 2008 crisis declined by 46 percentage points in the 2010s, which was primarily attributable to outflows of debt liabilities. Following a significant decline observed since the crisis, the debt ratio was relatively stable between 2018 and 2021, at around 7 to 8 percent of GDP and then increased in line with the financing requirement of the economy in 2022, slightly exceeding the historical low and standing at 9.4 percent of GDP at end-2022. The debt inflow observed during the year raised the indicator significantly, which was partly offset by revaluation effects (yield increases, which reduced the market value of outstanding debt, and the effect of exchange rate changes, which increased net foreign currency receivables) and nominal GDP growth.

Chart 22: Decomposition of the change in net external debt (as a percentage of GDP)



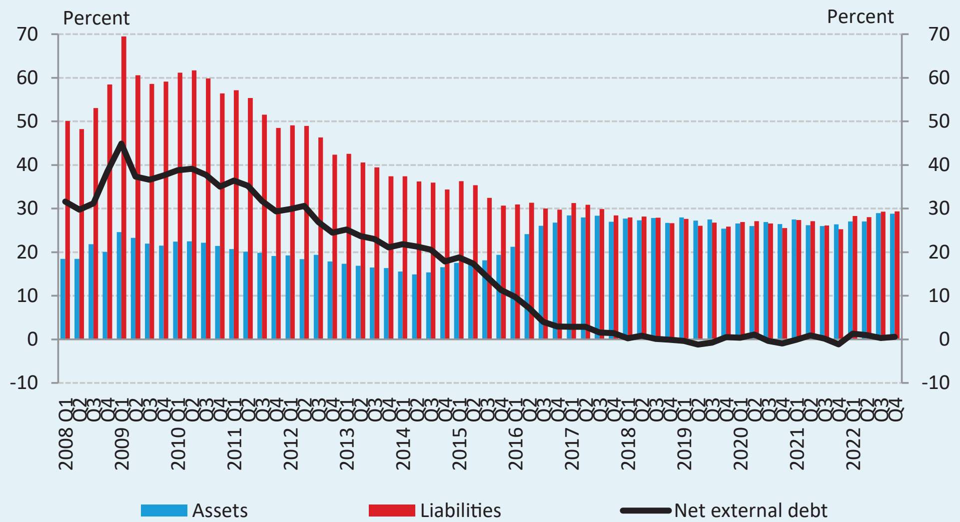

**The slight increase in net external debt seen in 2022 was related to the rise in the private sector indicator, while that of the state remained practically unchanged for the year as a whole.** The annual increase in net external debt as a percentage of GDP was the result of the banking sector's rising and companies' declining indicators. Following a temporary drop during the year, the net external debt of the state was close to the end-2021 level at the end of the year (Chart 23). The government's FX bond issues, maturities and repurchases affected both gross liabilities and assets, and were thus neutral in terms of the net external debt of the state. Looking at the year as a whole, the external debt of the state was increased by the effect of net debt inflows, which was offset to a large degree by revaluation effects resulting from the yield increases and depreciation of the forint until 2022 Q3, but in 2022 Q4 – in parallel with the appreciation of the exchange rate of the forint and slower yield increases – the revaluation of the outstanding debt and of the FX reserves no longer mitigated the impact of the debt inflow. The net debt inflows of the consolidated general government including the MNB are partly attributable to the FX reserve-reducing effect of the conversions related to foreign currency needs for energy imports, foreign currency interest payments by the state and FX expenditures, while the increase in non-residents' government securities purchases also added to the net external debt of the state. The effect of all this was partly offset by EU transfer inflows during the year. The euro liquidity-providing central bank swap instruments and the discount bond issue at the end of the year reduced the FX reserves, which was neutral for net external debt at the whole-economy level, but at the same time resulted in a rise in the net external debt of the state. This was because, simultaneously with the FX reserve-reducing effect, the central bank swap instruments provided FX liquidity to the banking sector, improving the net debt indicator of banks, while the portion of the one-off discount bond held by non-resident actors – partly replacing foreign client deposits – also contributed to the decrease in banks' external liabilities.

**Chart 23: Breakdown of net external debt by sectors (as a percentage of GDP, excluding inter-company loans)**




**The private sector's debt indicator became positive again, i.e.** the foreign liabilities of the sector exceeded its foreign assets at end-2022. The private sector's net external debt-to-GDP ratio increased from its low recorded in 2021 by 1.7 percentage points and thus reached 0.6 percent at end-2022. The increase was primarily due to the rise of 2.8 percentage points in the indicator for the **banking sector**, while companies' net external debt fell by 1.1 percentage points. Changes in the indicator for the banking sector are strongly affected by developments in the central bank swap instrument and the one-off discount bond issuance aimed at mitigating year-end market tensions. Resulting in a rearrangement between the indicators for the government and the banking sector, these instruments supported a decline in the net debt indicator for banks, which only partially offset the impact of debt inflow resulting on the basis of fundamentals. Banks' annual debt inflow was related to the expansion in liabilities, which exceeded the increase in the sector's foreign assets. This was partly attributable to banks' bond issues and partly to the effect of an increase in client deposits. At end-2022, banks' net external debt amounted to 0.3 percent, i.e. the sector's liabilities vis-á-vis the rest of the world already exceed their foreign receivables. The decline in the net external debt indicator of **companies** was a result of the fact that the sector's foreign assets grew to a greater degree than foreign liabilities. Examining the banking sector and companies over a longer period of time, following a decline after the crisis, the private sector's net external debt has been relatively stable, remaining at levels close to zero since 2018 (Chart 24).

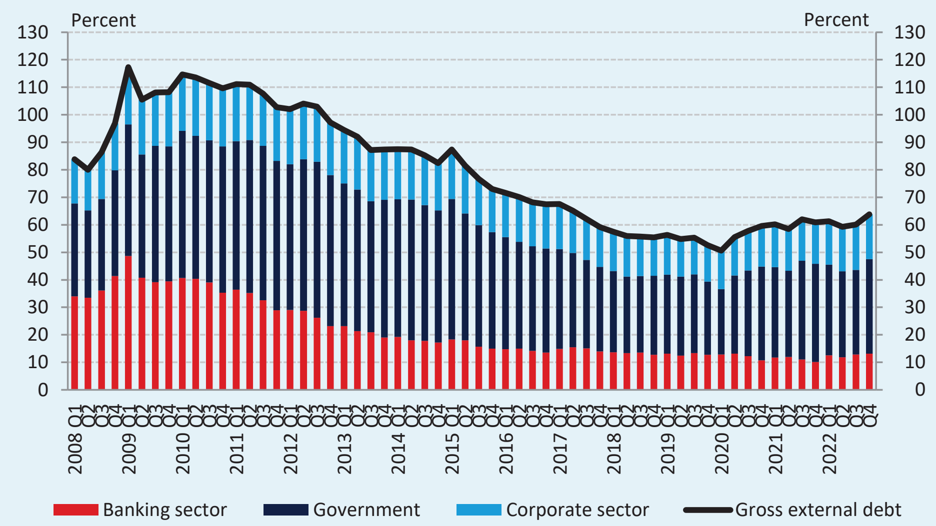
**Chart 24: Development of the private sector's external assets and debt (as a percentage of GDP)**



## 3.3 Gross external debt

**In the relation to the private sector, Hungary's gross external debt increased from end-2021, while the indicator for the general government declined** (Chart 25). Gross external debt amounted to 63.8 percent of GDP at end-2022. The increase in the private sector's debt indicator was primarily driven by the 3-percentage point rise in the banking sector's gross external debt, which was related to the growth in the sector's foreign liabilities (mainly bond issues, client deposits and loans with maturities over one year). The rise in companies' gross external debt-to-GDP ratio was driven by expansions in commercial loan debts and foreign loans (these were similar to the rise in receivables). In 2022, the gross external debt as a percentage of GDP of the consolidated general government including the MNB declined by 1.3 percentage points, as the effect of the increase in debt resulting from borrowing from abroad, bond issuance as well as government securities and central bank discount bond purchases by non-residents was offset by revaluation (due to yield increases), which contributed to a decline in stock, and thus in respect of the indicator as a percentage of GDP the increase in debt was more than offset by the effect of the expansion in nominal GDP.

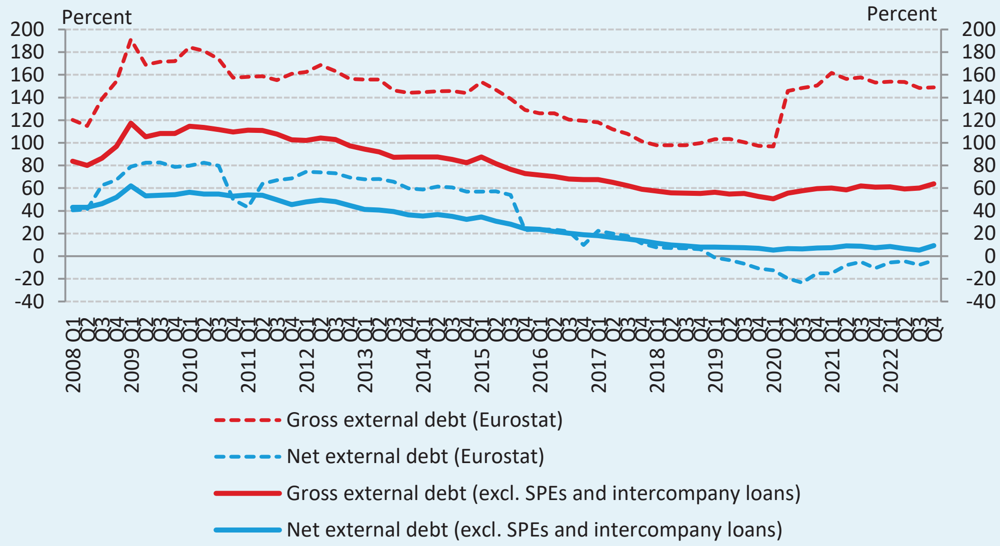
**Chart 25: Breakdown of gross external debt by sector (market value as a percentage of GDP, excluding intercompany loans)**



**Box 2: Changes in external debt from various perspectives**

**Regardless of special purpose entities (SPEs) and intercompany loans, net external debt has reached a steadily low level, but in the case of gross external debt, the indicators including SPEs and intercompany loans also continue to significantly exceed the debt ratio according to underlying trends.** Based on economic considerations, in order to present the underlying developments, the MNB's reports and publications analyse the debt indicators that exclude SPEs and intercompany loans, and consider gold reserves as foreign receivables.[4] However, in the Eurostat database only indicators calculated together with these factors are available at the international level. SPEs do not perform genuine real economy activity in the given country, and they typically have less than five employees. Their activity typically does not have an impact on the net external liabilities of the country, as in parallel with their liabilities they have external assets of the same value as well, and thus they only significantly influence the gross debt indicators. In view of their fundamentals, intercompany loans can be considered more as non-debt liabilities rather than debt-type ones (for more details, see the April 2014 Report on the Balance of Payments). In line with this, the balance of payments statistics show intercompany loans among foreign direct investment. In accordance with net external debt according to underlying trends, net external debt including SPEs and intercompany loans also increased moderately in recent years. At end-2022, net external debt calculated by Eurostat, amounted to -3.8 percent, i.e. according to the ratio also including SPEs, the stock of external assets consistently exceeded that of external debt from 2019 (Chart 26). However, the levels of gross indicators differ significantly according to various methodologies. In 2020, gross external debt surged higher, which highlights the fact that the indicator which also takes into consideration SPEs not pursuing real economic activity in Hungary – and the change in it resulting from idiosyncratic factors – conceals real economic trends.

