REPORT ON THE BALANCE OF PAYMENTS

2019
JANUARY

‘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

REPORT ON THE BALANCE OF PAYMENTS

2019

JANUARY

Published by the Magyar Nemzeti Bank

Publisher in charge: Eszter Hergár

H-1054 Budapest, Szabadság tér 9.

www.mnb.hu

ISSN 2064-8707 (print)

ISSN 2064-8758 (on-line)

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, analysis of the balance of payments enables 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 developments 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.

This analysis was prepared by the MNB's Directorate Monetary Policy and Financial Market Analysis under the general guidance of Barnabás Virág, Executive Director for Monetary Policy and Economic Analysis. Contributors: Eszter Balogh, Anna Boldizsár, Gabriella Csom-Bíró, Orsolya Csortos, Zsuzsa Kékesi, Balázs Kóczián, Péter Koroknai, Zsolt Kovalszky and Balázs Sisak. The Report was approved for publication by Márton Nagy, Deputy Governor.

This Report is based on information pertaining to the period ending on 20 December 2018.

Summary

In Q3 2018, **the net lending of the economy amounted to 3.4 percent of GDP, with the current account surplus at 1.8 percent of GDP**. **External balance indicators remain outstanding in a regional comparison.** Owing to the continued outflow of debt liabilities, **net external debt continued to decline** from its historical low recorded in the previous quarter, accompanied by a fall in gross external debt and short-term external debt. **These factors further reduced Hungary's external vulnerability.**

According to the real economy approach, **the surplus on the balance of goods and services** – due to the high services balance surplus – **remained high**, at the same time, the indicator continued to decline mildly, which is linked to the balance of goods. The reduction in the goods balance is primarily related to the vibrant domestic demand, characterised by rising import-intensive investments and an upturn in household consumption, with temporary external and internal factors and the deterioration in the terms of trade also playing a role. In line with the rising absorption of EU transfers, **the surplus on the transfer balance increased again** following the temporary decline in the second quarter. The **deficit of the income balance did not change** in the third quarter, as the decline in foreign interest expenditures was offset by the change in the compensation of employees.

Net lending calculated on the basis of the financing side showed a moderate inflow of funds in the third quarter. This is attributable to the inflow of FDI funds, which surpassed the volume from the previous quarter by a large margin, mostly as the result of higher reinvested earnings. **Net FDI inflow registered until the third quarter of 2018 amounted to EUR 2.3 billion, substantially exceeding the year-on-year values.** Based on transactions, **net external debt continued to decline**: the largest decrease was registered by the corporate sector, and – following the rise in the previous quarter – the net external debt of banks also fell. The outflow of funds registered by the general government was primarily attributable to the rise in external assets, related to the absorption of EU funds, while no significant change occurred in liabilities. In addition to the outflow of funds, nominal GDP growth also supported **the decline in external debt indicators, which is a favourable development in terms of external vulnerability**. **As a proportion of GDP, net external debt declined to a historical low of 8.7 percent. Following the declines observed both in the private sector and for the general government, gross external debt** amounted to 58 percent of GDP at the end of the quarter. Hungary's short-term external debt fell by EUR 0.5 billion to EUR 18.2 billion. **At EUR 23.7 billion, the level of foreign exchange reserves still substantially exceeds the level expected and considered safe by investors**.

According to the savings of sectors, the net lending of the economy increased moderately. This occurred because the increase in the corporate sector's net borrowing fell slightly short of the simultaneous improvement in the net position of households and the general government. The **general government's net borrowing decreased substantially in quarter-on-quarter terms** and remains moderate. The **financial savings of households increased slightly**. As regards the growth in financial assets, households continue to prefer liquid financial assets and government securities savings. The rise in households' holdings of government securities was mainly attributable to **purchases of long-term securities, which reduce the external vulnerability of the economy through the decline in the rollover risk of government debt**.

In the special topic, we analyse the **factors that determine developments in the trade balance**. Following the historical high registered in 2016, in the past year **trade surplus was around the average of the post-crisis period**. The effect of the declining balance of goods was mitigated by the moderate rise on the balance of services, which also related to structural changes in the trade balance. **The reduction in the balance of goods is mostly related to effects stemming from the structure of economic growth. Underlying factors include the import-intensiveness of strong domestic demand, primarily related to the wide-ranging upturn in investment activity observed since 2017**, which is also supported by developments on the expenditure side of GDP and the contribution of individual sub-items to import growth. All of this is also corroborated by the breakdown of the goods balance by sectors: the decline in the balance of various metals, commodities and machinery is related to the increase in the investment of large private companies and the public sector, as well as to rising industrial production. **Nevertheless, in 2018 Q3, the lower net exports of machinery and commodities is also related to temporary factors**: compliance with the EU regulation on emissions had negative impact on the Hungarian vehicle industry, in addition to which it was also necessary to increase energy imports as a result of technical problems at

the Paks nuclear power plant. **Moreover, the rise in net fuel imports and the decline in the balance of goods also stemmed partly from the deterioration in the terms of trade.** At the same time, the decline in oil prices at the end of 2018 may result in adjustments in the terms of trade and the trade balance as well. In addition to the declining goods balance, owing to the persisting high services balance, **the current account balance is still the highest among the countries of the region**. Declines in the goods balance were observed also in other countries of the region, but these were smaller than in Hungary; this is partly attributable to the stronger growth in investments in Hungary compared to that observed in the region, and partly to the lower energy exposure of the neighbouring countries.

Contents

Summary **3**

1 Real economy approach **7**

1.1 Trade balance 7

1.2 Income balance 10

1.3 Transfer balance 10

1.4 Regional outlook 11

2 Financing approach **12**

2.1 Non-debt liabilities 13

2.2 Debt liabilities 14

3 Developments in debt ratios **17**

3.1 Developments in net and gross external debt 17

3.2 Developments in short-term external debt 19

3.3 Developments in foreign exchange reserves and reserve adequacy 20

4 Sectors' savings approach **21**

5 Special topic: Factors determining changes in the trade balance **23**

5.1 Impact of prices and volumes 24

5.2 Geographical breakdown of the goods balance 26

5.3 Impact of exports and imports 26

5.4 Industry factors 28

5.5 Absorption-side factors 29

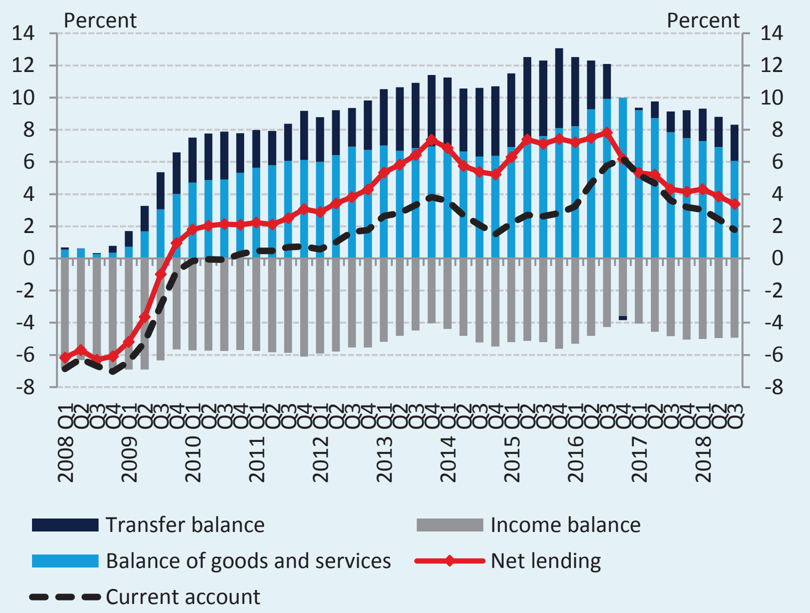
5.6 Regional comparison 31

1 Real economy approach

Based on the real economy approach, in 2018 Q3 the four-quarter net lending of the Hungarian economy and the current account surplus amounted to 3.4 percent and 1.8 percent of GDP, respectively. These figures still substantially exceed the levels observed in the countries of the region. The trade balance, and in particular the decline in the balance of goods, continued to be key contributors to developments in external balance indicators, with the underlying reasons including rising investments and the slowdown in exports, related to temporary factors. Owing to the increasing absorption of EU transfers, the surplus on the transfer balance rose during the quarter under review. The income balance deficit did not change significantly compared to the previous quarter and remained at 5 percent of GDP.

In 2018 Q3, Hungary's four-quarter net lending according to the real economy approach and the current account surplus amounted to 3.4 percent of GDP and 1.8 percent of GDP, respectively (Chart 1). According to seasonally unadjusted figures, net lending in Q3 amounted to EUR 0.6 billion, with surpluses of EUR 0.2 billion and EUR 0.4 billion on the current account and capital account, respectively. The decline in the current account occurred in parallel with a fall in trade surplus, which was partly offset by the transfer balance surplus, and thus net lending decreased to a lesser degree than the current account.

Chart 1: Developments in components of net lending* (four-quarter values as a percentage of GDP)

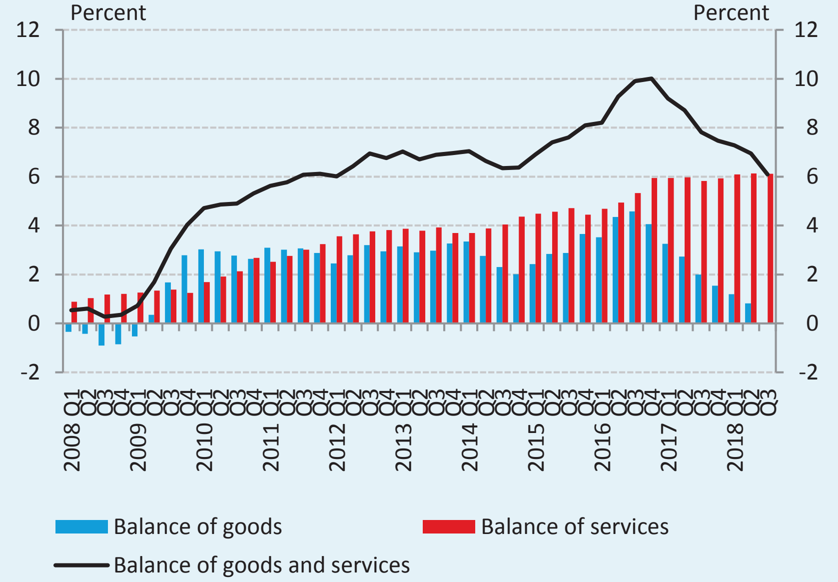


** Income balance: earned income, income on equity and income on debt. Transfer balance: sum of the capital account and other primary and secondary income.*
All charts by the MNB unless otherwise indicated.

1.1 Trade balance

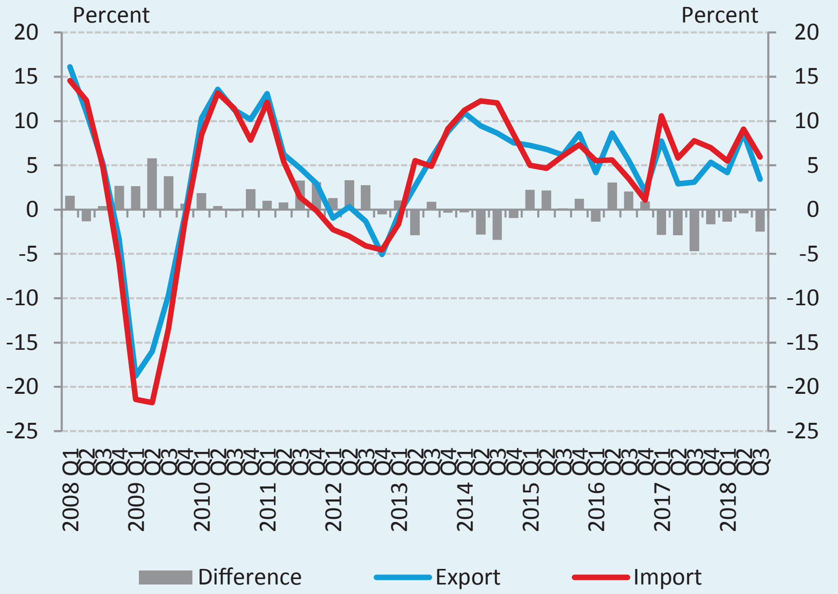
The substantial trade surplus remained in Q3 as well, but at the same time it continued to decline slightly, which was related to the decrease in the balance of goods (Chart 2). The decline in the trade surplus seen since the beginning of 2017 continued in 2018 Q3 as well, and thus the balance amounted to 6.1 percent of GDP at the end of the period under review. Similar to previous periods, the decline was associated with the balance of goods and continued to be explained primarily by growth in the typically import-intensive investments, with additional contributions from deterioration in the terms of trade and one-off factors. In quarter-on-quarter terms, the balance of services surplus did not change significantly and continues to exceed 6 percent of GDP. Thus, on the whole, almost the entire annual trade surplus can be attributed to net exports of services, while this item accounts only for roughly 20 percent of total exports. The steadily high services balance mostly resulted from the surplus of tourism and transportation services in the third quarter again.

Chart 2: Developments in the balance of trade and its components (four-quarter values as a percentage of GDP)



After the decline observed in the previous quarters, the difference in the annual real growth rates of imports and exports rose substantially in the third quarter (Chart 3). As a result of increasing consumption and growth in capacity-expanding investments, annual real growth in imports amounted to 5.9 percent in the period under review, which falls short of the value registered in the second quarter. Export growth also decelerated – to a larger degree than imports – in the quarter under review, which is primarily attributable to the weaker industrial performance, and in particular to the changes in legislation affecting the car industry segment. From September, motor vehicle emissions are determined according to a new, stricter methodology, which was fulfilled by certain types only with a delay due to shortage of time. This temporarily curtailed both the sales and production of cars and thus contributed to the slower expansion of Hungarian exports.

