

Short note – Macro/Fixed Income Research – Sept 30.

Hungary: C/A balance 2Q09

C/A balance showed a surplus of EUR 476mn in 2Q09

The C/A balance showed a surplus of EUR 476mn in 2Q09, showing even bigger than expected adjustment in the country's economic balance situation. We had expected a deficit of EUR 350mn for 2Q09. Please note that Hungary hasn't had a surplus in the current account since Q3-Q4 1995. The 1Q C/A deficit was revised slightly downwards (from EUR 591mn to EUR 562mn). In addition, mainly based on some methodological changes, the FY2008 C/A deficit was also modified. Instead of the earlier published EUR 8.9bn, the FY2008 C/A deficit amounted to "just" EUR 7.591bn.

The spectacular improvement in the second quarter was on the one hand due to the trade balance. The surplus on the trade balance amounted to EUR 1.398bn in April-June, after EUR 717mn published for the first quarter. Thus, the four quarter rolling trade surplus reached EUR 1.95bn (2% of GDP) by the end of June. The services surplus was EUR 417mn, also higher than expected. The deficit on incomes - which is traditionally high in Hungary - amounted to EUR 1.469bn, showing an improvement of EUR 429mn y/y in 2Q. The reason was (on one hand) lower profit repatriation among multinational firms - as their overall profit may have been lower, due to the ongoing recession. On the other hand, lower interest payments also improved the income balance.

The surplus on the capital balance - which includes the inflow of EU funds - was EUR 415mn in 2Q09. (As for the inflow of EU funds, the NBH has shifted to accruals-based accounting from the earlier cash-flow based method). Thus, the country's financing ability in the period was positive, amounting to EUR 891mn. This also means that Hungary was not reliant on external financing in the period (apart from the refinancing of the existing debt, of course).

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