**Chart 26: Development of net and gross external debt (as a percentage of GDP)**



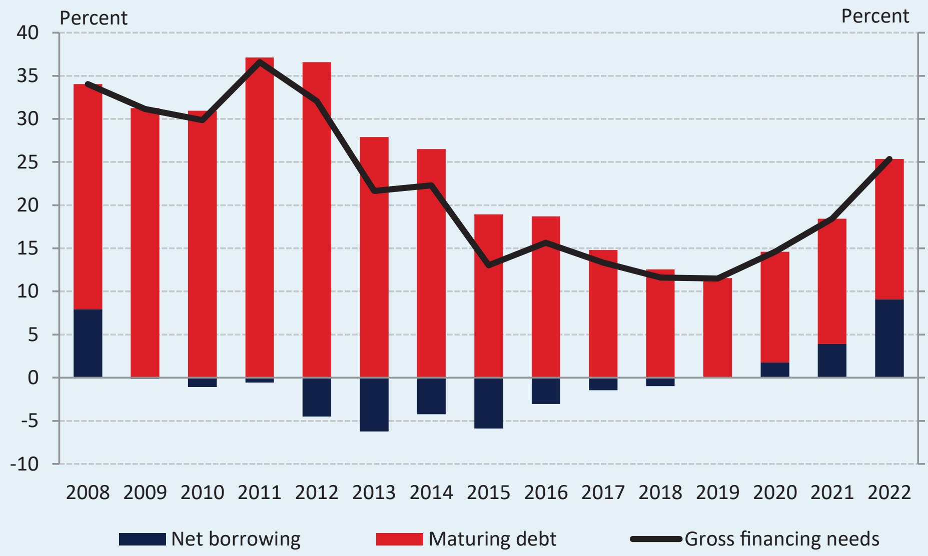

*Source: Eurostat, MNB*

4 From an economic viewpoint, the fundamental development of the debt is not influenced by the conversion between unallocated gold accounts and bullion balances, and thus this effect has been excluded from the time series.

## 3.4 Gross borrowing needs and reserve adequacy

**Hungary's gross financing needs increased significantly in 2022.** Following a gradual decline after 2011, gross financing needs have been on the rise over the past three years in parallel with the external balance position turning into net borrowing. Annual external net borrowing calculated from the items in the financial account, which shows the external funding requirement of the country, amounted to 9 percent of GDP. At end-December 2021, short-term external debt – i.e. expiring in 2022 – stood at 16 percent of GDP, which also represents an increase compared to the previous year's level. On the whole, the gross external borrowing requirement, which shows the Hungarian economy's external liabilities to be renewed in a given year – and is the sum of the aforementioned two values – amounted to 25 percent of GDP.

**Chart 27: Development of gross financing needs (as a percentage of GDP)**




**At end-2022, international reserves stood at EUR 38.7 billion, which corresponds to the September level.** The stable development of reserves in the fourth quarter was affected by various factors, the most important of which were the following:

- The net *FX financing operations of the Government Debt Management Agency (GDMA)* boosted reserves by EUR 1.7 billion in total, which was mainly the result of the GDMA's green bond issues denominated in euro and renminbi, as well as of the exclusive raising of USD-denominated bond issues.
- The reserve-increasing effect of *EU funds* amounted to EUR 1.3 billion, which was still primarily related to cohesion fund inflows linked to the 2014–2020 period, but already partly contained advance payments from the new cycle as well.
- On the whole, the *revaluation* resulting from the shift in the exchange rates of other currencies and the price of gold reduced the reserves.
- The instrument related to *covering net energy imports* was launched by the MNB in November 2022; satisfying the FX liquidity needs reduced the level of reserves. The *foreign exchange transactions of the Hungarian State Treasury* also contributed to the decline in FX reserves.
- The balance of the *euro liquidity-providing swap instrument* and the international *repo drawdowns* decreased reserves compared to the end of September 2022.

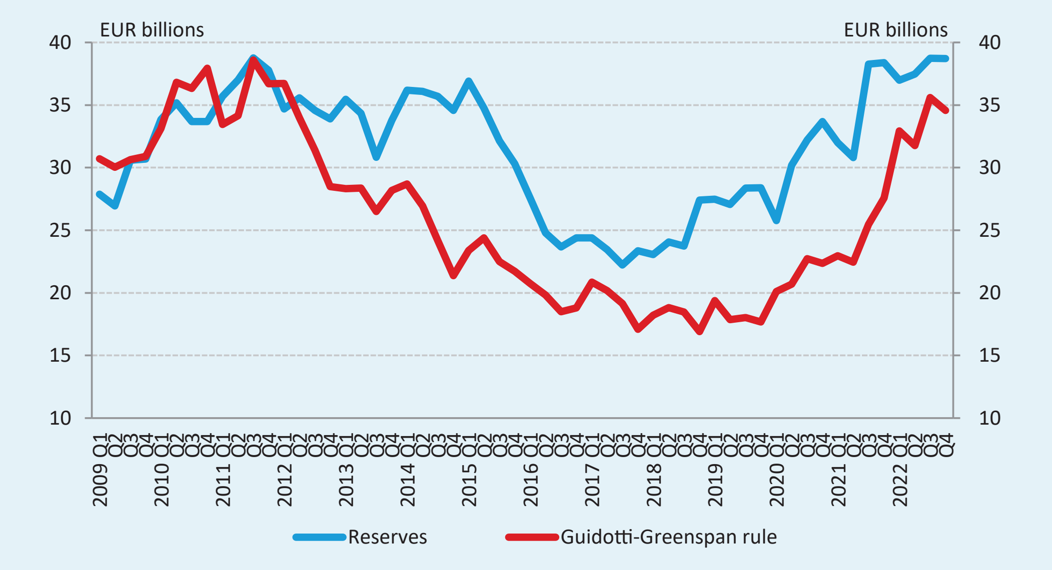
**The MNB's international reserves increased by EUR 0.3 billion in 2022 as a whole.** Foreign exchange reserves rose from EUR 38.4 billion at end-December 2021 to EUR 38.7 billion by end-2022, mainly due to the following factors:

- Net foreign currency funding by the Government Debt Management Agency in the amount of around EUR 5 billion contributed to the growth in reserves. The GDMA issued FX bonds denominated in various currencies (euro, dollar, yen, renminbi) on several occasions. The state did not have any international FX bond maturities during last year.

- The annual net amount of transfers from the European Commission and of the payments made affecting the FX reserves exceeded EUR 4 billion.
- The decline to zero of the forint liquidity-providing FX swap instrument in the autumn of 2022 also reduced the level of reserves.
- Foreign exchange expenditures of the Hungarian State Treasury and the instrument related to covering net energy imports reduced the reserves.
- It also had a reserve-reducing effect that the stock of the euro liquidity-providing swaps and the international repo drawings used for their funding were different.

**At the end of 2022, the MNB's international reserves exceeded the level of short-term external debt, which is closely monitored by investors, by EUR 4.1 billion.** At end-December 2022, international reserves amounted to EUR 38.7 billion and short-term external debt stood at EUR 34.6 billion. The leeway above the Guidotti–Greenspan indicator, which is closely monitored by both the central bank and investors, rose from EUR 3.1 billion at end-September 2022 to EUR 4.1 billion (Chart 28). Last year, the adequacy measured on the basis of the Guidotti–Greenspan indicator was at a level similar to the one seen at the end of the year, i.e. around EUR 4.2 billion on average.

**Chart 28: Short-term external debt of the Hungarian economy and international reserves**

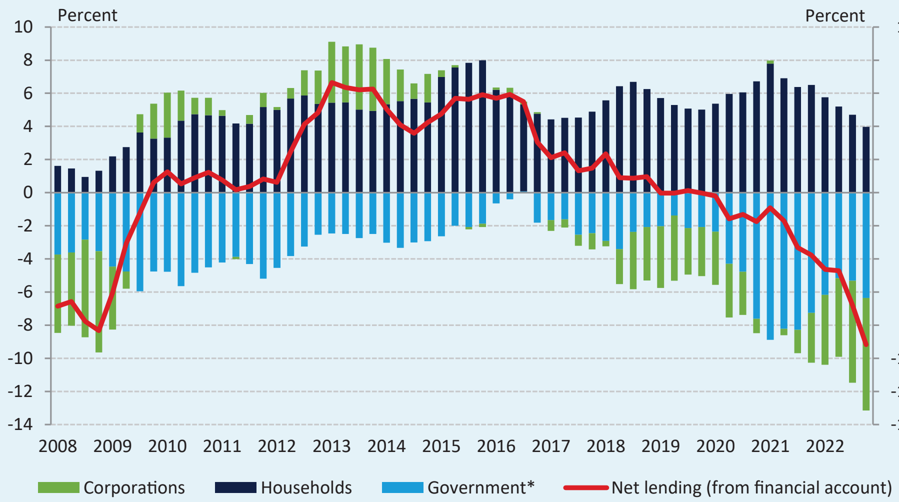


# 4 Savings approach

In 2022, the general government deficit rose again by the end of the year following a decrease in the first six months, in parallel with a gradual decline in the private sector's net financial savings. Consequently, the four-quarter net borrowing of the economy increased significantly, reaching more than 9 percent of GDP. By end-2022, likely in relation to inflation, households' net lending declined, falling short of the average of previous years, and the net borrowing of the corporate sector also increased. The budget deficit expanded as a result of higher government expenditures, rising energy prices and gas purchases by the state. On the other hand, the government debt-to-GDP ratio declined, primarily due to the growth in nominal GDP. As a result of FX bond issues, the share of foreign currency within government debt rose to 25 percent by end-2022, and, based on available data, the ratio of government debt held by foreign investors increased slightly.

**In 2022 Q4, net borrowing according to sectors' savings continued to increased significantly, due to the declining financing position of the private sector, while the general government deficit widened again** (Chart 29). The change in the financial savings of the individual sectors is ultimately reflected in external funding, and thus changes in the external balance can also be captured as the sum of the sectors' savings, which corresponds in turn to financing-side processes. According to preliminary data, the full-year net borrowing of the consolidated general government decreased in the middle of the year, before rising by the end of the year. The increasing deficit of the state was primarily related to the higher energy and other expenditures, the acceleration in investment activity and the gas purchase. As price rises were accelerating and real wages declining, households financed some of their consumption from their savings, which resulted in a drop in net savings. In parallel with that, the net borrowing of the corporate sector grew steadily in 2022, which was still attributable to buoyant investment activity and inventory accumulation.