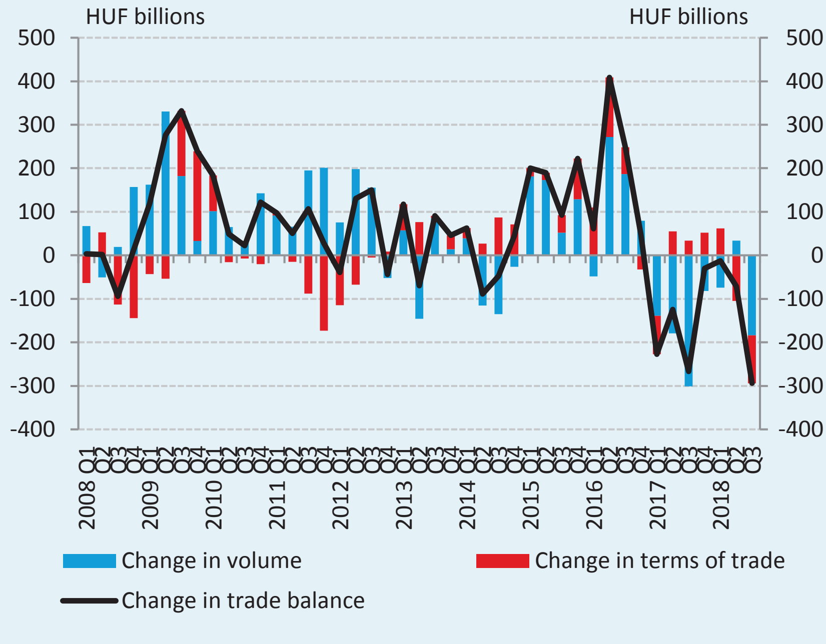
Chart 3: Annual real growth in exports and imports



Source: HCSO, MNB.

The fall in the trade surplus in the third quarter was attributable both to the change in volume and in the terms of trade (Chart 4). Before 2017, Hungary's terms of trade improved considerably due to moderate commodity prices; however, as a result of the rising oil prices in 2018, the terms of trade reduced the trade balance. In the first quarter, the impact of rising oil prices was still partially offset by the favourable developments in the prices of other export products. In the third quarter, however, the annual decline of almost HUF 300 billion in the trade balance was also caused by the change in volume and the impact of the terms of trade, with the first factor contributing HUF 200 billion and the latter HUF 100 billion to the decline.

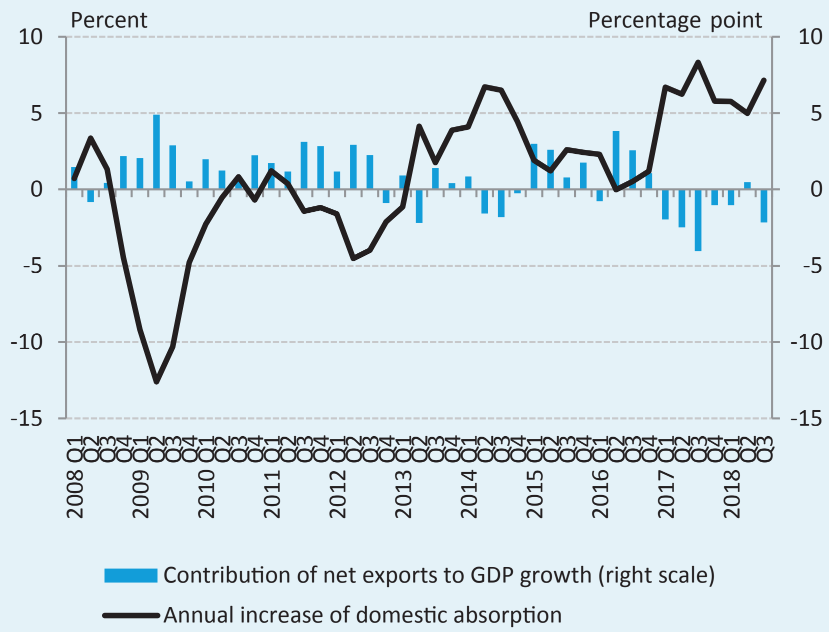
Chart 4: Development in the balance of trade factors according to GDP (year-on-year)



Source: HCSO.

The annual growth rate of domestic demand increased sharply in the third quarter, and accordingly the contribution of net exports to growth once again became negative (Chart 5). In the third quarter, economic growth resulted fully from domestic demand, i.e. the buoyant consumption of households and gross fixed capital formation, while net exports made a negative contribution to GDP growth. Purchases of durable and semi-durable goods played a major role in the expansion in consumption expenditures, which was also reflected in the decline in the goods balance.

Chart 5: Annual growth rate of domestic absorption and contribution of net exports to GDP growth

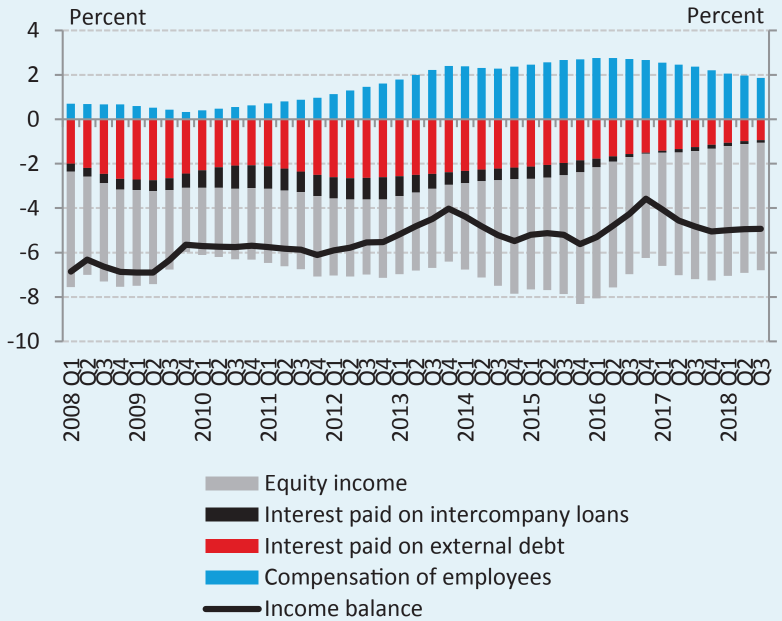


Source: HCSO.

1.2 Income balance

The deficit on the income balance did not change in the third quarter, as the decline in foreign interest expenditures was offset by the change in the compensation of employees (Chart 6). Similarly to the previous quarters, the deficit on the income balance did not change significantly in the third quarter and remained at around 5 percent of GDP. The largest item is equity income, the deficit on which remains around 6 percent of GDP, while the surplus on the compensation of employees, which moderately reduces the deficit on the income balance, in line with the decline in temporary employment abroad observed in the past quarters fell to 1.9 percent at the end of the period under review.

Chart 6: Developments in the items of the income balance*
(four-quarter values as a percentage of GDP)

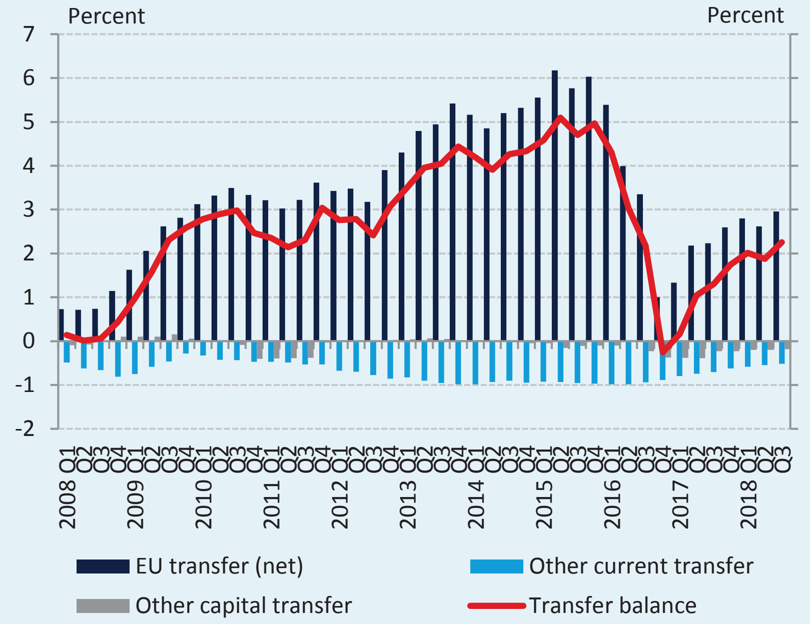


** Income balance: earned income, income on equity and income on debt.*

1.3 Transfer balance

The surplus on the transfer balance increased in 2018 Q3, in line with the rising absorption of EU transfers (Chart 7). In 2018 Q1, the absorption of EU funds was significant, but in Q2 the transfer balance declined slightly as a result of a lower inflow of funds. By the end of the third quarter, the annual absorption of net EU transfers amounted to 3 percent of GDP, substantially contributing to maintaining Hungary's favourable external balance position. In contrast to the EU transfers, the balance of other current transfers and other capital transfers remained steady during the quarter under review.

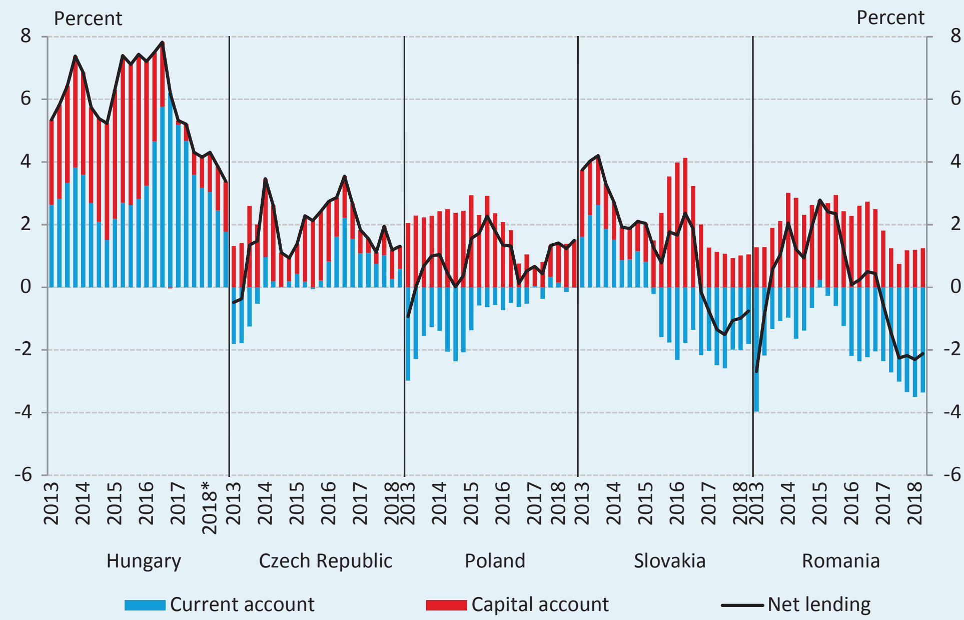
Chart 7: Four-quarter developments in the items of the transfer balance (four-quarter values as a percentage of GDP)



1.4 Regional outlook

In a regional comparison, Hungary's net lending and current account balance are still outstandingly high (Chart 8). In 2016, net lending declined in most of the countries of the region, primarily due to the decline in EU funds from the previous cycle and the deterioration of the balance of goods driven by domestic demand trends, which continued in 2018 as well (for more details on the latter, see the special topic). In line with the inflow of funds from the new cycle, developments in the capital balance had a positive impact on the external balance position of all of the countries of the region in the past quarters. In 2018 Q3, Hungary's net lending continued to significantly exceed the level typical in the region, explained by Hungary's capital account exceeding that of the other countries as well as the high services balance.

Chart 8: Four-quarter net lending of the countries of the region (as a percentage of GDP)



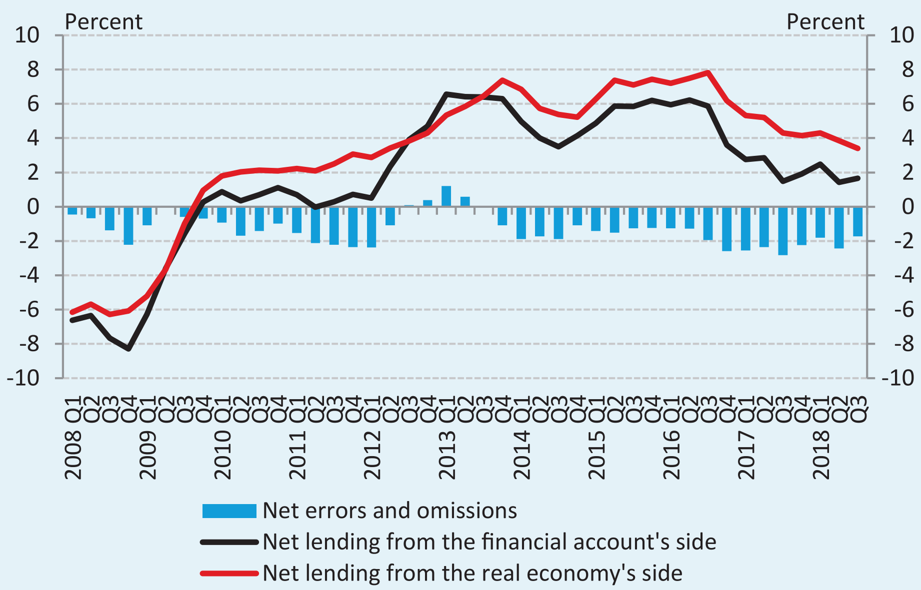
**2018 Q3 data were available only for Hungary. Source: MNB, Eurostat.*

2 Financing approach

Following a moderate increase, four-quarter net lending calculated on the basis of the financial account amounted to 1.7 percent of GDP in the third quarter. At the same time, the index reflected a moderate inflow of funds, as a combined result of opposing trends: the larger scale outflow of debt liabilities was more than offset by the inflow of non-debt liabilities. Following the moderate inflow of FDI funds in the previous quarter, they rose to a larger degree, by almost EUR 1.7 billion. The rise was mostly the result of growth in reinvested earnings. The decline in debt affected all three sectors: the largest decline was registered in the corporate sector, also supported – in addition to the fall in the sector's external liabilities – by the rise in foreign assets. The decline in banks' net external debt was related to the rise in the sector's foreign assets in excess of its liabilities. The decline in general government debt as a result of transactions was attributable to the rise in external assets, related to the absorption of EU funds, while no material change occurred in the liabilities of the sector. This was because the rise in the government securities holding of non-residents was almost offset by the decline in the government's other debts connected to the maturity of development loans.

