REPORT ON THE BALANCE OF PAYMENTS

2022

APRIL

'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 re-sponsible 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 Hun-gary'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 develop-ments in the balance of payments by way of this regular analysis, and thus provide deeper insight into the work-ings of the economy.

The analysis was prepared by the Directorate Monetary Policy and Financial Market Analysis, Directorate for Fiscal and Competitiveness Analysis and Directorate Monetary Policy Instruments, Foreign Exchange Reserves and Risk Management. Contributors: Judith Balázs, Anna Boldizsár, Csaba Csávás, Péter Koroknai, Balázs Sisak, Daniella Tóth and Noémi Végh. The Report was approved for publication by Barnabás Virág, Deputy Governor.

The Report is based on information pertaining to the period ending 23 March 2022.

Summary

Developments in the external balance indicators of the Hungarian economy were characterised by a dichotomy in 2021. In the first half of the year, the current account rose to near equilibrium, while net lending was around 2 percent of GDP. In the latter half of the year, this was followed by an increase in the current account deficit to 3.1 percent of GDP, with net lending turning into moderate net borrowing.

Changes in external balance indicators were primarily determined by the developments in the trade balance: in the first half, with the gradual easing of restrictions, the services sector started to pick up, and the recovery of the economy continued, resulting in a major improvement in the trade balance. In the latter half, however, external balance indicators declined, due to the global semiconductor shortage, high raw material and energy prices and a deterioration in external demand. Nevertheless, these developments are expected to trigger only temporary worsening. At the same time, the modest rise in the income balance deficit, which is related to a decline in the income of those employed abroad, also contributed to the deterioration in net lending. The absorption of EU transfers, which was higher than in the previous year, mitigated the impact of the unfavourable changes in the trade balance.

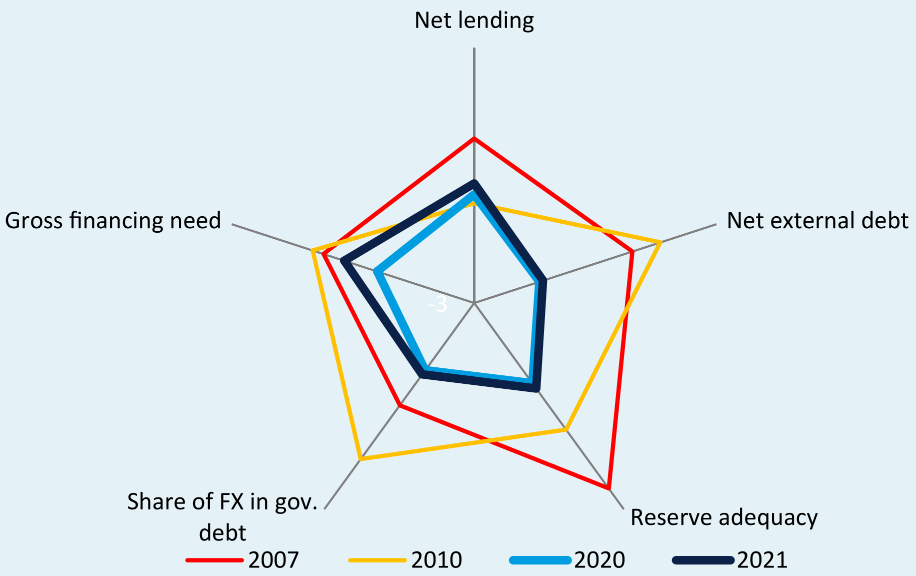
Net FDI inflows continued in 2021 as well, as a result of strong increases in foreigners' investments in Hungary and Hungarian investments abroad. Domestic actors' purchases of foreign equities and mutual fund shares continued to rise during the year, while non-residents reduced their portfolio equity investments. At an annual level, net debt liabilities increased, with the general government as the main contributor, which was attributable – inter alia – to expenditures related to the pandemic and defence industry development projects, the foreign exchange reserve-reducing effect of central bank swap instruments as well as the issuance of the central bank discount bond. At the same time, the latter two central bank measures contributed to a large decline in banks' net external debt.

Hungary's net external debt shrank in 2021, and at the end of the year the next external debt ratio stood at 7.3 percent, i.e. close to the historical low. Following a decline in the first half, the net external debt of the government increased, mainly as a result of the central bank swap instruments and the discount bond issuance. At the same time, these instruments contributed to a decrease in banks' net debt indicator. The private sector's net external debt was negative at end-2021 as well, i.e. banks' and companies' receivables from the rest of the world exceeded their external debt. Hungary's gross external debt rose to 59.7 percent of GDP, in which the issuance of foreign currency bonds by the government, the central bank's discount bond issuance and the financing of its swap instrument also played a role, the impact of which was attenuated by a decline in non-residents' government securities holdings. In parallel with the short-term external debt, which is crucial in terms of Hungary's external vulnerability, foreign exchange reserves also increased, and thus reserves continue to significantly exceed the level expected by investors, by EUR 11.7 billion.

The declining general government deficit in 2021 did not offset the fall in corporations' financial savings, the latter due to inventory accumulation as well, as a result of the shortage of semiconductors. In parallel with the decline in the budget deficit that is supported by the positive effect of the resurgent economic growth on tax revenues, and partly in relation to the high GDP growth, the government debt-to-GDP ratio decreased, and the foreign share continued to fall within that. The latter process was mainly attributable to the steadily robust household demand for government securities, which also provided stable financing for the general government during the crisis and reduced its vulnerability.