**Chart 29: Net financing position of specific sectors (four-quarter values as a percentage of GDP)**




**General government represents the net borrowing according to the financial accounts. Corporations based on the residual principle.*

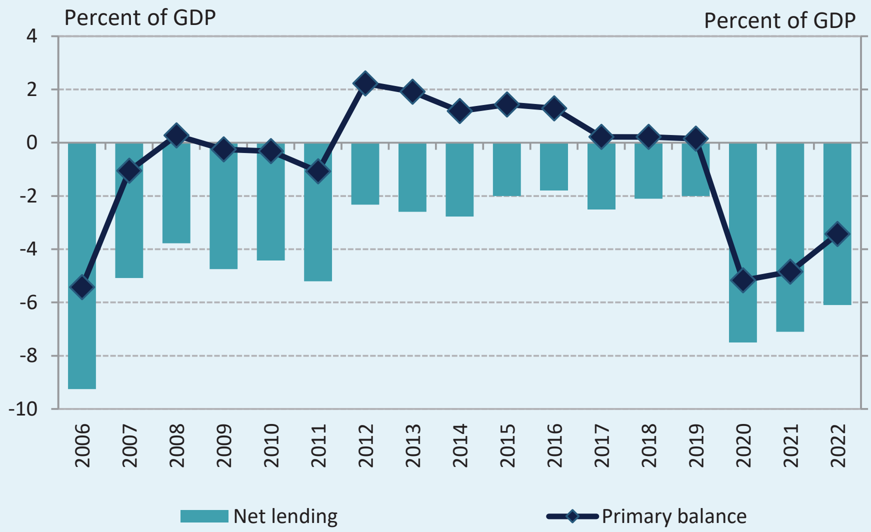
## 4.1 General government

**The net borrowing of the general government continued to decline in 2022, but remained high.** According to preliminary financial accounts data, the net borrowing of the general government amounted to 6.1 percent of GDP in 2022, and thus the 2022 deficit target[5] as amended in the autumn was met (Chart 30). The dynamic growth in tax revenues as a result of the higher wage dynamics and expansion in consumption as well as the tax measures announced in parallel with the 2023 Budget Act entailed a further revenue surplus compared to the original appropriation. Nevertheless, a major portion of

[5] Data regarding the ESA budget balance is not yet available for 2022; however net lending calculated based on the preliminary financial accounts data usually only differs from the ESA balance to a minor degree.

that was offset by higher fiscal expenditures due to rising energy prices: the energy expenditures of the state, the utility subsidy to households and the filling of gas storage facilities. Government interest expenditures as a percentage of GDP increased in 2022 as a result of a rise in government securities yields. The interest expenditure-increasing effect of the yield increases is reduced to some extent by the extension of the maturity of government debt implemented in recent years.

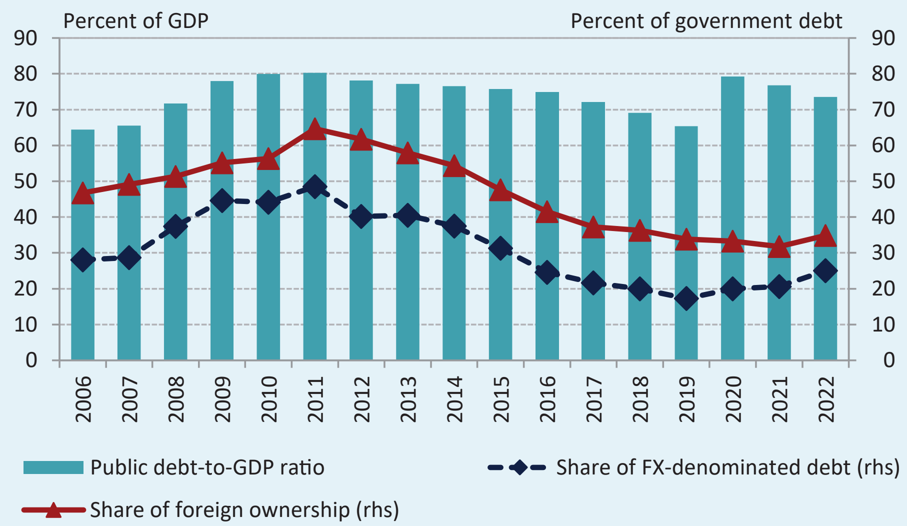
**Chart 30: Development of the net lending of the general government (as a percentage of GDP)**




*Note: 2022 data based on the preliminary financial accounts of the MNB.*
*Source: MNB, Eurostat*

**At end-2022, the gross government debt-to-GDP ratio fell to 73.6 percent.** Within that, as a result of the FX bond issues, the share of foreign currency grew to 25 percent by end-2022, and the ratio of foreign ownership within government debt increased to some extent (Chart 31). Compared to 76.8 percent at end-2021, the government debt ratio declined by more than 3 percentage points, which was mainly attributable to the strong nominal GDP growth. In 2022, the Government Debt Management Agency carried out net FX issuance of some HUF 2,270 billion, while wholesale net FX bond issuance amounted to HUF 1,910 billion. With the foreign currency bond issuances, the foreign currency ratio of central government debt rose to 25 percent from 20.6 percent registered in 2021. One of the main objectives of the government debt management strategy is to strengthen domestic financing, as a result of which foreign ownership accounted for less than one third of the government debt at end-2022. The historically low ratio of non-resident holdings and the foreign currency ratio are crucial to the decrease in external vulnerability and to Hungary's continuing favourable credit rating.

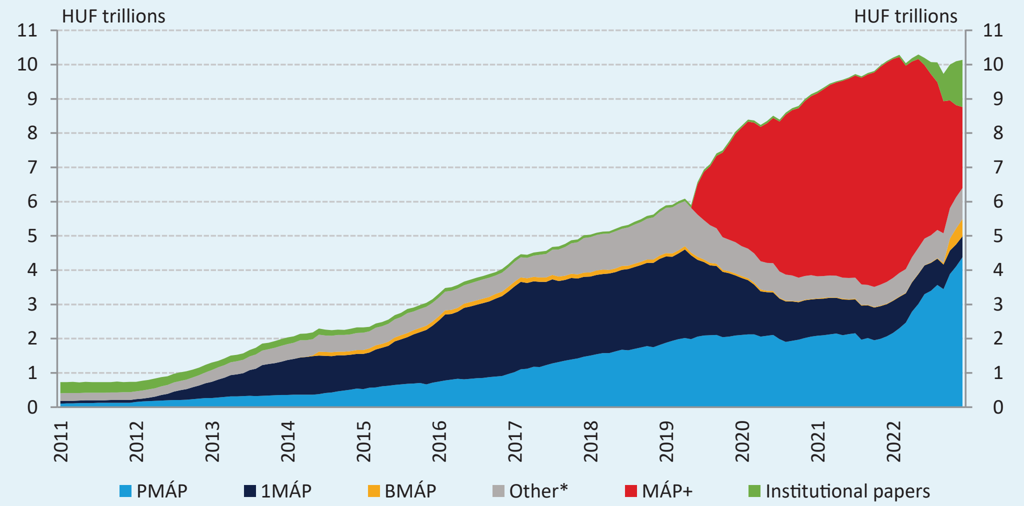
**Chart 31: Development of gross public debt, ratio of non-resident holdings and the FX ratio**




*Note: Ratio of non-resident holdings based on nominal value; the 2022 value is an MNB estimate.*
*Source: GDMA, MNB*

**Households' government securities holdings were stable even in the uncertain environment in 2022, but the changed economic environment triggered major restructuring in the retail government securities market.** The 2019 renewal of the retail government securities strategy continues to contribute to the favourable restructuring of debt. In 2022, the outbreak of the Russia–Ukraine war and the ensuing uncertainty temporarily reduced households' purchase of government securities, which was offset by rising demand towards the end of the year, and thus, on the whole, the stock remained stagnant compared to end-2021. The high inflation environment in parallel with rising yield levels – especially from the second half of the year – had a major impact on the decisions of investors in retail government securities: interest in the MÁP Plus security waned, and its position as the most popular retail product was taken over by the inflation-indexed Premium Hungarian Government Security (PMÁP). At the same time, MÁP Plus holdings fell by more than HUF 4,000 billion, and the 1MÁP also declined by HUF 322 billion. There was significant demand for the BMÁP (Bonus Hungarian Government Security), which was relaunched in September and is tied to changes in the yield of the DKJ (Discount Treasury Bill). The holdings increased by nearly HUF 500 billion. In addition, the Baby Bond, the 1-year and 2-year KTJ (Treasury Savings Bill) as well as the P€MÁP (Premium Euro Hungarian Government Security) also contributed to the expansion, as their holdings increased by HUF 267 billion in total. The inflation-indexed PMÁP became the most popular retail government security with the highest share in the holdings: the expansion in holdings of this instrument exceeded HUF 2,300 billion during the year. In addition to retail schemes, households' interest in institutional securities also increased sharply increased as a result of the rising yield environment. Households' DKJ and government securities holdings expanded by HUF 883 billion and HUF 451 billion, respectively, from HUF 7 billion and HUF 37 billion at end-2021. In spite of the structural changes, with households' investment in government securities, the share of government securities has remained dominant within savings.

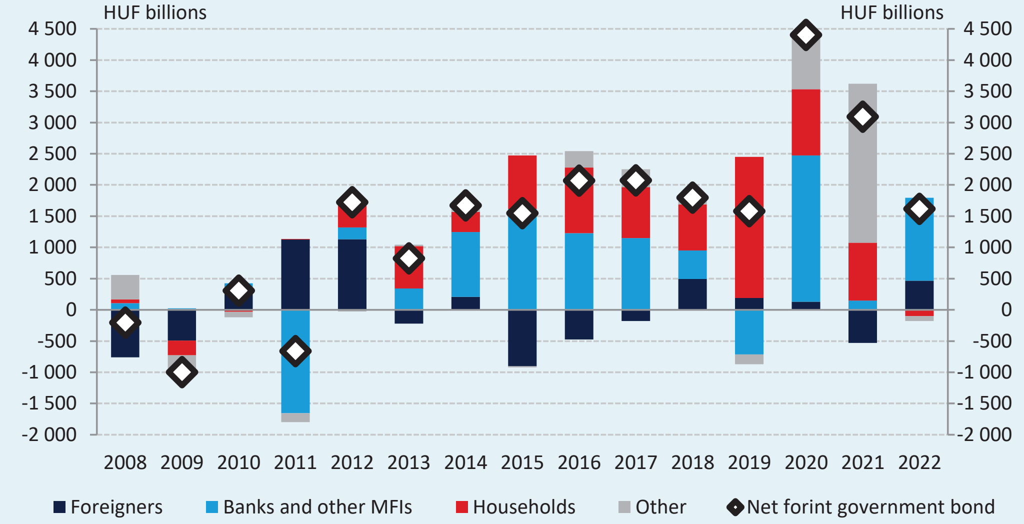
**Chart 32: Government securities held by households**




** Baby-bond, Half-year Hungarian Government Security (FMÁP), 2-year Hungarian Government Security (2MÁP), Premium Euro Hungarian Government Security (P€MÁP), Treasury Savings Bill 1-2 (KTJI-II)*
*Source: MNB*