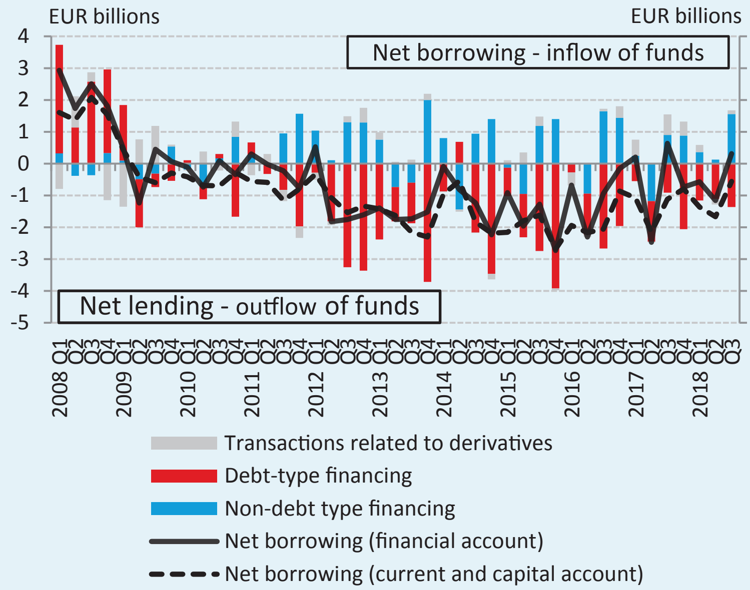
Following a moderate rise, four-quarter net lending according to the financing side amounted to 1.7 percent of GDP in 2018 Q3 (Chart 9). While net lending calculated on the basis of the real economy approach declined during the quarter under review, the indicator calculated on the basis of the financial account – which is more relevant for the debt ratios – rose moderately, and thus the difference between the two indices declined. The balance of errors and omissions amounted to 1.7 percent of GDP, marking one of the lowest values in the past two years.

Chart 9: Two types of net lending and 'Net errors and omissions'
(four-quarter values as a percentage of GDP)



While the four-quarter index increased moderately, net lending calculated on the basis of the financing side declined in the third quarter and showed a moderate inflow of funds (Chart 10). The modest inflow of funds was related to the larger rise in non-debt liabilities, while the outflow of debt liabilities continued. As a result of transactions, Hungary's net external debt decreased by some EUR 1.4 billion; non-debt liabilities increased by EUR 1.7 billion in Q3, mainly as a result of the rise in foreign direct investments.

Chart 10: Structure of external financing (unadjusted transactions)

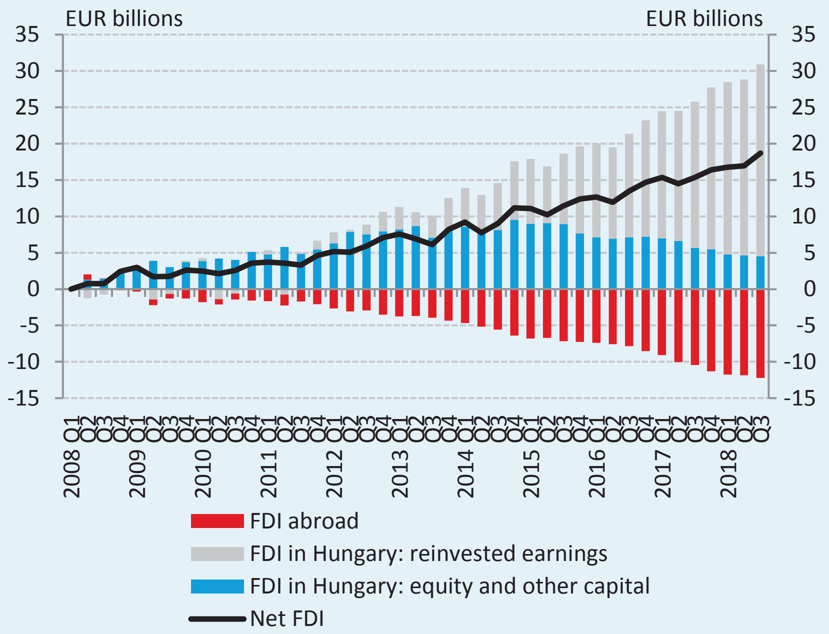


2.1 Non-debt liabilities

Following the moderate inflow in the previous quarter, non-debt liabilities and particularly FDI funds rose to a larger degree by almost EUR 1.7 billion (Chart 11). Based on the data net of capital-in-transit transactions and reallocation of the asset portfolio, foreign direct investments once again rose to a larger degree in the third quarter. At the same time, the growth in non-residents' investments in Hungary was partly offset by the increase in the Hungarian companies' investments abroad. The growth related to the rise in reinvested earnings;[1] however, the moderate increase in the equities of foreign companies in Hungary was almost fully offset by the decline in the intercompany loans disbursed by them. Thus in the first three quarters, net FDI inflow already exceeded EUR 2 billion, which is well above the year-on-year values. This is mostly attributable to lower investments by Hungarian companies abroad, with some contribution from the growth of non-residents' FDI.

[1] The foreign direct investment income and thus the value of reinvestments is based on estimates until the release of the actual figure, in the following September.

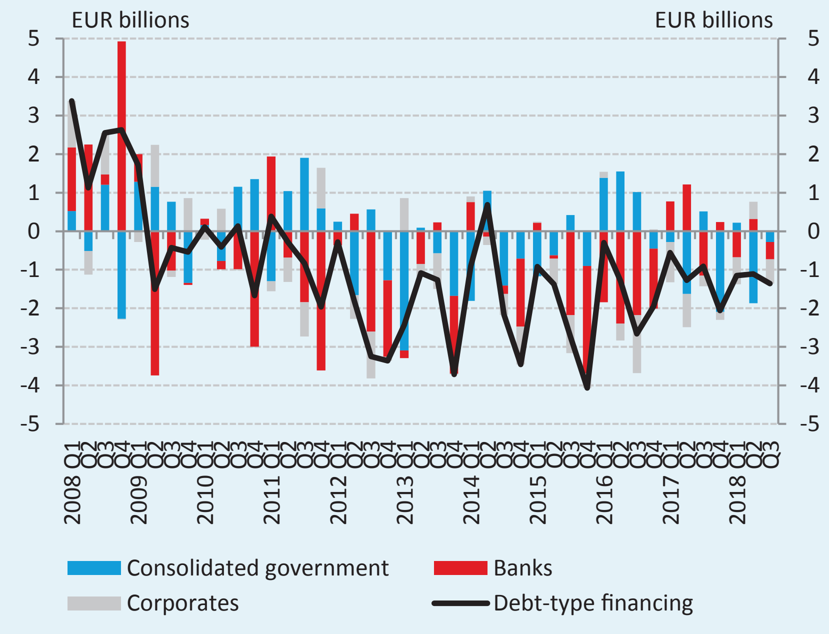
Chart 11: Developments in FDI without capital-in-transit transactions (cumulative transactions)



2.2 Debt liabilities

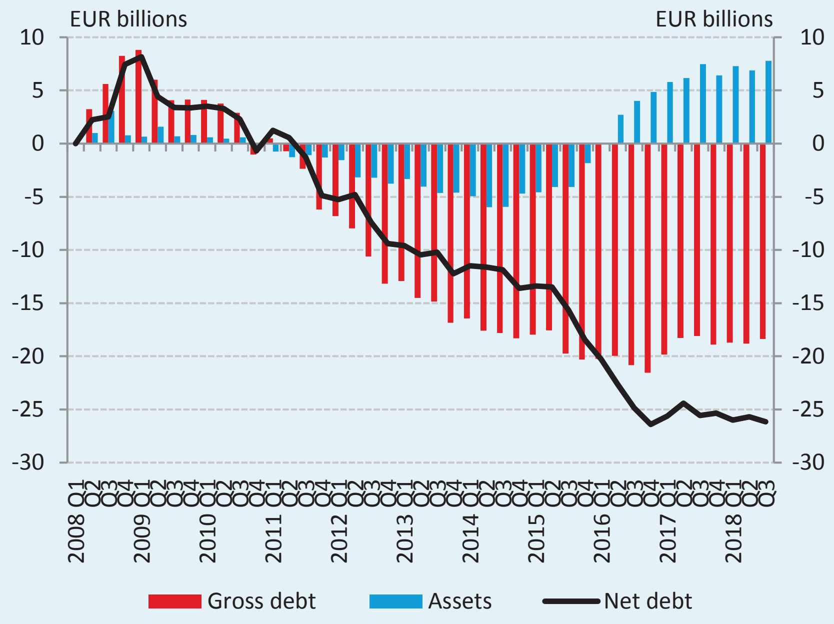
The outflow of debt liabilities accelerated again in 2018 Q3: all three sectors contributed to the decline of almost EUR 1.4 billion in net external debt as a result of transactions (Chart 12). The largest debt outflow, amounting to almost EUR 0.6 billion, was registered for the corporate sector, which was supported by the rise in foreign assets, in addition to the decline in the sector's external liabilities. Following the rise recorded in the previous quarter, the decline in banks' net external debt as a result of transactions continued in the third quarter: the sector's outflow of funds amounted to some EUR 0.5 billion. The debt outflow of the consolidated general government amounted to EUR 0.3 billion, which was mainly attributable to the absorption of EU transfers.

Chart 12: Developments in net debt-type financing by sector



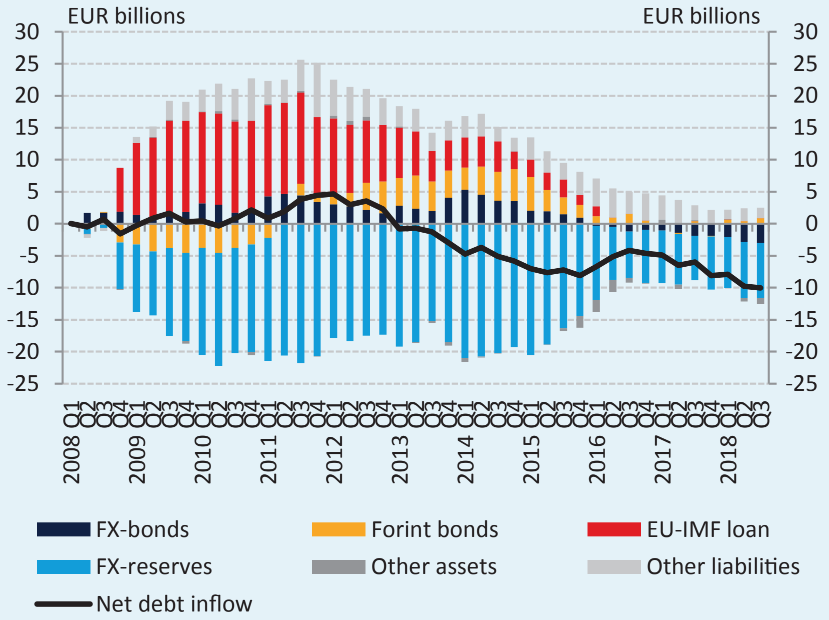
Banks' net debt outflow as a result of transactions was around EUR 0.5 billion in the quarter, which was primarily related to the rise in the sector's foreign assets (Chart 13). The debt outflow of banks was due to the fact that following the decline registered in the previous quarter, the sector's foreign assets rose by almost EUR 900 million in 2018 Q3. At the same time, this effect was partly offset by the rise of almost EUR 400 million in banks' gross external debt, as a result of transactions. Thus, as a combined result of these impacts, banks' net outflow of debt liabilities amounted to almost EUR 500 million. The growth in external assets may have been also supported by the rise in corporations' FX deposits. The rise in banks' gross external debt is almost fully attributable to the increase in originally short-term liabilities.

Chart 13: Developments in the banking sector's external debt and receivables (cumulative transactions)



The decline in the net external debt liabilities of the consolidated general government including the MNB was primarily attributable to the rise in the sector's foreign assets. The net external debt of the consolidated general government including the MNB fell by almost EUR 0.3 billion, mainly due to the rise in the government's external receivables, while no material change occurred in the sector's liabilities. The foreign assets of the general government, mostly including accrual-based receivables from the EU, related to the absorption of EU transfers, increased. However, the growth in foreign assets was curbed by the moderate decline of EUR 0.2 billion in foreign exchange reserves, as a result of transactions (for more details, see Section 3). The lack of change of the general government's gross external debt – based on the transaction data – is the combined result of processes of opposite directions: while the growth in non-residents' forint government securities holdings resulted in an increase, the decline in other debts of the sector – mostly related to the maturity of a development loan – offset this effect.