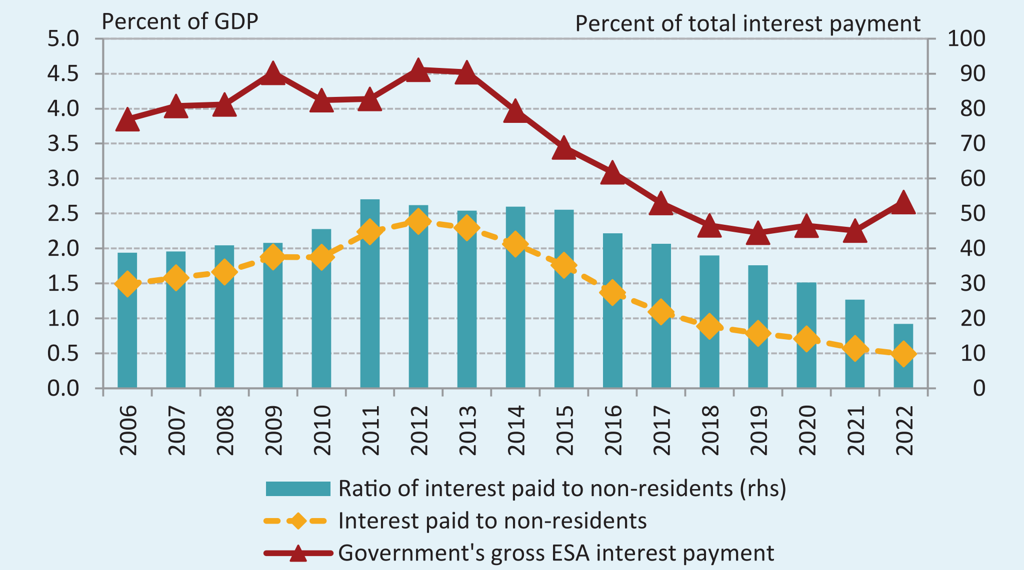
**The net issuance of forint government securities was primarily financed by the government securities purchases of non-residents, banks and other financial corporations (e.g. investment funds)** (Chart 33). HUF-denominated government securities purchases by financial institutions (banks, investment funds and other financial intermediaries) exceeded HUF 1,300 billion, while non-residents' HUF-denominated government securities holdings increased by nearly HUF 500 billion due to transactions. The purchase of government securities by financial institutions also partially reflected the demand for government securities of households – during the period, the households' stock of government securities held indirectly (e.g. through bond funds) increased. At the same time, revaluation effects, which are primarily related to yield increases, contributed to the decline in government debt (as presented above), decelerating the expansion in government securities holdings due to transactions.

**Chart 33: Net forint-denominated government securities purchases by sector**




**According to preliminary data, government interest expenditures amounted to 2.7 percent of GDP in 2022; the amount of interest paid to non-residents declined further within interest expenditures** (Chart 34). In view of the increase in government securities market yields, government interest expenditures increased by 0.4 percentage point compared to 2021. The revaluation effect of the increase in the yield environment was restrained to some extent by the previously implemented extension of government debt: only about one quarter of government debt was repriced in 2022, and within the debt elements that were not renewed, the lower interest rates typical of the previous years had to be paid on the fixed-rate instruments. In 2022, government interest paid to non-residents fell to 0.5 percent of GDP, accounting for roughly 18.4 percent of the total interest expenditure. As a result of the low level of non-residents' ownership share within government debt, interest expenditure paid to non-residents has been on a downward path since 2012, also improving the current account.

**Chart 34: Development of the interest expenditures of the general government**

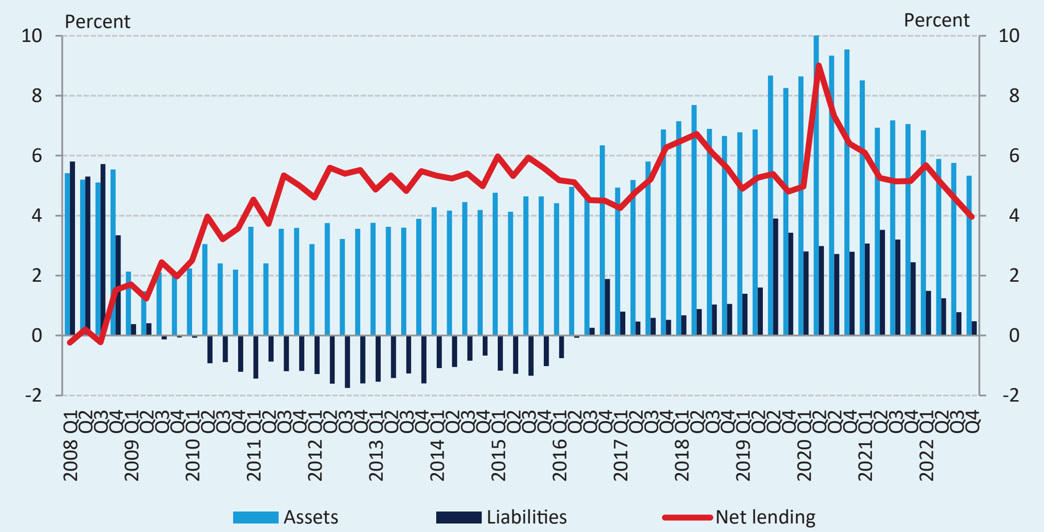



*Source: MNB, Eurostat*

## 4.2 Households

**Following a temporary rise early in the year, the net lending of households according to underlying trends dropped to 4 percent of GDP in 2022 Q4, falling short of the average of the previous years** (Chart 35). In relation to the pandemic, households accumulated substantial forced savings in 2020 and spent a large part of that on boosting their consumption after the lockdowns were lifted. This is what explains the early-2020 surge, followed by a fall in savings. After another surge in early 2022 and a continuous decline, the net lending of the sector was only 4 percent of GDP in the fourth quarter. The surge early in the year was driven by the fact that the one-off social benefits (such as the full 13th-month pension and the service benefits for armed forces and law enforcement) as well as the uncertainty, which strengthened again with the last wave of the pandemic, resulted in a temporary increase in savings, and subsequently the accelerating price increases during the year reduced household savings considerably. On the borrowing side, the growth in real estate loans decelerated gradually during the year, while prenatal baby support loans within other loans increased relatively steadily.

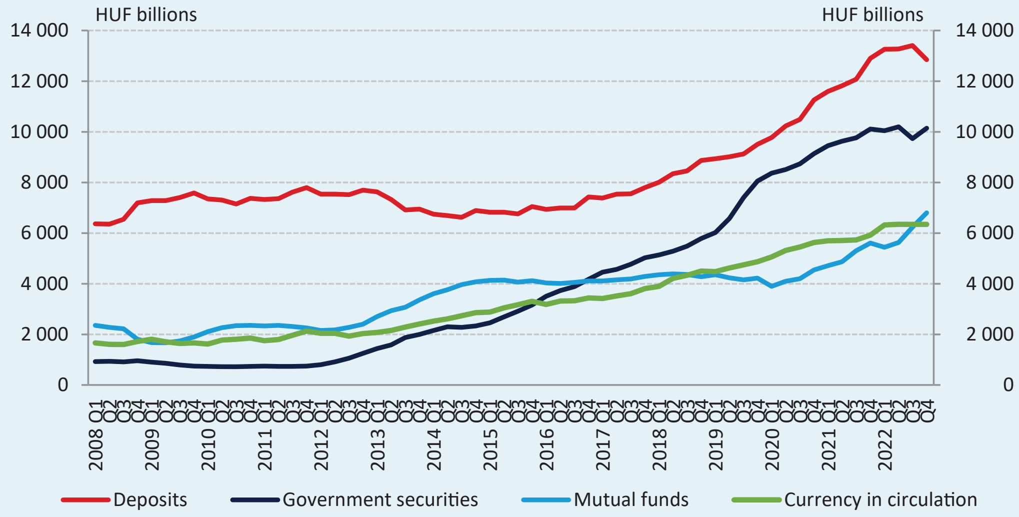
**Chart 35: Net lending of households (seasonally-adjusted, revised* values, as a percentage of GDP)**




*Figures showing underlying trends, adjusted for the impact of pension savings, the early repayment scheme, the real yield payment, the indemnification of the depositors of liquidated mutual savings banks, the forint conversion and settlement as well as the personal income tax refunds.*

**In 2022, the previous year's growth in deposits came to a halt, while the growth rate of holdings of mutual fund shares accelerated** (Chart 36). As a result of the uncertainty caused by the Russia–Ukraine war, there was a sharp rise of more than HUF 400 billion in cash holdings in early 2022, and subsequently holdings remained stagnant at this level for the year as a whole. Households direct holdings of government securities, which have been continuously expanding since 2012, continued to rise at a slower pace in 2021, and a temporary decline also occurred in 2022, which, however, was corrected by the end of the year. In 2022, the holdings of mutual fund shares increased by HUF 1200 billion with the rise in the savings flowing into bond funds, which became attractive investments again with the increase in yields. The increase in the popularity of bond funds is also indirectly reflected in the demand for Hungarian government securities - together with government securities held indirectly through investment funds, the overall government securities investments of households also increased in 2022. The demand for government securities was influenced by the rising inflation and interest rate environment as well as the changes in the yields of alternative investment options, which affected the volume and structure of purchases as well. Following the modest growth observed in 2022 H1, the increase in deposits turned into a decline in the final quarter, mainly as a result of withdrawals from overnight deposits, while there were inflows into other deposits in 2022 H2.

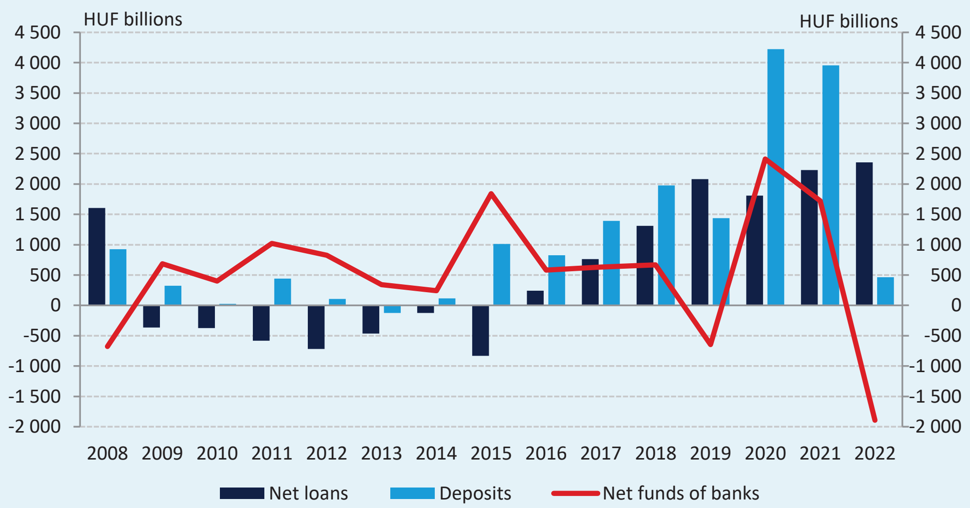
**Chart 36: Stock of households' key financial assets**




**Box 3: Development of the private sector's bank loans and deposits**

**The private sector's net borrowing rose slightly in 2022, while deposits dropped considerably, resulting in net fund withdrawals from banks by the private sector.** The bank loans of households and companies contracted continuously in the post-crisis years, but there was a turnaround on the credit side in 2016 (Chart 37). In relation to the pandemic, the dynamics of the private sector's net borrowing came to a halt in 2020, whereas the volume of deposits reached an extremely high level. Borrowing continued to rise slightly in 2022, while deposit fell. This was presumably due to the fact that the higher inflation encouraged households to regroup their accumulated financial wealth into instruments that generate higher yields (e.g. government securities, mutual fund shares), but the decline in the sector's net financial savings also points in this direction. The decrease in net funds from the private sector may have contributed to banks' increasing external financing observed in the balance of payments.