Chart 14: Breakdown of the changes in the net external debt of the consolidated general government including the MNB (cumulative transactions)



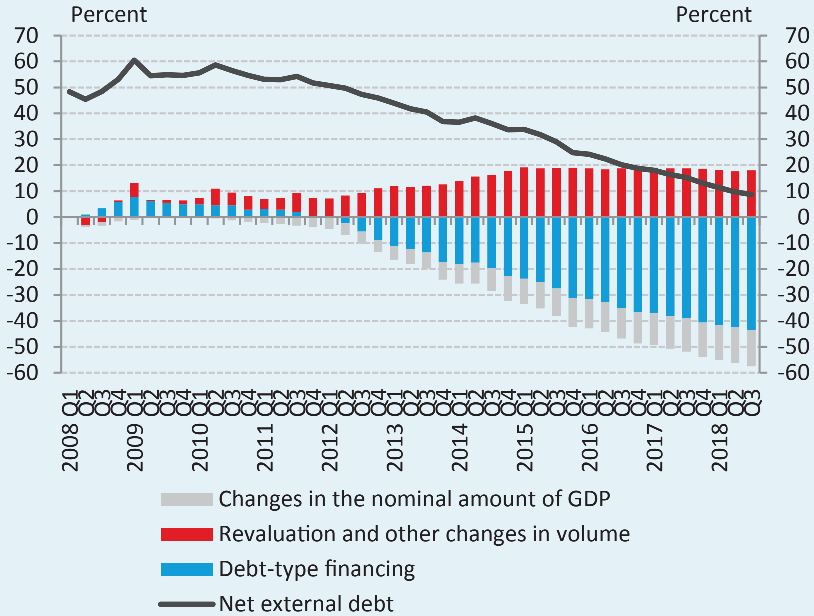
3 Developments in debt ratios

Owing to the continued outflow of debt liabilities, Hungary's debt ratios declined further in the third quarter. With the decrease of almost 1 percentage point, net external debt dropped to a historical low, i.e. 8.7 percent of GDP. In addition to net external debt, gross external debt also fell, dropping to 58 percent of GDP at the end of the quarter under review. The decline in net external debt is mainly attributable to the outflow of funds, and to a smaller degree, to the rise in nominal GDP, while the revaluation of outstanding stocks moderately raised net external debt. Similar to the trends observed in transactions, all three sectors contributed to the decline in net external debt: the ratio decreased to the largest degree in the corporate sector, where it fell by almost 0.5 percent of GDP. As a result of this decline, the net external debt of the entire private sector turned negative. However, the decline in the outstanding net external debt of the general government fell short of the transaction data, which was attributable to the revaluation of stocks resulting from the fall in long-term yields. The fall in gross external debt as a proportion of GDP can be explained by the decline in the gross external debt of the private sector and the general government by 1 percent of GDP each. In 2018 Q3, Hungary's short-term external debt decreased by EUR 0.5 billion to EUR 18.2 billion, which was related to the general government and the corporate sector. The level of foreign exchange reserves still substantially exceeds the level expected and considered safe by investors.

3.1 Developments in net and gross external debt

In the third quarter, the net external debt of the economy continued to decline, as the index fell by almost 1 percentage point to 8.7 percent of GDP. This decline was mainly supported by the outflow of debt-generating liabilities (Chart 15). Hungary's outstanding net external debt amounted to 8.7 percent of GDP, marking the lowest value for the index to date and representing a very favourable value for the purpose of assessing Hungary's external vulnerability. The decline was mainly due to the recently typical outflow of debt-generating liabilities, which resulted in a 1.1 percentage point decline in outstanding net external debt as a proportion of GDP. While revaluation of stocks increased the debt ratio by 0.3 percent of GDP, the nominal GDP growth reduced it by 0.2 percentage point. The revaluation of outstanding stocks is mostly related to the repricing of the government securities portfolio due to the moderate decline in long-term yields.

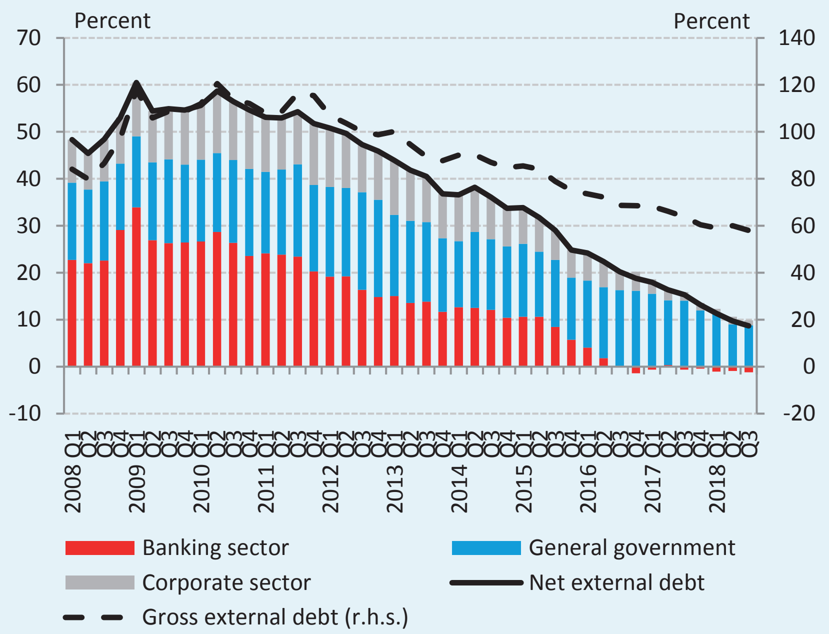
Chart 15: Components of changes in the next external debt (cumulative values excluding inter-company loans, as a percentage of GDP, end-2007 = 0)



All three sectors contributed to the fall in net external debt which was recorded in the second quarter, and the net external debt of the private sector as a whole turned negative (Chart 16). Net external debt decreased to the largest degree in the case of the corporate sector, where it fell by almost 0.5 percent of GDP. The decline in the sector's net external debt as a proportion of GDP – in contrast to the transaction data – was connected to the drop in the debts of enterprises. Banks' outstanding net external debt decreased slightly, after stagnating in the previous quarter. As a result of the decline, the net external debt of the private sector is now negative on the whole. The small decrease in the next external debt of the general government was the combined result of the fall in the government's external liabilities and the decline in the sector's external assets.

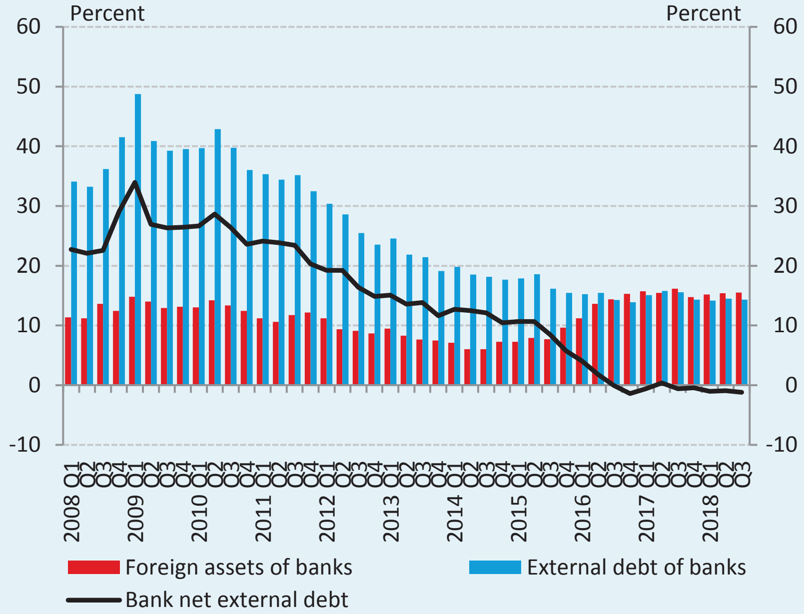
In the third quarter, Hungary's gross external debt as a proportion of GDP fell by two percentage points to 58 percent, with the decline involving both the private sector and the general government. In a breakdown by sector, the gross external debt of the private sector and the general government both declined by 1 percent of GDP. Within the gross external debt of the private sector, the gross external debt of the corporate sector fell the most. Based on the transaction data, the gross external debt of the general government did not decrease, while the growth in nominal GDP reduced the stock indicator as a proportion of GDP. The fall in outstanding commercial loans of corporations was key to the decline in the gross external debt of the private sector.

Chart 16: Net external debt in a breakdown by sector and gross external debt (as a percentage of GDP, excluding intercompany loans)



In the third quarter, the banking sector's net external debt continued to decline somewhat, i.e. its foreign debt still falls short of its external assets (Chart 17). The slight rise in foreign assets and – in contrast to the transactions – the declining foreign liabilities both contributed to the moderate fall in banks' net external debt. The gross debt of the banking sector decreased by 0.2 percent of GDP, while gross foreign assets rose by 0.1 percent of GDP. The different developments in the stock indicators compared to the transaction data are mostly attributable to the rise in nominal GDP and revaluation of the exchange rate.

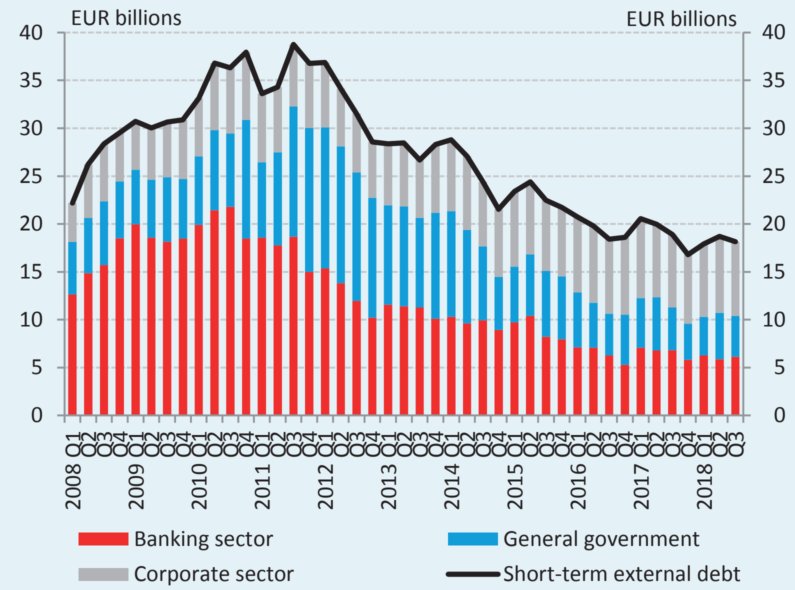
Chart 17: Developments in the banking sector's external assets and liabilities (as a percentage of GDP)



3.2 Developments in short-term external debt

At the end of the third quarter of 2018, following a decline of EUR 0.5 billion, short-term external debt amounted to EUR 18.2 billion (Chart 18). The fall in short-term external debt[2] is primarily related to the general government, and to a smaller degree to the corporate sector, the effect of which was mitigated by the moderate growth observed in the banking sector. The drop of EUR 500 million in the short-term external debt of the general government is partly due to the decrease in the margin accounts hedging the US dollar exposure to euro, resulting from depreciation of the US dollar, and partly to the maturity of development loans. The short-term external debt of the banking sector rose by EUR 200 million, which is related to a one-off transaction of a single credit institution, while the majority of the institutions strived for the quarterly balance sheet optimisation. Corporations' short-term external debt declined by EUR 200 million, mainly linked to the fall in commercial loans.

Chart 18: Developments in gross short-term external debt based on residual maturity



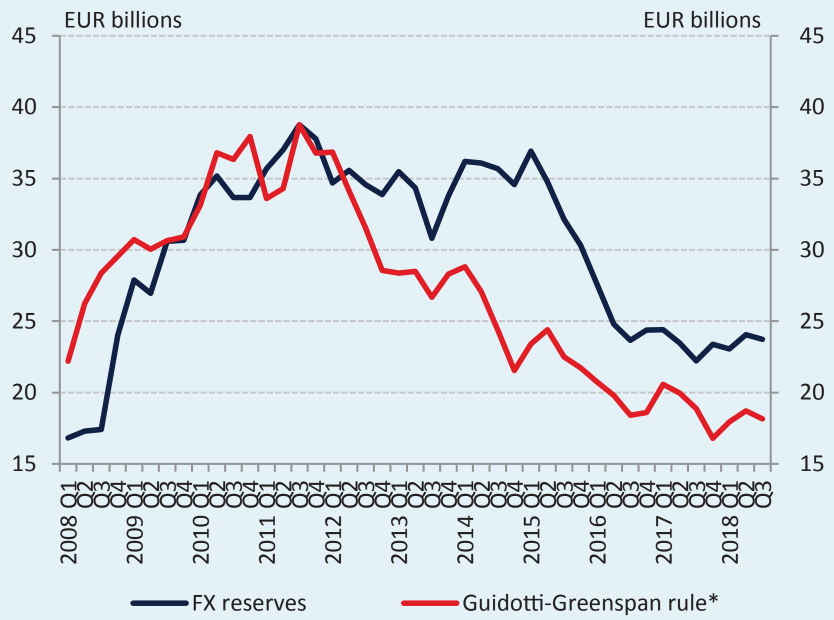
[2] In general, short-term external debt means external debt that is short-term according to residual maturity.

3.3 Developments in foreign exchange reserves and reserve adequacy

Foreign exchange reserves declined moderately in 2018 Q3, mainly as a result of the general government's FX expenditure, which was only partially offset by the EU funds received (Chart 19). At end-September 2018, international reserves amounted to EUR 23.7 billion, representing a decline of EUR 300 million compared to the level registered in the second quarter. The items that reduced the reserves the most included the transactions of the Government Debt Management Agency related to the repayment of debt, i.e. repayment of loans from the European Investment Bank, the maturity of the 2015 Premium Euro Hungarian Government Bond and the payment of interest on foreign currency loans and foreign currency bonds. The cash movements related to the FX swap instruments providing forint liquidity and to the foreign currency pillar of Phase III of the Funding for Growth Scheme also lowered foreign exchange reserves. The transfers received from the European Commission during the quarter under review increased the reserve level.