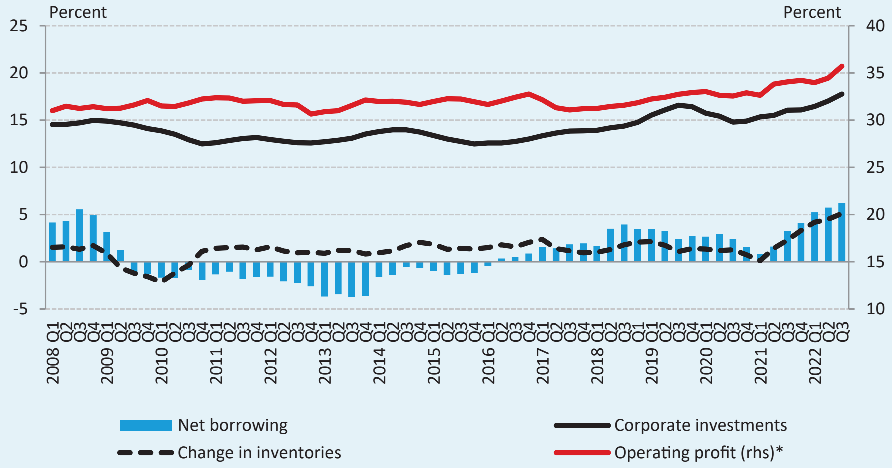
**Chart 37: Developments in the private sector's bank loans and deposits**



## 4.3 Corporate sector

**The net borrowing of the corporate sector rose considerably as a result of growing investment and inventory accumulation.** According to real economy developments, despite higher energy and commodity prices and the general price increase, the corporate sector's four-quarter operating profit as a percentage of GDP increase in year-on-year terms. In addition, together with the expansion in investment as a percentage of GDP, inventory accumulation by the sector increased steadily during the year, reflecting the impact of international uncertainty, resulting in a rise in four-quarter corporate net borrowing as a proportion of GDP (Chart 38).[6]

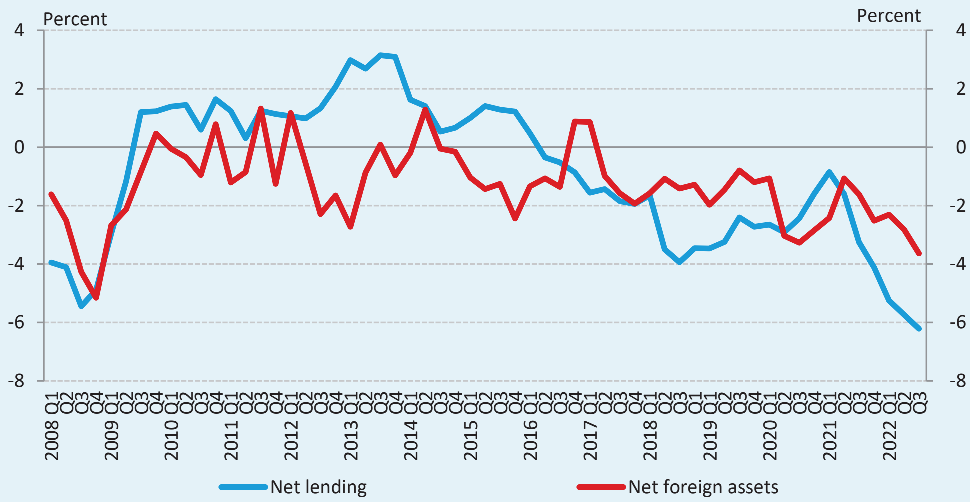
**Chart 38: Non-financial corporations' net borrowing relative to GDP and its main factors (four-quarter values)**




** Indicator adjusted for companies' interest and shareholder incomes. Data related to net borrowing are only available until the third quarter.*
*Source: HCSO, MNB*

**In parallel with non-financial corporations' increasing net borrowing, the net foreign financing of the sector continued to expand** (Chart 39). Based on available data, the rise in corporate liabilities in the four-quarter period to the third quarter of 2022 was attributable to the increase in bank loans and corporations' foreign – partly intercompany – loans, while liabilities from reinvested earnings also grew. The expansion in companies' net foreign liabilities was slower than the rise in net borrowing, i.e. the sector's higher net borrowing was mainly financed by an increase in domestic borrowing.

**Chart 39: Net lending and net external transactions of non-financial corporations (four-quarter data, as a percentage of GDP)**




*Note: For the corporate sector the latest data according to the financial accounts are from 2022 Q3.*

[6] Financial accounts for 2022 Q4 will only be published after the editorial deadline for this report.

# 5 Regional overview

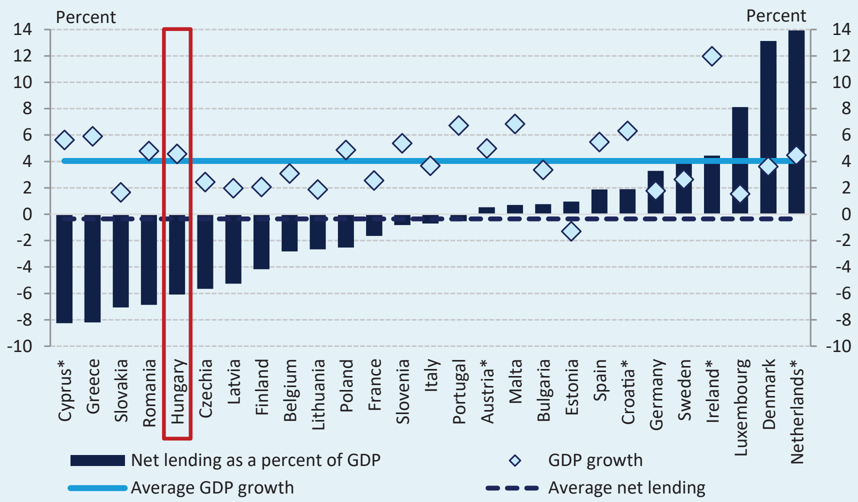
In 2022, the external balance position of the countries of the region deteriorated, while Hungary's net lending position was around the average of its regional peers. In the rising inflation environment, savings in the region did not keep up with the general growth in gross capital formation. The deterioration in countries' external balance position is primarily attributable to a decline in the goods balance, which is mostly due to the unfavourable effect of high energy prices. The contribution of the services and transfer balance to the current account balance remained positive everywhere in the region, although it varied across countries. In addition to Hungary, the balance of services was able to improve to a larger degree in Poland in 2022, while the transfer balance declined everywhere, except in Romania. The income balance deficit is primarily driven by the developments in the profit balance, which continues to strongly reduce external balance positions throughout the region. The rapid increase in net borrowing was covered to a large degree from net foreign direct investment in the region, but in addition to Hungary, debt-type financing was significant in Czechia and Slovakia as well. The evolution of external liability indicators varied across the region; in addition to Hungary, net external liabilities fell in Poland and Romania.

**The regional overview section of our special topic presents the developments in Hungary's external balance in comparison to those of the countries in the region.** In terms of the balance of payments figures, Hungary should primarily be compared to countries which are at a similar level of development and face similar challenges. For this purpose, the most ideal group of countries comprises the countries in the region which joined the European Union at the same time, plus Romania, which joined the EU later but has been catching up rapidly in recent years.

## 5.1 Brief overview of the situation in Europe

**In 2022, economic growth in Hungary exceeded the EU average, which was coupled with a higher net borrowing position than the EU average** (Chart 40). In 2022 H1, external balance developments and economic performance in the EU countries were still driven by strong demand due to reopening after the coronavirus pandemic. This demand was restrained to some extent by global supply disruptions as well as by high commodity and energy prices. However, growth was hampered by the consequences of the Russia-Ukraine war, such as the growing uncertainty, the further increase in energy prices as well as the necessary monetary tightening because of the accelerating inflation, and by the end of the year the GDP of the EU contracted in quarter-on-quarter terms. The deterioration in the terms of trade as a result of high energy prices typically had an unfavourable impact on the external balance, but the degree of this impact was quite different across countries. In 2022, economic growth in Hungary was rather favourable in the region, being around the figure for Poland and Romania, and exceeding that of Czechia and Slovakia. Hungary's net borrowing estimated for 2022 exceeded the figure for Poland, was close to the level of Czechia, below the data for Romania and Slovakia, and close to the regional average.

**Chart 40: Development of net lending position and growth in 2022**

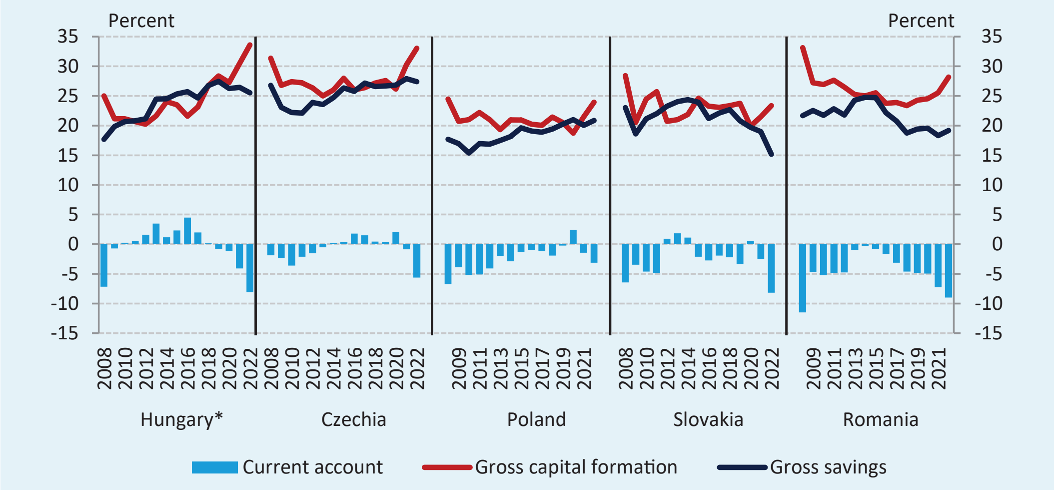



*Source: Eurostat*
** Net lending is available until Q3 only.*

## 5.2 Gross saving and investment

**In 2022, an increase of the current account deficit in parallel with a rise in gross capital formation was typical in the region** (Chart 41). An economy's current account balance is determined by the difference between gross savings (an indicator obtained as the difference between income and consumption) and the accumulation-type expenditures of the national economy (investment and inventories). After the outbreak of the 2008 financial crisis, the current account improved in all CEE countries due to declining investment rates and gradually increasing gross savings, as a result of balance sheet adjustments. Similarly to Hungary, this trend also reversed in the other countries of the region after 2016, and a declining trend of the current account was typical, which in some countries was interrupted by the drop in domestic demand as a result of the pandemic. In 2021, with the economic reopening, there was an upswing in gross capital formation activity in every country in the region, and this process continued in 2022 as well. Within the increase in gross capital formation, last year the effect of the rise in inventories was significant in Hungary as well as in Czechia and Poland, which was presumably attributable partly to the experiences of supply difficulties during the pandemic and partly to the accumulation of unfinished vehicles due to the shortage of chips, as well as partly to the elevated purchase price of natural gas. Savings rates in the region (except Slovakia) tended to remain relatively stable around their 2021 levels in 2022 as well. As a result, the current account deficit increased in all the countries of the region. As in previous years, the rate of accumulation continued to be the highest in Hungary and Czechia in 2022, which was made possible by the two countries' outstanding savings rates. The current account balance deteriorated to the smallest degree in Poland, which was due to a somewhat more subdued increase in gross capital formation and a moderate rise in the savings rate. The increase in capital formation as a percentage of GDP was also lower in Slovakia, but a major decline in savings there resulted in a significant rise in the current account deficit. In Romania, in parallel with a relatively low savings rate, gross capital formation as a percentage of GDP was much higher than in the aforementioned two countries, resulting in the highest current account deficit in the region in 2022 again.

**Chart 41: Gross savings rate and capital formation (investment and inventories) (as a percentage of GDP)***



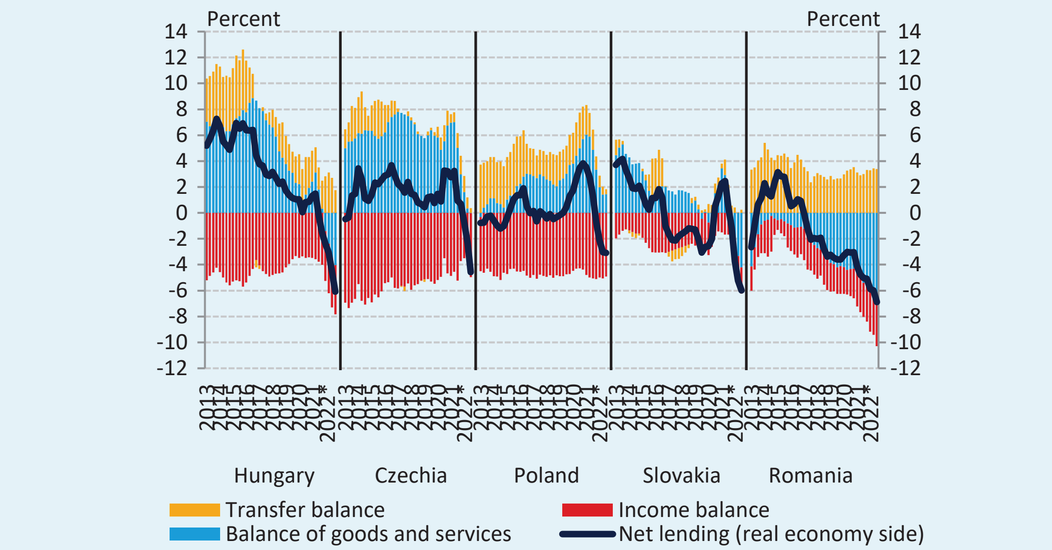

*Source: MNB, HCSO, WEO*

** For 2022, the gross savings ratio will be derived from the accumulation and current account data. For other countries of the region, 2022 current account balance estimated on the basis of monthly data.*

## 5.3 Real economy factors of the net lending position

**The deteriorating external balance position in the countries of the region in 2022 was mainly due to the sharp decline in the trade balance** (Chart 42). At end-2022, four-quarter net borrowing calculated on the basis of real economy data was around the regional average in Hungary, which was the result of a relatively high trade deficit and a significant transfer balance. In the region, the increase in net borrowing was similar in Hungary, Czechia and Slovakia in 2022, while in Poland the deterioration in the external balance position stopped in 2022 Q3, and thus, on the whole, the shift in the indicator was relatively smaller within the year. In 2022, the increase in net borrowing was the smallest in Romania, but as a percentage of GDP it remained one of the highest net borrowing figures in the region.

**Chart 42: Net lending position in the countries of the region (four-quarter values as a percentage of GDP)**




*Source: Eurostat, national central banks*
** The 2022 value is a four-quarter figure up to the third quarter.*

**Changes in external balance indicators were determined by the following factors:**

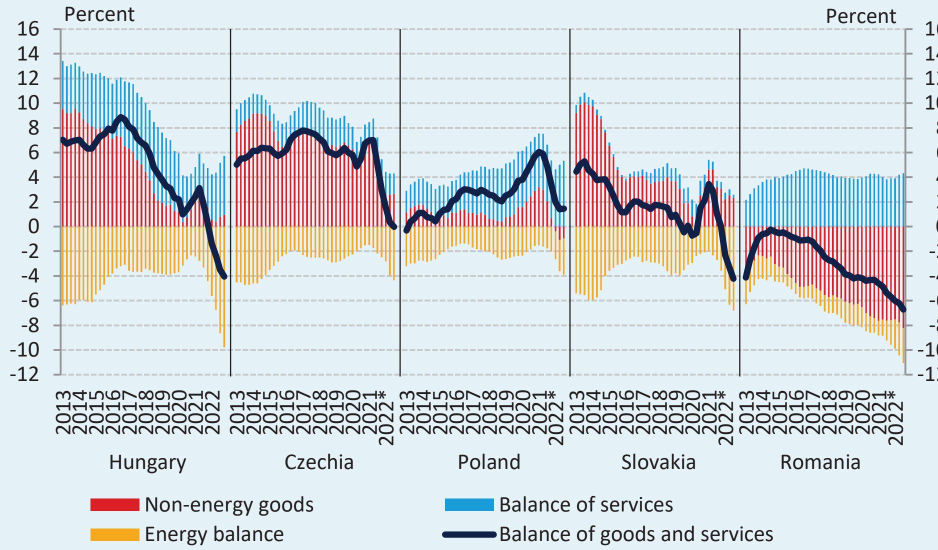
- In 2022, the balance of **goods and services** as a percentage of GDP decreased sharply as a result of the surge in energy imports, and accordingly this component was responsible for most of the deterioration in the external balance. The largest shift took place in Hungary and Slovakia, which are more energy dependent, while the shift was the smallest in Romania. In the case of Hungary, Poland and Romania, the decline in the balance of goods stemming mainly from the deterioration in the terms of trade was partially offset by a much smaller improvement in the balance of services.
- The **income balance** generally has a negative impact on the external balance position of the economies in the region. In 2022, the income balance deficit increased in Czechia and Romania, while it changed only slightly in the other countries. Movements in the indicator were primarily driven by the changes in corporate profit balances.
- The degree of the favourable contribution of the **transfer balance** to the external balance declined in the region's economies, with the exception of Romania. In the year to 2022 Q3, the transfer balance-to-GDP ratio was the highest in Romania, followed by Hungary, while the transfer balance fell to levels nearly close to zero in the other Visegrád countries. Hungary was still the leader in the region in terms of net EU transfer inflows, followed by Romania, Slovakia and Poland.

## 5.4 Trade balance

**In 2022, the trade balance of the countries of the region deteriorated considerably as a result of a decline in the goods balance, which was mainly driven by the higher commodity and energy prices** (Chart 43). In the region, the war in Ukraine resulted in an extreme increase in the cost of energy imports, for especially natural gas, which was reflected in rapid, significant deterioration in the goods balance. Goods exports were restrained by the shortage of semiconductors and disruptions in supply chains, which particularly impacted the manufacturing industry in 2022 H1, as well as by the weakening economic environment in the latter half of the year. At the same time, in addition to the initial expansion resulting from the postponed consumption after the COVID lockdowns, domestic demand also decelerated in the region in general during the year as a result of the war in Ukraine, the rising costs of living and the tightening monetary conditions. Deterioration in the goods balance excluding energy typically slowed down in the final quarter. The surplus on the balance of services continued to partly offset the deficit on the goods balance across the whole region. According to data available for the region through 2022 Q3, the services balance surplus fell slightly in Czechia and Slovakia, while it increased moderately in Romania. At the same time, notable improvements were observed in the balance of services in

Hungary and Poland. On the whole, however, due to the increase in energy prices, trade balances deteriorated significantly everywhere in 2022: at around 1.5 percent, only the indicator for Poland remained in positive territory, the trade balance of Czechia achieved an equilibrium, while the indicators for Slovakia and Hungary declined to similar degrees, reaching a deficit of around 4 percent. The trade deficit was close to 7 percent in Romania, but in 2022 the decline in the balance was the smallest there.

**Chart 43: Distribution of the balance of goods and services (four-quarter values as a percentage of GDP)**




** The 2022 value is a four-quarter figure up to the third quarter.*
*Source: Eurostat*

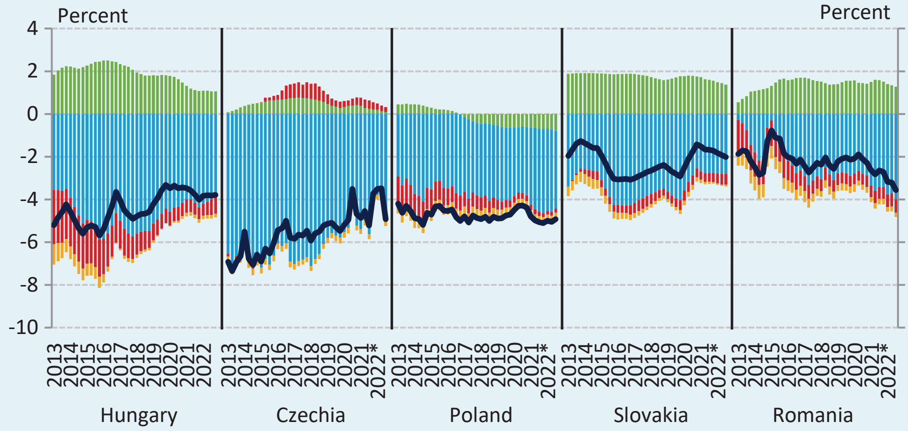
## 5.5 Income and transfer balance

**Income balance deficits varied across the countries of the region in 2022, but remained significant everywhere** (Chart 44). Based on four-quarter values calculated up to 2022 Q3, income balance deficits in Czechia and Romania increased primarily due to a decline in the profit balance, while in Slovakia the income balance deficit rose as a result of a decrease in the compensation of employees. The income balance was relatively stable in Hungary due to a mild deterioration in the interest balance and an improvement in the profit balance, while in Poland the improvement in the profit balance was offset by a moderate decline in the balance of the compensation of employees. Non-resident companies have built up significant production capacities in all of the countries in the region, and therefore the largest portion of the income balance deficit stems from the profit balance of non-resident companies.[7] The profit balance deficit as a percentage of GDP was the highest in Czechia and the lowest in Slovakia, while Hungary, Poland and Romania ranked in the middle, with values of around 4 percent of GDP. With the exception of Hungary, the balance of the compensation of employees working temporarily abroad shrank in the region until 2022 Q3. This item typically reduces the income balance deficit – except in Poland, where the number of Ukrainian employees[8] was already high even before the war, and their income earned in Poland exceeds the income of Polish employees working temporarily abroad. In 2022, the balance of interest paid to the non-resident sector had no material impact on the income balances of the region's countries, although in the case of Hungary it had a small negative impact on the changes in the indicator.