As a result of the decrease in foreign exchange reserves and a similar decline in short-term external debt, the volume of foreign exchange reserves still considerably exceeds the level expected by investors. Based on the Guidotti–Greenspan rule, which is closely followed by both the central bank and investors, the foreign exchange reserves of EUR 23.7 billion at the end of September 2018 significantly exceed the level of short-term external debt, which amounts to EUR 18.2 billion. In parallel with a fall of EUR 330 million in FX reserves, short-term external debt declined by some EUR 500 million compared to the level recorded at end-June. As a result of the two changes, on the basis of the Guidotti–Greenspan rule, FX reserves in 2018 Q3 exceeded the short-term external debt by EUR 5.5 billion, which continues to represent a safe level.

Chart 19: Short-term external debt and FX reserves of the Hungarian economy



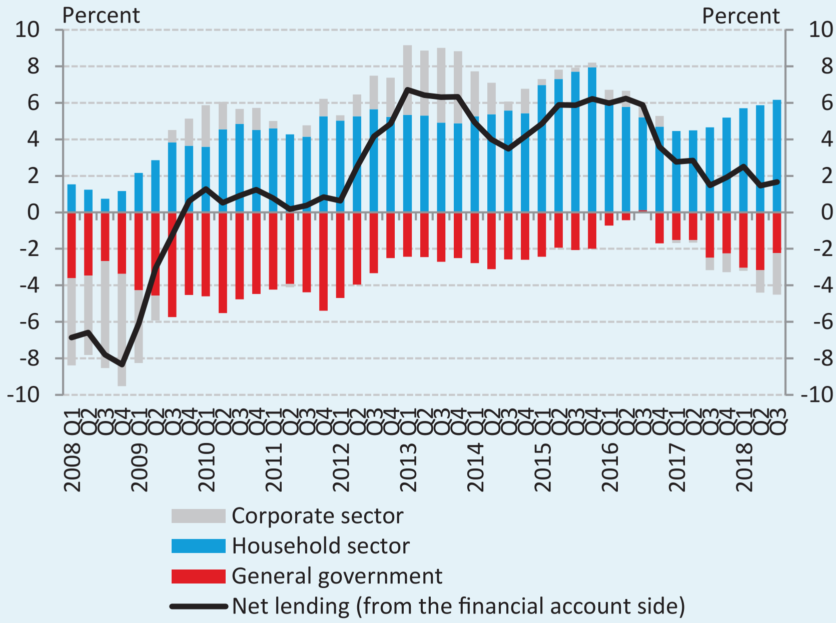
** Guidotti–Greenspan indicator: short-term external debt based on residual maturity.*

4 Sectors' savings approach

According to the sectors' savings approach, the net lending of the Hungarian economy amounted to 1.7 percent of GDP in 2018 Q3. The rise in the corporate sector's borrowing requirement somewhat fell short of the simultaneous improvement in the net position of households and the general government, and thus on the whole the net lending of the economy moderately rose in the third quarter. The general government's net borrowing decreased substantially in quarter-on-quarter terms and remains moderate. Based on seasonally adjusted data, households' net lending increased slightly, which was related to the rise in financial assets, while net new borrowing remained unchanged. Households continue to prefer liquid financial assets and savings in government securities. The growth in households' government securities holdings accelerated significantly in the quarter under review, owing to rising demand for short-term securities, while net purchases of long-term securities also registered substantial growth.

According to the savings of sectors, the four-quarter net lending of the Hungarian economy rose to 1.7 percent of GDP in 2018 Q3 (Chart 20). The four-quarter net borrowing of the general government declined substantially, moving to nearly 2 percent of GDP. The large decline in the general government's net borrowing was primarily attributable to the dynamic growth in revenues from consumption and labour taxes. In the third quarter, the corporate sector's net borrowing continued to increase, primarily due to the steady rise in investments. In the past quarter, households' four-quarter net financial savings exceeded 6 percent of GDP as a result of the rise in financial assets. The vigorous growth in the accumulation of financial assets continues to be in line with the strong wage dynamics, while the net credit flow of households developed similarly as in the previous quarter.

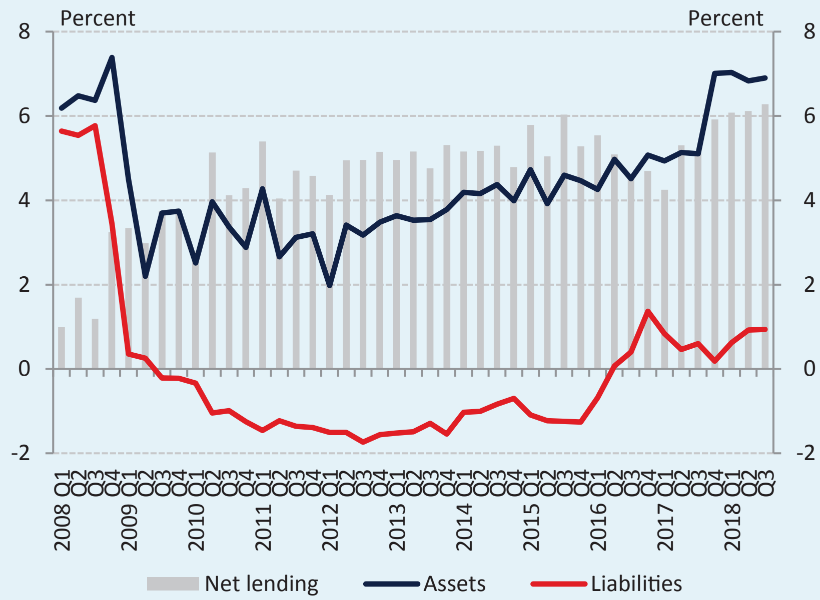
Chart 20: Net lending of individual sectors* (four-quarter values as a percentage of GDP)



** General government represents the net borrowing according to the financial accounts. Corporate saving calculated as a residual.*

According to seasonally adjusted underlying trends, households' net financial savings amounted to 6.3 percent of GDP, following a slight increase in Q3 (Chart 21). Similarly to the previous quarter, households' seasonally adjusted net credit flow was around 1 percent of GDP in the third quarter, which was attributable to a larger degree to the rise in housing loans and to a lesser degree to growth in consumer loans. According to the underlying trends, households' gross financial savings amounted to 7 percent of GDP in the third quarter, with liquid assets (sight deposits, currency in circulation) as the main contributors in addition to the rise in government securities.

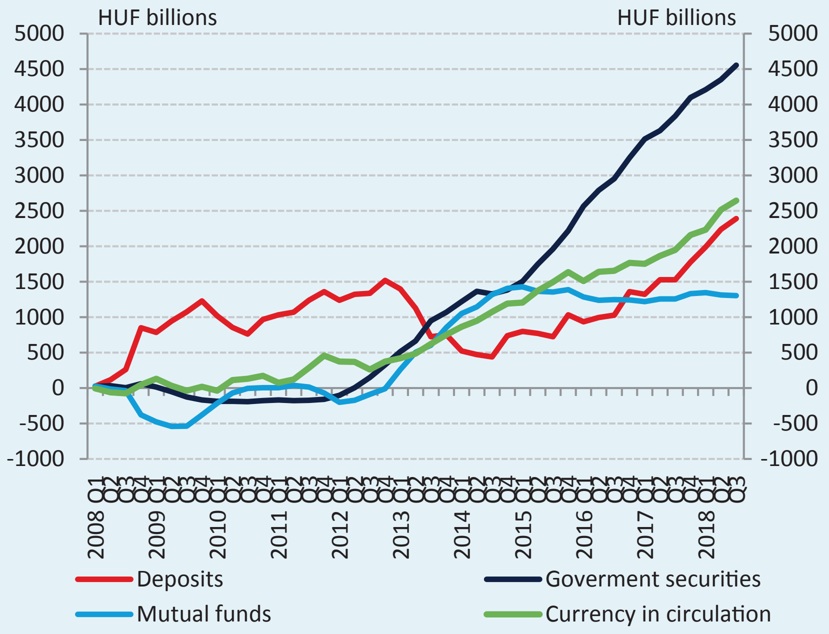
Chart 21: Net lending of households (seasonally adjusted revised* values, as a percentage of GDP)



**Figures show the underlying trends, adjusted for the impact of pension savings, the early repayment scheme and real yield payment, the indemnification of the depositors of liquidated mutual savings banks as well as the forint conversion and settlement. Time series are adjusted separately.*

In the third quarter, in addition to sight deposits and cash holdings, households substantially increased their government securities portfolio, which still plays an important role in financing the general government from domestic sources (Chart 22). Households' demand for government securities continued to grow dynamically during the quarter: the total holdings of the sector amounted to nearly HUF 5,500 billion at the end of the quarter. Households' government securities transactions significantly exceeded the value registered in the previous two quarters, mainly due to higher net purchases of short-term government securities. In addition, net transactions in long-term government securities also stabilised at a high level. In the third quarter, the portfolio of liquid investment assets continued to increase, although the related dynamics decelerated somewhat. While the rise in households' cash holdings falls well short of the historical high observed in the previous quarter, it can be still deemed high. Similarly to the previous quarter, holdings of less liquid fixed deposits and mutual fund shares continued to decline.

Chart 22: Developments in households' key financial assets (cumulative transactions)

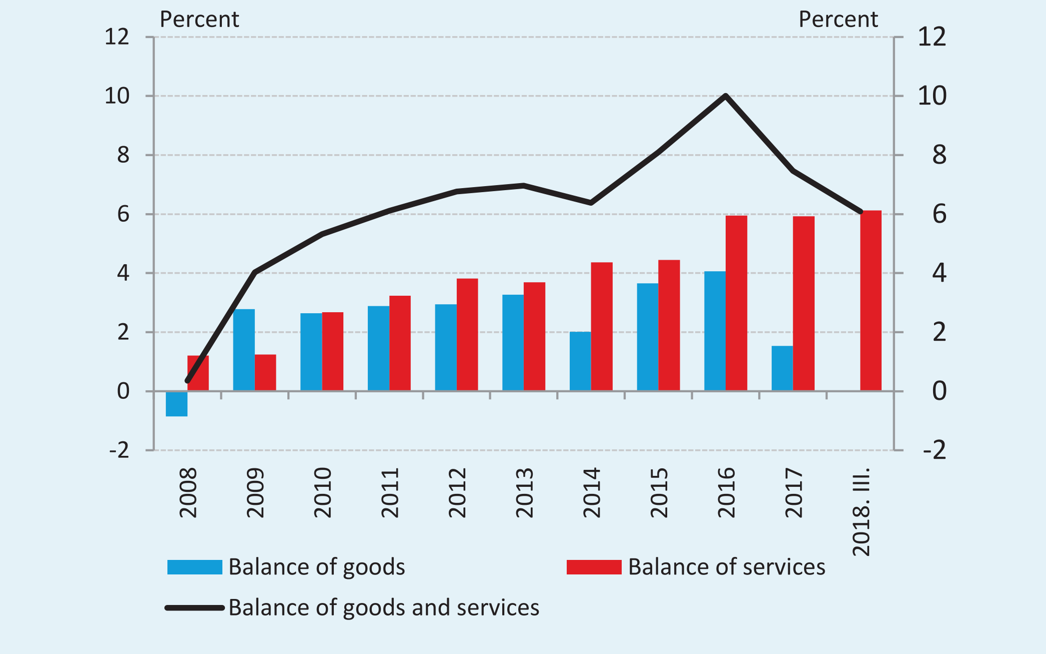


5 Special topic: Factors determining changes in the trade balance

Following the historical high observed in 2016, last year's trade surplus was around the average of the post-crisis period. This was due to the decline in the goods balance, the effect of which was mitigated by mild expansion in the services balance, which was also correlated with the structural change in the trade balance. The decline in the goods balance is explained by effects stemming from the structure of economic growth. These developments stem from import demand linked to the strong domestic demand, which is primarily related to the major upturn in investment activity starting from 2017. This is corroborated by developments in the absorption side items of GDP and the contribution of the individual partial items to import growth. All of this is also corroborated by the sectoral breakdown of the goods balance: the decline in the balance of various metals and raw materials as well as machines is related to the increase in the investment of large private companies and the public sector as well as to the growing industrial production. Nevertheless, in 2018 Q3, lower net exports of machinery and raw materials were also related to temporary factors: compliance with the EU regulation on emissions had an unfavourable impact on the Hungarian vehicle industry. Moreover, it was also necessary to increase energy imports as a result of technical problems at the Paks nuclear power plant. In addition, deterioration in the terms of trade also played a role in the rise in net imports of energy and the decline in the goods balance, which is partly attributable to the increase in oil prices seen until 2018 Q3 and partly to the appreciation of the US dollar. At the same time, a decline in oil prices at end-2018 may result in adjustments in both the terms of trade and the trade balance. Against the background of the declining goods balance, as a result of the still high services balance, the current account surplus is still the highest among the countries of the region. Declines in the goods balance were observed in other countries of the region as well, although to a lesser degree than in Hungary, which is attributable to higher domestic investment growth than that observed in the region as well as to the lower energy exposure of the neighbouring countries.

Following the historical high observed in 2016, last year's trade surplus was around the average of the period between 2009 and 2014. Developments in the past one and a half years are attributable to the decline in the goods balance, the effect of which was mitigated by a slight increase in the services balance (Chart 23). Since reaching the historical high of 10 percent of GDP, the current account surplus has gradually declined in the past one and a half years, which was entirely related to the fall in the trade balance. Since end-2016, net goods exports declined by some 4 percent of GDP, while the services balance as a proportion of GDP rose by 0.2 percentage point. Accordingly, the surplus on the services balance still keeps the trade surplus high, in spite of the fact that the level of net goods exports declined to close to zero in the past one and a half years. Hence, Hungary's foreign trade underwent a structural change, as an increasing portion of the surplus is related to services, which have become a determinant in the current account surplus as well. The following section presents an analysis of the factors behind the decline in the goods balance: changes in the main elements are analysed in detail and regional developments are also addressed.

Chart 23: Developments in the balance of trade components (as a percentage of GDP)*

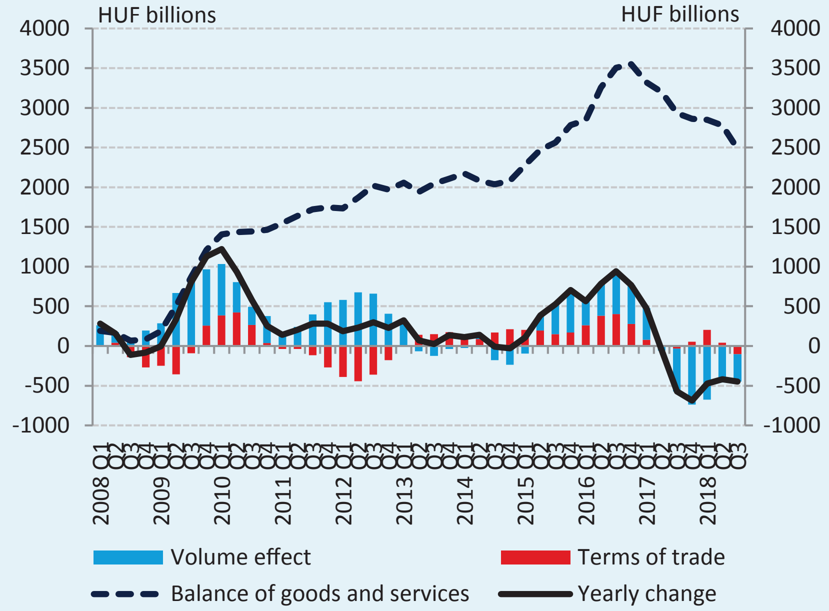


** Data for 2018 Q3 is the four-quarter value.*

5.1 Impact of prices and volumes

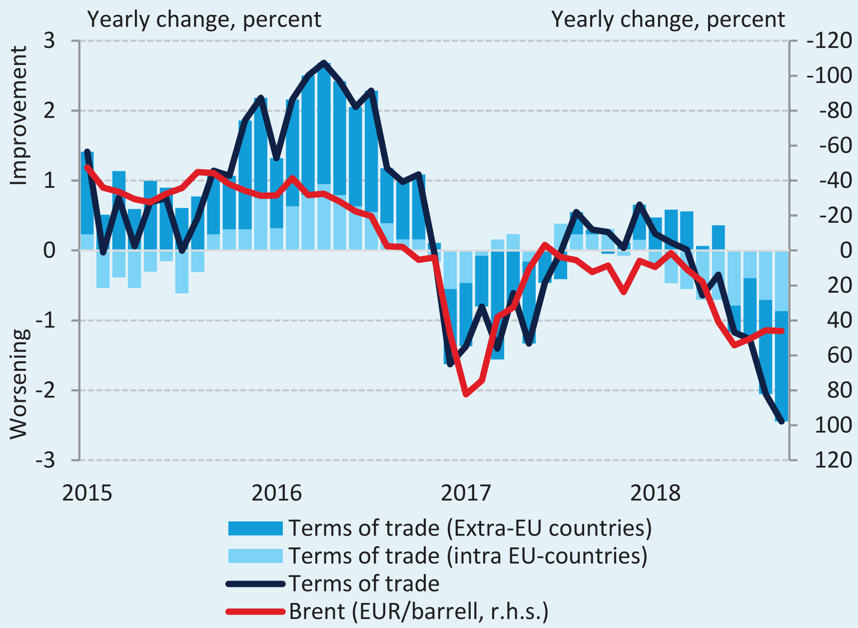
The decline in the four-quarter trade surplus observed in the past one and a half years was mainly attributable to changes that occurred in volumes. After 2013, low energy and favourable export prices jointly resulted in an improvement in the terms of trade, which contributed to the rise in Hungary's trade surplus until end-2016 (Chart 24). Following that, changes in commodity prices resulted in a deterioration in the terms of trade, but this effect was largely offset by the positive change in the relative prices of domestic companies' export products, mainly in the sector of machinery and means of transport. Starting from 2017 H2, owing to the import demand related to expanding investment, the volume effect net of price effects significantly lowered the trade surplus (see details below). The impact of the volume of net exports resulting in a decline in the trade balance persisted for the first three quarters of 2018 as well. The change in volume may be attributable to both a slowdown in export growth and an expansion in imports. Therefore, these aspects warrant a detailed analysis.

Chart 24: Impact of the change in the terms of trade and in volumes on the trade balance (four-quarter balance)



The decline in the goods surplus seen in the past quarters is also attributable to this year's deterioration in the terms of trade, which is related partly to the appreciation of the US dollar and partly to the oil price increase (Chart 25). The appreciation of the US dollar against the euro observed in recent months is an important one-off factor which also impacted developments in the trade surplus, since the relative changes in foreign trade prices show different pictures not only at the product level but also in a geographical context, which can be explained by the different denominations of exports and imports. Based on the terms of trade decomposed from a geographical point of view, it can be established that the terms of trade can be considered relatively stable within the EU, while a considerable deterioration is observed in the terms of trade vis-à-vis non-EU countries. The energy (crude oil, natural gas) imported to Hungary comes mainly from outside Europe, and thus – with a delay of a couple of months – the oil price increase seen in the first three quarters of 2018 boosted the prices of imports from outside Europe as well. With the appreciation of the US dollar it significantly worsened the terms of trade and the goods surplus for Hungary. Nevertheless, an oil price decline at end-2018 may result in a positive correction in the terms of trade as well.

Chart 25: Terms of trade within and outside the EU and changes in oil prices denominated in euro

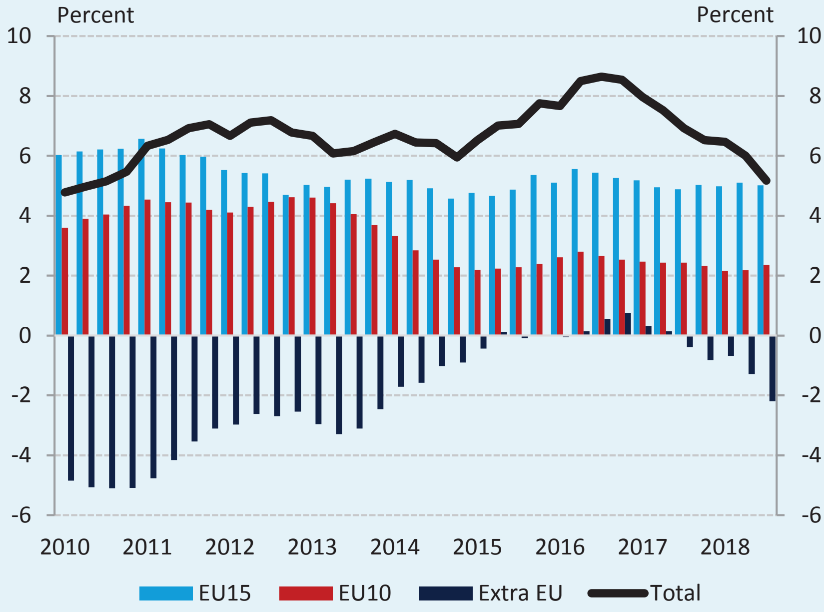


Note: The price per barrel of Brent crude oil is shown on an inverse scale. Sources: HCSO, MNB calculations.

5.2 Geographical breakdown of the goods balance

In a geographical breakdown, the change that has taken place in Hungary's goods balance in the past one year is mainly attributable to the decline in net exports to non-EU countries, with a major role played by increasing energy and fuel imports. Hungary's net exports to the European Union (the older 15 countries and the 10 that joined later) were stable in the past one year; the decline in the goods surplus is related to lower net exports to non-EU countries, and within that to Russia (Chart 26). This is in line with the deteriorating terms of trade and the increasing energy and fuel imports observed as a result of the oil price rise. At the same time, to a lesser degree, the decline in exports to non-EU countries also contributed to the change in the balance. The decline in the goods balance is explained by lower net exports to Russia in the case of Poland as well, the dynamics of which are similar to that of Hungary. By contrast, for the other countries in the region goods turnover with Russia has remained roughly stable. It should be pointed out that the surplus vis-à-vis Germany, which is of key importance in terms of exports, was stable in Hungary, the Czech Republic and Slovakia as well.

Chart 26: Developments in Hungary's balance of goods with the main groups of countries



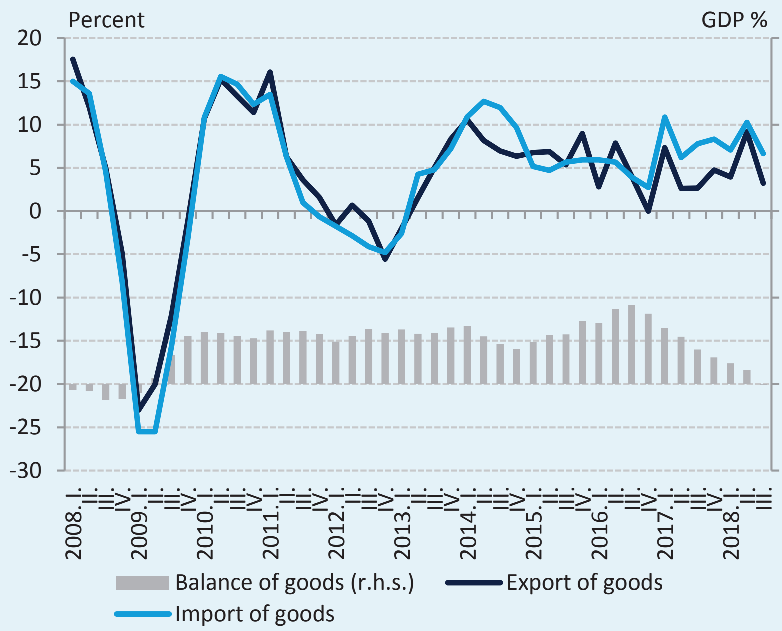
Source: HCSO.

5.3 Impact of exports and imports

The decline in the goods balance is attributable to the expansion in goods imports, which exceeds the growth in goods exports (Chart 27). **These developments are explained by effects stemming from the structure of economic growth (strong domestic demand) as well as by temporary factors (higher energy imports due to technical problems at the Paks nuclear power plant, drop in vehicle exports because of protracted EU regulatory procedure).** The growth rate of goods imports traditionally moves together with the dynamics of goods exports, which is attributable to the fact that – stemming from the positions in the global value chains – the import demand of the Hungarian export sector is high. Nevertheless, in parallel with a relatively stable expansion in goods exports as well, imports have increased considerably since 2016, which is related to the import demand of the strong domestic demand as well as temporary factors in 2018 Q3. One factor which may have contributed to the sudden end to the growth in goods exports and goods imports, which had accelerated until then, was that the European Union's regulation on emissions[3] caused significant delays for German and thus for Hungarian car manufacturers, which had an unfavourable impact on exports by hampering the performance of the domestic vehicle industry. In addition, some blocks of the Paks nuclear power plant were switched off due to the failure of certain mechanical equipment and technical problems arising as a result of the low water level of the Danube.

[3] The essence of the WLTP testing (Worldwide Harmonised Light Vehicle Test Procedure) and approval is that as of September 2018 only cars and motorcycles approved at a test in real traffic conditions are allowed to be registered in the EU. However, insufficient capacities of official measuring stations significantly delayed the registration of new models of several German car manufacturers. All of this has caused major delays in manufacturing and deliveries in the case of German and Hungarian car manufacturers.

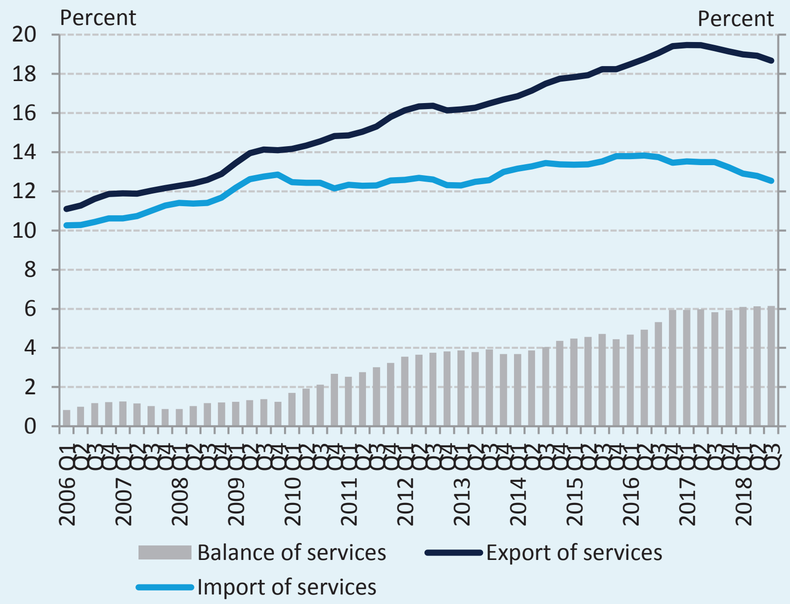
Chart 27: Real growth in goods exports and imports



Source: HCSO.