[7] We only have limited quarterly data concerning the profits of foreign-owned companies. Therefore, the information on profit outflows is based on estimates until the company questionnaires are received in September next year. For more details, see the publication 'Methodological notes to the balance of payments and international investment position'.

[8] https://www.nbp.pl/en/publikacje/raport_inflacja/iraport_november2019.pdf

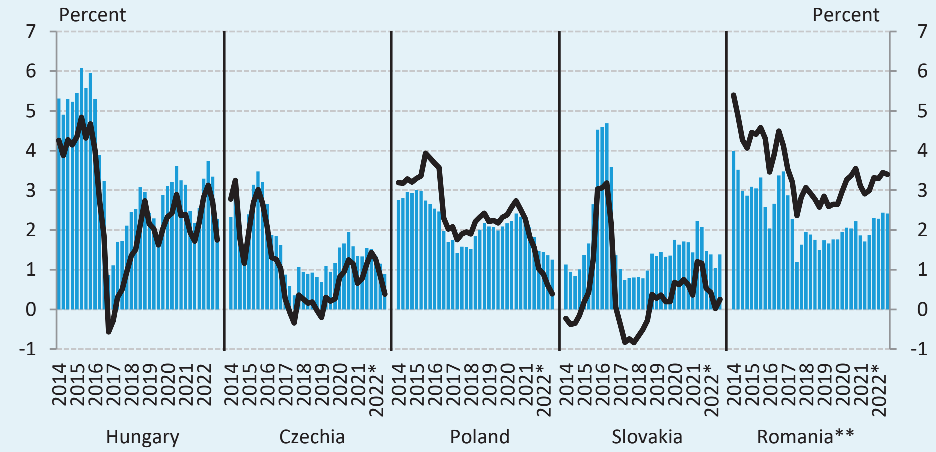
**Chart 44: Development of income balance components* (four-quarter values as a percentage of GDP)**




** The 2022 value is a four-quarter figure up to the third quarter.*
*Source: Eurostat.*

**EU transfer inflows generally decreased in the region.** In the year to 2022 Q3, Hungary remained the leader in the absorption of EU funds. However, on the basis of the data for Hungary for the whole 2022, Romania probably caught up with Hungary in this respect last year (Chart 45). The funds available in the 2014–2020 EU budget cycle still played a major role in the developments in the transfer balance, but investment projects under the Recovery and Resilience Facility (RRF) were already also in progress in Czechia, Romania and Slovakia in 2022. These countries already received RRF pre-financing in 2021, and in 2022 they also applied for payments from the European Commission in relation to the implemented investments and reforms. The first parts of RRF funding related to concrete steps of implementation were paid to Slovakia in July 2022 and to Romania in October 2022. In Romania, in a unique manner across the countries under review, the transfer balance was significantly improved not only by the EU transfers, but also by the remittances of people working permanently abroad.

**Chart 45: Transfer balance and the absorption of EU transfers in the countries in the region (as a percentage of GDP)**

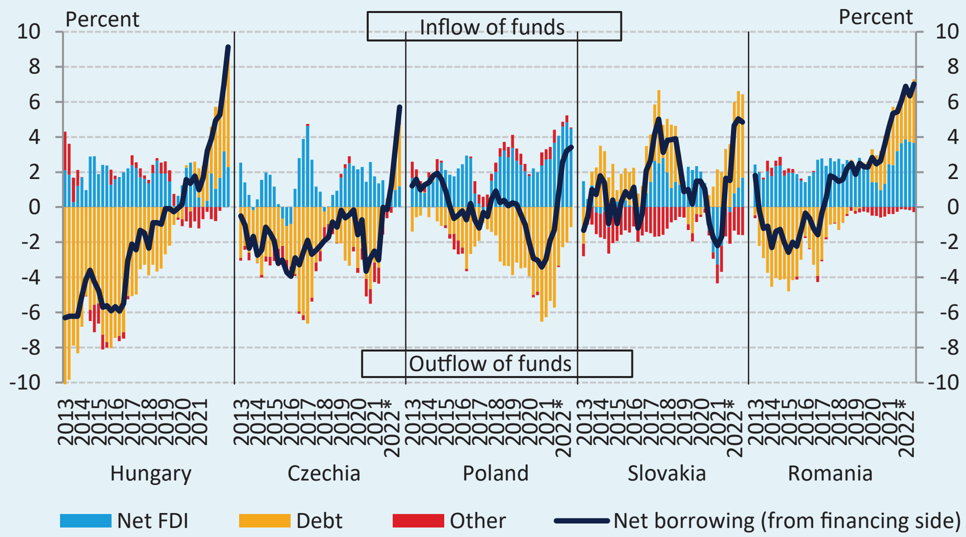



** The 2022 value is a four-quarter figure up to the third quarter.*
*** Data for secondary income is missing for 2018–2019.*
*Source: Eurostat*

## 5.6 Financing side developments

**The financial account shows a rapid and major increase in the net borrowing of the countries of the region in 2022** (Chart 46). Up to the third quarter, the largest increase in net borrowing was observed in Czechia, followed by Slovakia and Hungary. In 2022, the most subdued increase in net borrowing was observed in Romania, where – together with Hungary – the degree of net borrowing as a percentage of GDP indicated by the financial account was the highest in the region. Net borrowing was the lowest in Poland. In terms of the types of funds, inflows of debt liabilities were the main determinants in the case of Hungary, Czechia and Slovakia, although net FDI inflows were also significant in all three of these countries. In Poland, net FDI inflows exceeded the net borrowing of the economy, which was partly offset by outflows of debt liabilities. Romania financed itself to around equal degrees from debt and net FDI. In the case of Slovakia, fund outflows through other items were also significant, which was related to portfolio investments abroad.

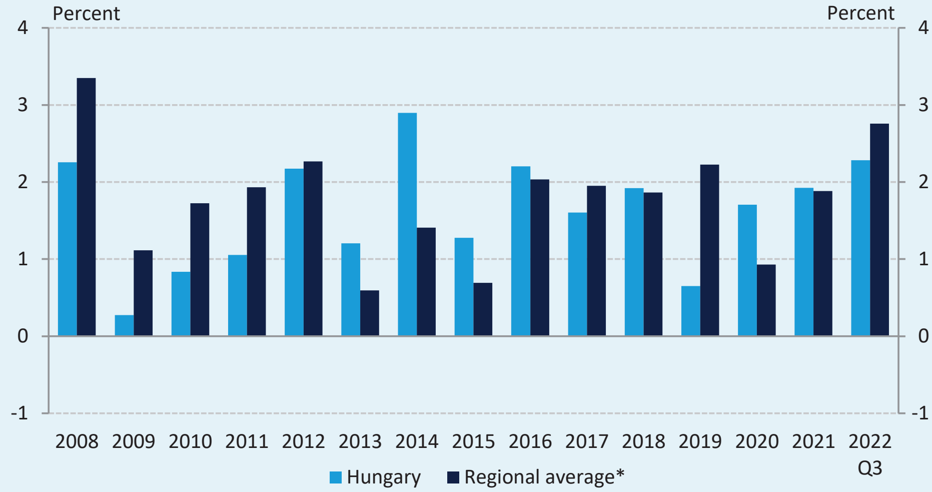
**Chart 46: Net borrowing and the form of financing (four-quarter data, as a percentage of GDP)**




** For the countries of the region, data were available up to 2022 Q3.*
*Source: MNB, Eurostat*

**After 2021, the value of net foreign direct investment as a percentage of GDP continued to increase in the region in 2022 as well, reaching the highest level since 2008** (Chart 47). The very strong FDI inflows into the region were due to the figures for Poland and Romania, which were particularly high again after 2021, while net FDI inflows into Czechia and Slovakia also rose. The indicator for Hungary also increased in 2022, although similarly to previous years the rise in FDI inflows was still accompanied by significant Hungarian investments abroad. Over the longer term, looking at the past ten years, net FDI inflows into Hungary were around the regional average, whereas (according to data available until the third quarter) 2022 proved to be an above-average year for both Hungary and the region. In the past ten years, of the countries in the region it was Poland and Romania that recorded the highest net FDI inflows as a percentage of GDP, followed by Hungary, Czechia and Slovakia, with major differences between each other as well.

Chart 47: Net FDI inflows in the region's countries (as a percentage of GDP)

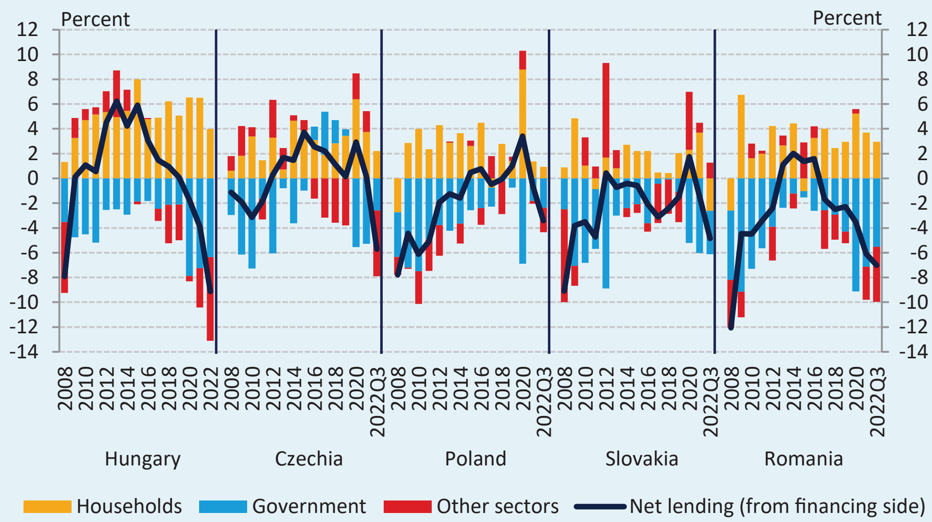



** For the countries in the region, four-quarter data were available up to 2022 Q3 (the regional average does not include Hungary).*

## 5.7 Financial savings of individual sectors

**In terms of the financial position of sectors, similar developments took place in the countries of the region in 2022 as well: the private sector's net financial savings decreased, while the budget deficit typically continued to decline** (Chart 48). The net lending position of these countries fell considerably in 2022, which – with the exception of Slovakia – was the result of an increase in companies' capital formation. Except in Czechia, consumption grew further in 2022, while inflation reduced the real value of incomes to an increasing degree. As a result, households' financial savings declined everywhere. Accordingly, households' net financial savings generally fell short of the average of the previous ten years, although they were still the highest in Hungary among the countries under review. With the continuation of the economic recovery following the pandemic and an increase in tax revenues, budget deficits typically continued to decline in the region in 2022, while new fiscal expenditures appeared as a result of the war in Ukraine, which primarily aimed at offsetting the impact of high energy prices. As a result, the deficit remained historically high in Hungary and Romania, while in the other three countries it may have been more subdued in 2022, at close to 3 percent of GDP, representing a slight deterioration in the case of Poland.

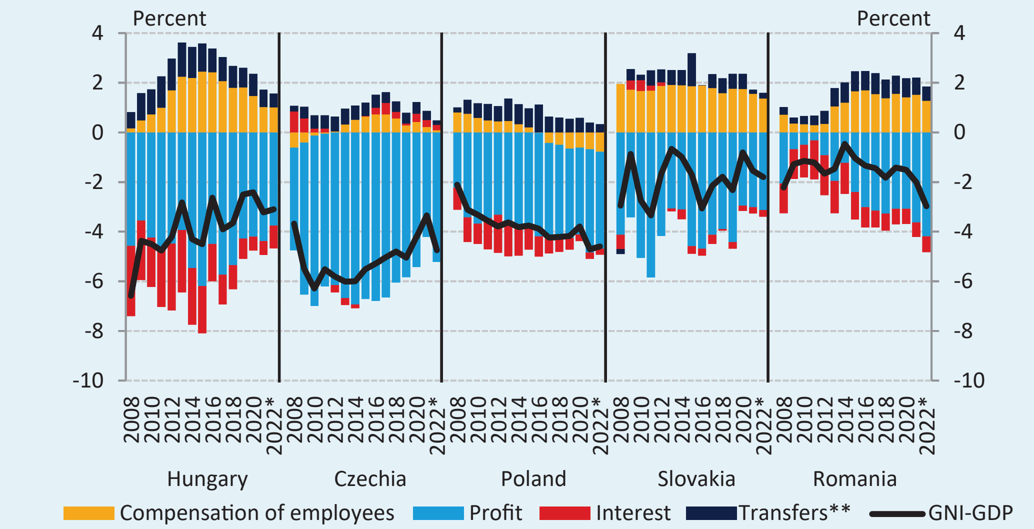
Chart 48: Net lending position of the economy in a breakdown by sector (as a percentage of GDP)




*Source: MNB, Eurostat. Other household receivables (from employers and insurers) in Romania according to the baseline scenario without the outliers of 2013, 2016 and 2017.*

**In 2021–2022, Hungary's gross national income (GNI) was some 3 percent below GDP, corresponding roughly to the average difference typical of the region** (Chart 49). As a result of a temporary drop in the profit balance, the GDP–GNI gap narrowed in Czechia in 2021, while it widened slightly in the other countries. Looking at the past ten years, the gap follows a declining trend in Hungary and Czechia, it tends to increase in Poland, while no clear trend is seen in the case of the other two countries. The high level of capital income (profit balance), which is a key factor in the GDP-GNI gap, is due to the significant amount of foreign direct investment in the regional countries. Therefore, in the past ten years the profit balance deficit was around 3–7 percent of GDP in the countries under review. With the exception of the temporary, significant downturn seen in Czechia, the profits of foreign-owned companies increased in the countries of the region with the economic recovery following the pandemic. In view of the favourable international interest rate environment, the impact of the interest balance on the GDP–GNI gap remained at a historically low level in the region in 2021, and even in 2022 the effect of the rises in interest rates resulted in a subdued rise in net interest expenditures only in a few countries. Due to the compensation of employees working abroad and the inflow of EU funds, primary transfers add to the national income in the region. The exception is Poland, where the balance of the wages of employees temporarily working abroad is negative. According to preliminary, quarterly data, Hungary' GDP–GNI gap became smaller in 2022, while there were major increases in the case of Czechia and Romania.

**Chart 49: Factors of the GDP-GNI gap**

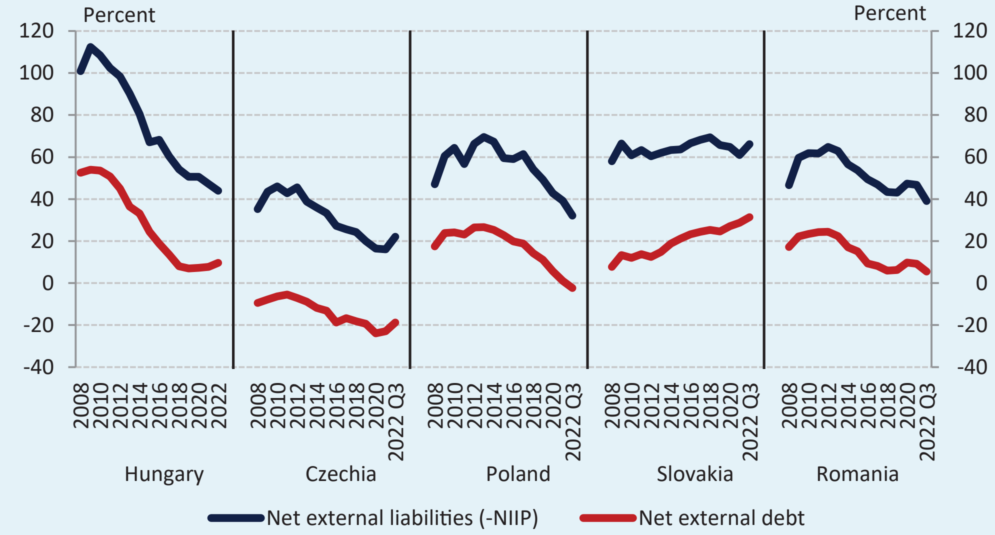



** The 2022 value is a four-quarter figure up to the third quarter.*
*** Transfers included in other primary incomes.*
*Source: Eurostat, HCSO*

## 5.8 External debt indicators

**In 2022, net external debt and liability indicators of the countries in the region varied, while the figures for Hungary continue to broadly correspond to the regional average** (Chart 50). The increase in net borrowing typically had an unfavourable impact on the changes in net external liability indicators, which was partly offset by the effect of economic growth. The steadily improving trend observed in Poland since 2017 continued in 2022 as well, while the figures for Romania declined further in the case of both indicators. Both the net external liability and the net external debt of Czechia and Slovakia rose in 2022, while Hungary's net external liability continued to decrease, although its net external debt turned to an increase. In terms of the levels as a percentage of GDP, Czechia remained in the most favourable position in the case of both indicators, while the indicators for Slovakia were the highest. Hungary's net external liabilities were around 44 percent of GDP at end-2022, while its net external debt remained under 10 percent of GDP, which is close to its historical minimum. Looking at the developments over a longer term, during the past decade the strongest improvement took place in Hungary's external debt indicators, but – with the exception of Slovakia – both indicators fell considerably in all the countries in the region.

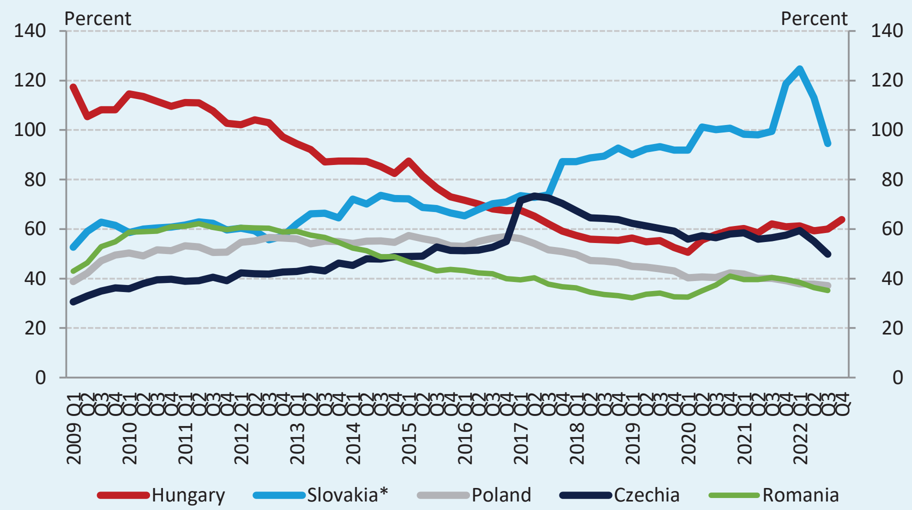
**Chart 50: Development of net external liabilities and external debt (as a percentage of GDP, debt without intercompany loans)***




** For the countries of the region, the data set is until 2022 Q3.*
*Source: MNB, Eurostat (data for Hungary without SPVs)*

**The gross external debt-to-GDP ratio excluding intercompany loans declined in the majority of the countries in the region, but the indicator rose in the case of Hungary at end-2022** (Chart 51). At the start of the financial crisis, Hungary's gross external debt was particularly high in a regional comparison. However, due to the post-crisis deleveraging, the debt indicator fell below the Czech and Slovak levels by 2016, reaching the mid-range for the region. Due to the increase in the indicator for Hungary and the decline in the indicator for Czechia, following the co-movement observed in the previous years, widening of the gap between the gross external debt levels of the two countries has been observed again since 2022. The changes in Slovakia's gross external debt were affected by the TARGET2 balance changes related to the country's euro area participation and by the ECB's liquidity expansion.

**Chart 51: Development of gross external debt in the countries in the region (as a percentage of GDP, excluding intercompany loans)**




*Note: * The changes related to the euro area payment system also contributed to the developments in the gross external debt of Slovakia. For the countries of the region, the data set is until 2022 Q3.*
*Source: Eurostat*

# List of Charts

# Gábor Bethlen

(15 November 1580 – 15 November 1629)

Prince of Transylvania (1613–1629), elected King of Hungary as Gábor I (1620–1621), one of the most prominent personalities of 17th century Hungary. At the beginning of his career he loyally served the Princes of Transylvania Zsigmond Báthory, Mózes Székely, István Bocskai and Gábor Báthory. When Gábor Báthory contemplated alliance with the Hapsburgs, he turned against him and got himself elected to the throne of the principality. During his reign, he consolidated the position of Transylvania setting both the economy and the cultural life of this part of Hungary on a path of development later generally referred to as the ‘golden age of Transylvania’.

The twenty-five years preceding the rule of Bethlen were heavy with external and internal wars leaving the population considerably thinned out. Bethlen set out to stabilise the domestic situation, to consolidate his power and to rebuild Transylvania with great patience. He established a centralised state apparatus and concurrently sought to strengthen the financial status of the principality. He ordered an accurate statement of treasury revenues, had the lands and properties granted since 1588 reviewed and ratified only those which had been awarded in recognition for service to the country.

To promote industry and trade, Bethlen encouraged an economic policy of mercantilism and settled foreign craftsmen in the country. Instead of taxation, he relied on the more rational utilisation of other means deriving from his status as prince in building his rule. He developed precious metals mining, invited renowned specialists from abroad and strove to boost trade. Gábor Bethlen minted coins of a stable value and regulated the multidirectional trade in goods by prohibiting exports of key merchandise.

Gábor Bethlen attempted to form an international anti-Hapsburg coalition among western and eastern European countries. In order to strengthen his ties with the Protestant Powers, on 1 March 1626 he wed the sister of George William Elector of Brandenburg, Catherine of Brandenburg, and in 1626 he joined the Westminster alliance of the Protestant Powers.

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