With growth in services exports exceeding growth in services imports, the surplus on the services balance even increased slightly in 2018, mitigating the impact of the declining goods balance (Chart 28). Before the crisis, in parallel with very similar growth in services exports and imports, the balance of services was between 1–1.5 percent of GDP. Following the crisis, services imports as a proportion of GDP were stagnant, while revenues continued to increase dynamically, resulting in a major rise in the surplus of services. Accordingly, the share of the services balance in the overall trade balance increased considerably. After the financial crisis, the increasingly wide-ranging appearance of services in global trade became a general phenomenon, and in addition to traditional services (tourism, toll manufacturing, transportation services), IT and other financial and business services also gained ground in international turnover. From 2017 H2 to 2018 Q3, the expansion in both services exports and services imports declined. At the same time, the decrease in the value of expenditure as a proportion of GDP exceeded that of the revenue, and thus the services surplus stabilised at a high level. As a result, the robust surplus on the services balance softened the impact of the declining goods balance until 2018 Q3.

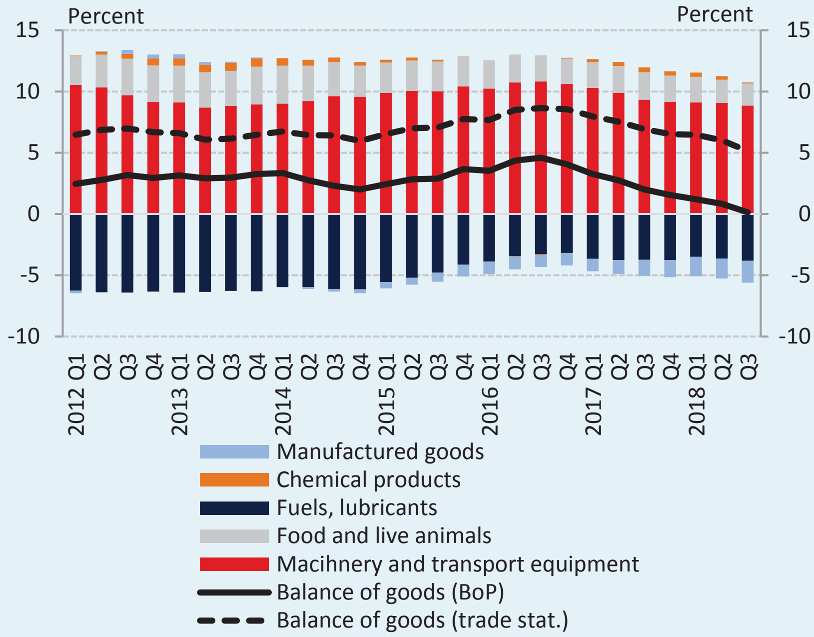
Chart 28: Developments in the balance of services (four-quarter values as a percentage of GDP)



5.4 Industry factors

Examining the decrease in the goods balance in the past period according to main sectoral groups, the fall can be ascribed to declines in the balance of energy and processed goods as well as imports of machinery. The goods surplus, which had been above 4 percent of GDP, gradually fell to close to zero from mid-2016 on, owing to decreases in several partial items (Chart 29). One determinant in the changes in the goods balance is the product group 'machinery and means of transport', which has the highest surplus, whereas the most significant item that reduces the balance is net imports of mineral fuels and lubricants. In parallel with the decline in the surplus as a percentage of GDP of machinery and means of transport, net imports of energy and processed goods also expanded.

Chart 29: Net foreign trade turnover by main product groups (four-quarter values as a percentage of GDP)



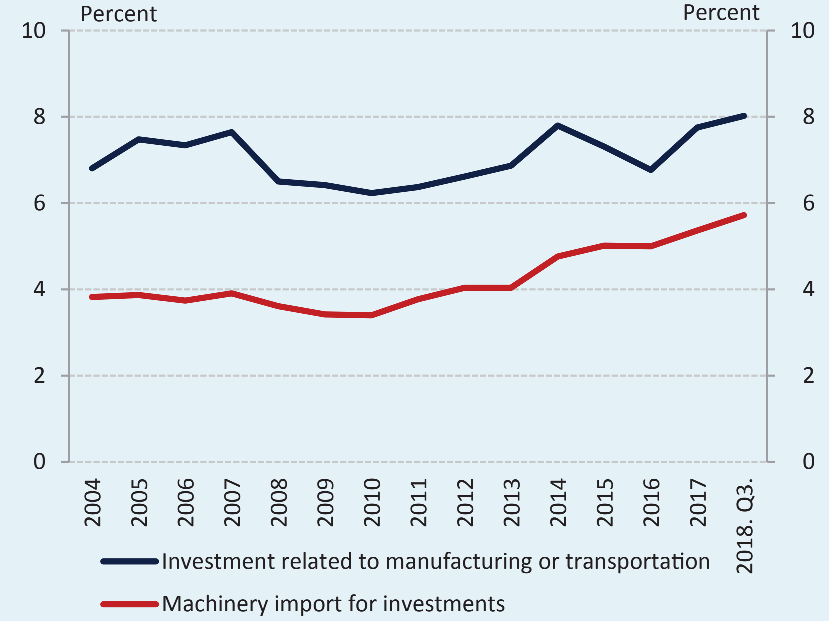
Note: The difference between trade in goods based on external trade statistics and the balance of payments depends on the different requirements of methodologies and the content of the data available. The trade in goods figures of the balance of payments are calculated using adjustment factors derived from the data of the external trade statistics.[4] At the same time, data from various sources have been similar in recent years, which makes them suitable for trend analysis.
Sources: HCSO and MNB.

The decline in the good surplus is attributable to the rise in global energy prices, as well as the raw material and machine demand of domestic investment and industrial production, and – to a lesser extent – to the expansion in consumption. The goods surplus has declined by HUF 900 billion since mid-2016, which is mostly due to certain partial items:

- Firstly, as a correction of the strong balance-improving effect from the previous period, the trade balance of crude oil and natural gas declined due to the rise in the price of oil.
- Secondly, the annual balance of electric machines and various metal raw materials (iron, steel, non-ferrous metals, other metals) has declined by more than HUF 520 billion since mid-2016, which is mostly related to the rise in imports. The increasing imports of these items are linked to domestic demand, and within that to the dynamic expansion in manufacturing investment and industrial production (Chart 30).
- Finally, the decline in net exports of machinery, which account for a major portion of the goods balance, is also related to the decline of HUF 230 billion in the surplus of road vehicles. This is attributable to the aforementioned manufacturing investment as well as to the increase in car purchases resulting from the significant expansion in households' income in the past years. In addition, the obtaining of permits related to motor vehicles' emissions temporarily reduced exports, moderating the balance of vehicles in Q3 (Chart 31).

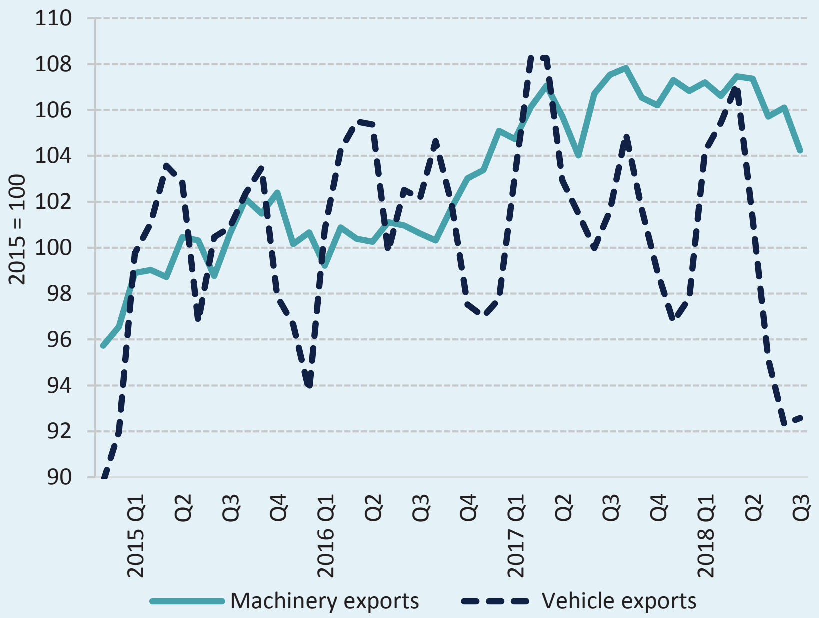
[4] For more details see the following publication (page 8): https://www.mnb.hu/letoltes/bop-meth-notes-bpm6-en.pdf

Chart 30: Developments in investment machinery imports* and manufacturing investment (as a percentage of GDP)



** The 2018 Q3 data is an estimate.*
Source: HCSO.

Chart 31: Manufacturing exports

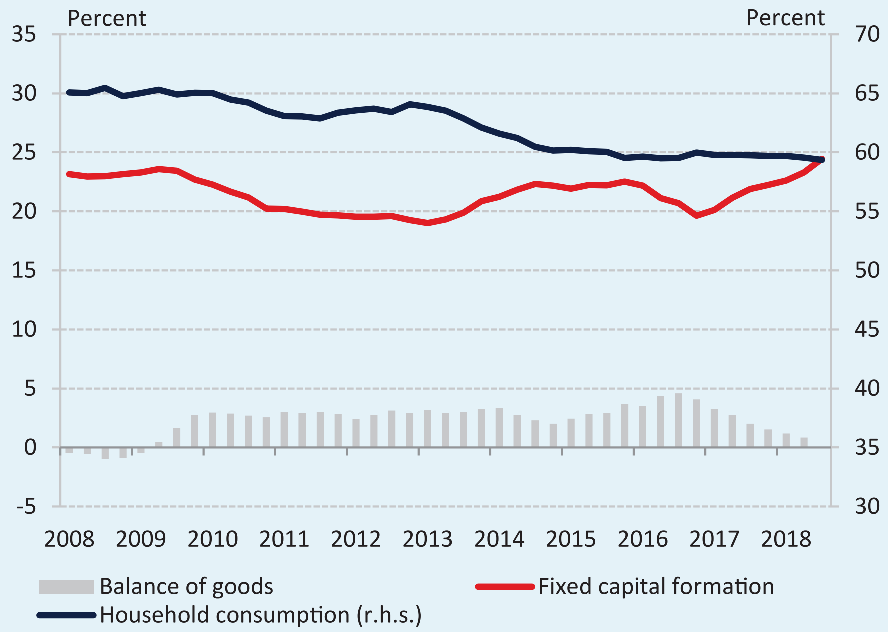


Source: HCSO.

5.5 Absorption-side factors

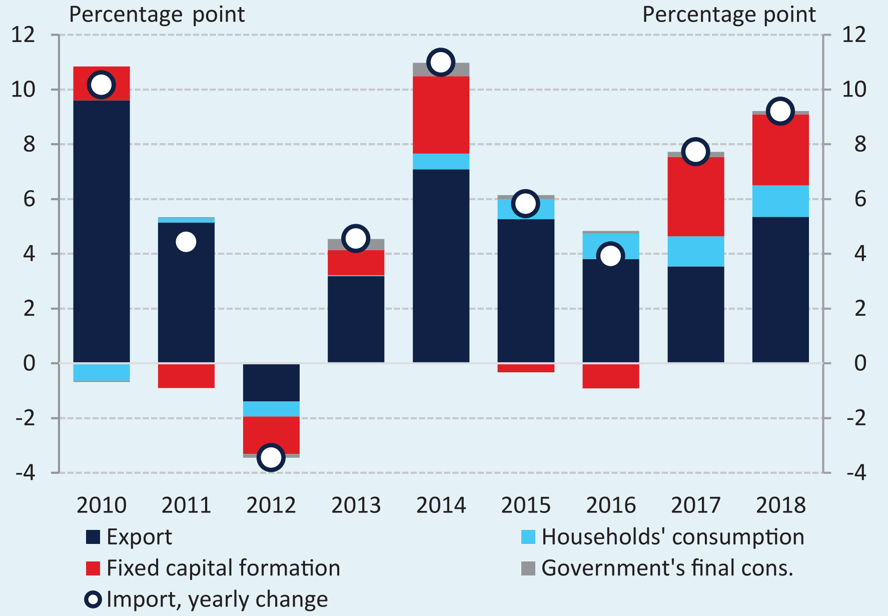
An examination of the absorption side of GDP also reveals that the developments in the goods balance are related to dynamically expanding investment, which is also corroborated by the contribution of the individual items of GDP to import growth. In terms of foreign trade developments, of the domestic absorption items, the significant ones are household consumption, due to its weight, and investment, due to its import demand. Starting from 2014, in parallel with the stabilisation of consumption as a proportion of GDP, changes in the goods balance were determined by the level of the investment-to-GDP ratio: starting from early 2017, the goods surplus also declined to a similar degree in connection with the import demand of investment growth, which was driven by EU disbursements and which increased the level as a proportion of GDP by 5 percentage points. In addition, it is also clearly evident that the major decline in the balance in 2018 Q3 was coupled with a major expansion in investment (Chart 32).[5] The import-increasing effect of the individual absorption items also corroborates this conclusion.[6] Taking into account the import demand of the individual absorption items, it is observed that on the whole even the increasingly significant rise in consumption from 2014 adds only some 1 percent to real import growth, and the increase in the degree of the contribution was very restrained (Chart 33). By contrast, developments in investment in 2016 (in the year when EU funding declined) even reduced the growth of imports, before contributing to the expansion in imports by nearly 3 percentage points from 2017.

Chart 32: Investment, consumption and goods balance (as a percentage of GDP)



Source: HCSO.

Chart 33: Contribution of absorption items to real import growth



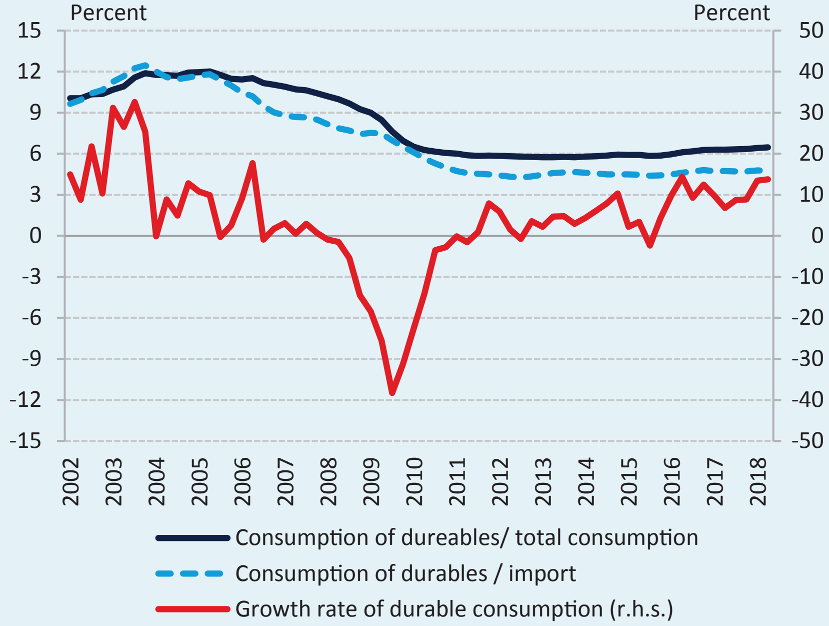
Source: HCSO, based on MNB calculations.

[5] Of course, the import requirement of investment is less than 100 percent, and thus the similar degree of decline may be attributable to other reasons as well (e.g. stockpiling or the purchasing of consumer durables of higher import demand), but the chart provides significant help in identifying the determinant of the decline in the balance.

[6] As in the case of exports, the import-increasing effect obviously only partly offsets the trade balance-improving effect of exports, and the decline in the balance is primarily attributable to the import-increasing effect of consumption or investment.

The ratio of the consumption of consumer durables, which have the highest import demand, to total consumption and to imports is rising only slightly and remains below the pre-crisis level. This indicates that the contribution of household consumption to the increase in the import of machinery is low. In the early 2000s in Hungary, in parallel with households' improving financial position, the consumption of durable goods[7] reached a very high level as a percentage of total consumption and imports (Chart 34). Following the fiscal tightening in 2006 and the outbreak of the crisis, the ratio of households' purchases of durable goods declined and stabilised at a relatively low level. In the past years, restored confidence, expanding employment and the significant real wage increase resulted in a rapid growth in households' durable goods purchases. Nevertheless, its effect was not reflected in an increase in the weight of consumer durables within consumption or imports. This is also partly attributable to the fact that the prices of durable products declined, and thus purchases of more durable goods entailed a less significant expansion in expenditures. Accordingly, the rise in purchases of consumer durables may play a restrained role in the changes in the goods balance.

Chart 34: Developments in the consumption of durables



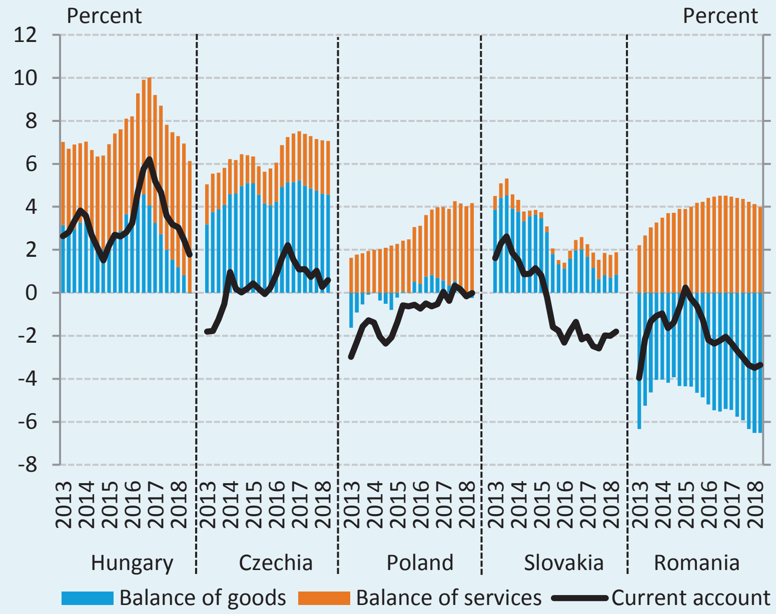
Source: HCSO

5.6 Regional comparison

In the past years, the goods balance declined in most of the countries of the region, but Hungary's current account surplus and trade surplus are still the highest in the region (Chart 35). Starting from end-2016, the trade balance declined in all of the countries of the region, which was attributable to the decrease in the balance of goods in all of them. The decline in the goods surplus was the strongest in Hungary, as a result of which the surplus on the goods and services balance fell from the historical high of 10 percent to close to 6 percent of GDP. In most of the countries, imports of goods – which rose in parallel with the growth in consumption and import-intensive investment – was the key contributor to the decline. In spite of the decline in the goods balance, Hungary's trade surplus is still considered high. This is due to the still outstanding surplus on the services balance, which plays a major role in the fact that the current account surplus of the country is still the highest among the Central East European countries.

[7] Durable products: primarily motor vehicle and vehicle parts, furniture and technical goods.

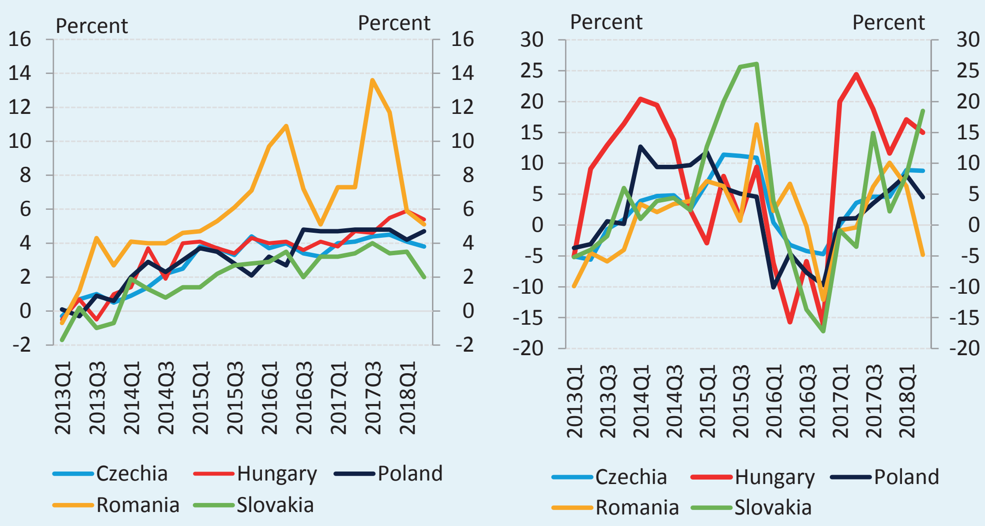
Chart 35: Developments in the balance of goods and services in the region



Source: Eurostat.

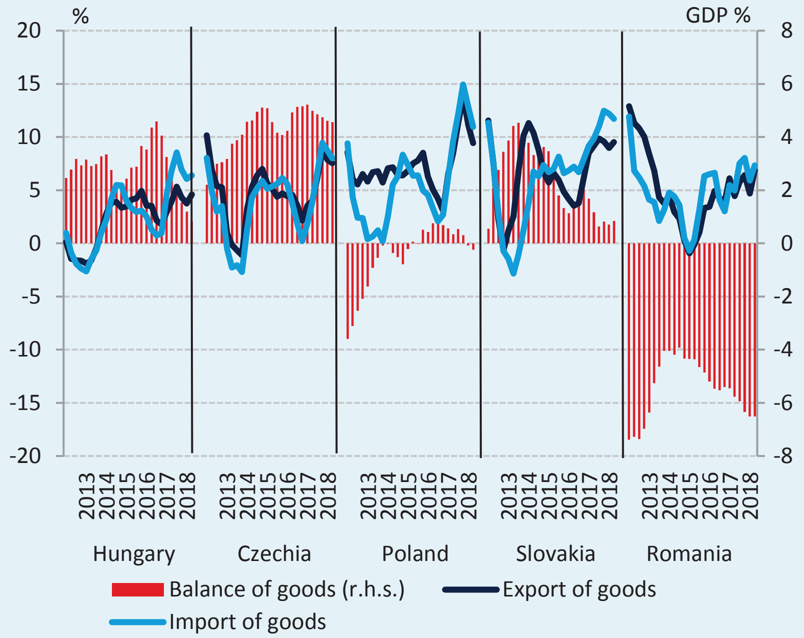
In Hungary, changes in the goods balance are primarily determined by the high import demand of the expansion in investment, which significantly exceeds the levels typical in the region, while the dynamics of consumption are in line with the regional trend (Chart 36). In the past years, investment in Hungary expanded rapidly, exceeding the rates observed in the region. Firstly, a key role was played in this by large companies from the private sector (e.g. Mercedes, MOL), and secondly, the fixed capital formation of the public sector also increased considerably, mainly as a result of the inflow of EU funds. The dynamic investment growth – and within that mainly the private sector's capacity expansions in the vehicle and machine industries – entails significant import demand, which has played a major role in the decline in the goods balance. Looking ahead, following the completion and commissioning of the new projects, their impact on the goods balance will reverse: import demand will decline, while goods exports will expand with the launch of production. Meanwhile, consumption dynamics in Hungary are in line with the regional trend. In terms of consumption, outstanding expansion is seen in Romania, while in that country the increase in investment corresponds to the regional average. Accordingly, in the case of Romania the negative goods balance and its rapid deterioration are presumably mostly attributable to excessive consumption, which may also indicate imbalances that carry sustainability risks.

Chart 36: Real growth in consumption (left panel) and investment (right panel) in the countries of the region



In the countries of the region, the growth in imports in excess of exports, was related to the volume increase linked to the pick-up in domestic demand and to the deterioration in the terms of trade. In 2018, declines in the goods balance were seen in most of the regional countries, because – in line with the above – the expansion in imports exceeded the growth in exports (Chart 37), as a result of the strong domestic demand. In addition, through the worsening of the terms of trade, the rise in energy prices observed until 2018 Q3 caused an increase in goods imports (and within that in imports of fuels) in the countries of the region, with this effect felt most strongly in Hungary. Another general phenomenon in the region was the expansion in the imports of processed products. The imports of chemical industry products expanded to a greater extent in Hungary than in the countries of the region, while the rise in machine imports was much higher in the other countries than in Hungary, which is in line with the slowdown in Hungary's vehicle manufacturing due to temporary factors in Q3.

Chart 37: Growth rate of goods exports and imports in euro and the goods balance as a percentage of GDP



Source: Eurostat.

List of charts and tables

Chart 1: Developments in components of net lending* (four-quarter values as a percentage of GDP) 7
Chart 2: Developments in the balance of trade and its components (four-quarter values as a percentage of GDP) 8
Chart 3: Annual real growth in exports and imports 8
Chart 4: Development in the balance of trade factors according to GDP (year-on-year) 9
Chart 5: Annual growth rate of domestic absorption and contribution of net exports to GDP growth 9
Chart 6: Developments in the items of the income balance* (four-quarter values as a percentage of GDP) 10
Chart 7: Four-quarter developments in the items of the transfer balance (four-quarter values as a percentage of GDP) 11
Chart 8: Four-quarter net lending of the countries of the region (as a percentage of GDP) 11
Chart 9: Two types of net lending and 'Net errors and omissions' (four-quarter values as a percentage of GDP) 12
Chart 10: Structure of external financing (unadjusted transactions) 13
Chart 11: Developments in FDI without capital-in-transit transactions (cumulative transactions) 14
Chart 12: Developments in net debt-type financing by sector 14
Chart 13: Developments in the banking sector's external debt and receivables(cumulative transactions) 15
Chart 14: Breakdown of the changes in the net external debt of the consolidated general government including the MNB (cumulative transactions) 16
Chart 15: Components of changes in the next external debt (cumulative values excluding intercompany loans, as a percentage of GDP, end-2007 = 0) 17
Chart 16: Net external debt in a breakdown by sector and gross external debt (as a percentage of GDP, excluding intercompany loans) 18
Chart 17: Developments in the banking sector's external assets and liabilities (as a percentage of GDP) 19
Chart 18: Developments in gross short-term external debt based on residual maturity 19
Chart 19: Short-term external debt and FX reserves of the Hungarian economy 20
Chart 20: Net lending of individual sectors* (four-quarter values as a percentage of GDP) 21
Chart 21: Net lending of households (seasonally adjusted revised* values, as a percentage of GDP) 22
Chart 22: Developments in households' key financial assets (cumulative transactions) 22
Chart 23: Developments in the balance of trade components (as a percentage of GDP)* 24
Chart 24: Impact of the change in the terms of trade and in volumes on the trade balance (four-quarter balance) 25
Chart 25: Terms of trade within and outside the EU and changes in oil prices denominated in euro 25
Chart 26: Developments in Hungary's balance of goods with the main groups of countries 26
Chart 27: Real growth in goods exports and imports 27
Chart 28: Developments in the balance of services (four-quarter values as a percentage of GDP) 27
Chart 29: Net foreign trade turnover by main product groups (four-quarter values as a percentage of GDP) 28
Chart 30: Developments in investment machinery imports* and manufacturing investment (as a percentage of GDP) .. 29
Chart 31: Manufacturing exports 29
Chart 32: Investment, consumption and goods balance (as a percentage of GDP) 30
Chart 33: Contribution of absorption items to real import growth 30
Chart 34: Developments in the consumption of durables 31
Chart 35: Developments in the balance of goods and services in the region 32
Chart 36: Real growth in consumption (left panel) and investment (right panel) in the countries of the region 33
Chart 37: Growth rate of goods exports and imports in euro and the goods balance as a percentage of GDP 33

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.

REPORT ON THE BALANCE OF PAYMENTS

January 2019

Print: Pauker–Prospektus–SPL consortium

H-8200 Veszprém, Tartu u. 6.

mnb.hu

H-1054 BUDAPEST, SZABADSÁG SQUARE 9.