In terms of the most important indicators, Hungary's external balance position remained stable in 2021 according to four indicators, while according to one indicator it deteriorated slightly compared to the previous year (Chart 1). The external balance position, which was significantly better than in the year preceding the 2008 crisis, also means that the Hungarian economy was in a much more favourable position when it faced a more uncertain economic environment due to the pandemic and the war between Russia and Ukraine. Against the background of low external debt ratios on par with the regional level and lower exchange rate risk, reserve adequacy remains very high and is thus much more favourable than prior to the outbreak of the 2008 crisis, which also mitigates the risk of a rise in short-term external debt, which is behind the higher gross net borrowing. Share of foreign currency within government debt is still low. Households continued to play an important role in financing government debt, and households also boosted their financial savings and government securities holdings last year again.

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. In 2021, Hungary's net lending was below the levels seen in the Czech Republic and Poland, but exceeded that of Romania. Developments in the countries' external balance positions were determined by the changes in the goods balance, which were strongly impacted by the lockdowns and easing related to the coronavirus pandemic in H1 and also by the global shortage of semiconductors, the deterioration in the terms of trade in view of the high commodity and energy prices as well as the fall in external demand due to these factors in H2. At the same time, services balance surpluses and the transfer balance in the entire region continued to significantly contribute to the reduction of the negative effects stemming from the goods balances. In 2021, the income balance deficit typically increased in the countries of the region, which was attributable to a decline in employee compensation and developments in corporate profit balances. Domestic absorption generally rose in the region, as a result of a pick-up in investment activity and consumption. The private sector's net financial savings declined in parallel with economic reopening, while the government's net borrowing fell following a surge in the previous year. Partly as a result of nominal GDP expansion, net external debt indicators continued to decline in the region in 2021 as well. Hungary's net external liabilities and debt excluding intercompany loans correspond to the level observed in the other countries.

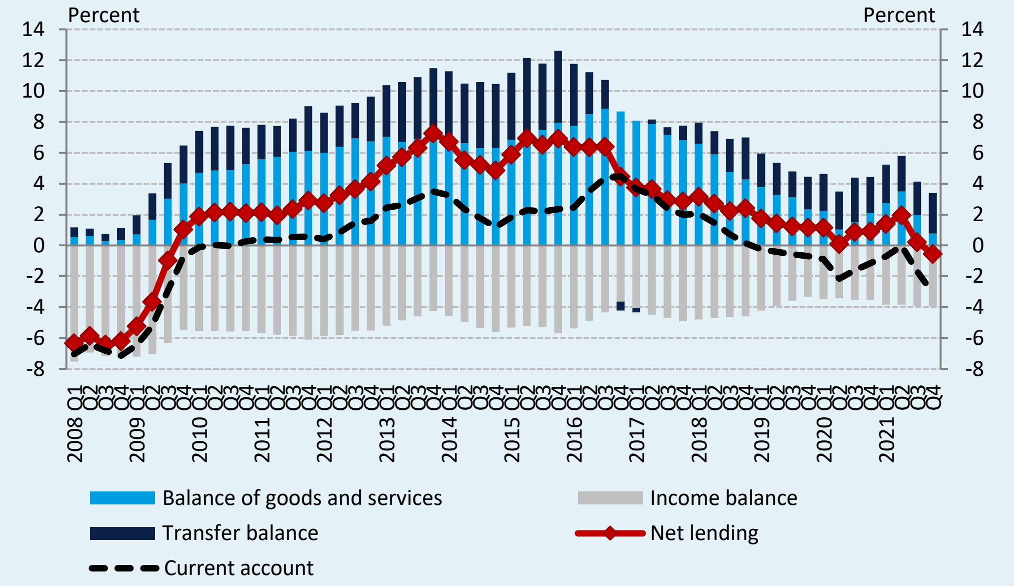
Content

1 Real economy approach

The external balance indicators of the Hungarian economy improved in the first half of the year, before deteriorating significantly in the second half. As a result, the current account reflected a large deficit for the year as a whole, whereas the net lending of nearly 2 percent that was typical in the middle of the year already turned into net borrowing by end-2021. Changes in the external balance indicators were primarily driven by developments in the trade balance: in the first half, with the gradual easing of restrictions, the services sector started to pick up, and the recovery of the economy continued, resulting in a strong improvement in the trade balance. In the latter half, however, external balance indicators deteriorated considerably in view of the global shortage of semiconductors, high raw material and energy prices, and weakening external demand. At the same time, the moderate rise in the income balance deficit, which was related to a decline in employee compensation, also contributed to the deterioration in net lending. The absorption of EU transfers, which was higher than in the previous year, partly offset the impact of unfavourable changes in the trade balance.

According to the real economy approach, the economy's external balance indicators improved considerably in 2021 H1, before declining in the second half to lower levels versus the end of the previous year. Accordingly, the current account showed a deficit of 3.1 percent for 2021 as a whole, while external net borrowing amounted to 0.6 percent of GDP (Chart 2). According to seasonally unadjusted figures, net lending in Q4 amounted to EUR 574 million, as the result of a deficit of EUR 2,452 million on the current account and a surplus of EUR 1,878 million on the capital account. Four-quarter data reveal that the services sector started to pick up in H1, in spite of the effects of the pandemic, and – with the continued recovery of the economy – Hungary's net lending reached 1.9 percent of GDP in Q2. In H2, however, net lending turned into net borrowing due to the global shortage of semiconductors, high raw material and energy prices, and a deterioration in external demand. Changes in the external position were primarily determined by the developments in the balance of goods and services as well as the level of the income balance, which contributed to worsening external net borrowing during the whole year. The transfer balance improved the external balance position during the year, typically by almost 2.6 percent of GDP. On the whole, the result of these developments was that the improvement in the four-quarter current account-to-GDP ratio in H1 turned into deterioration in H2, and thus the current account deficit amounted to 3.1 percent of GDP at the end of the year.

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

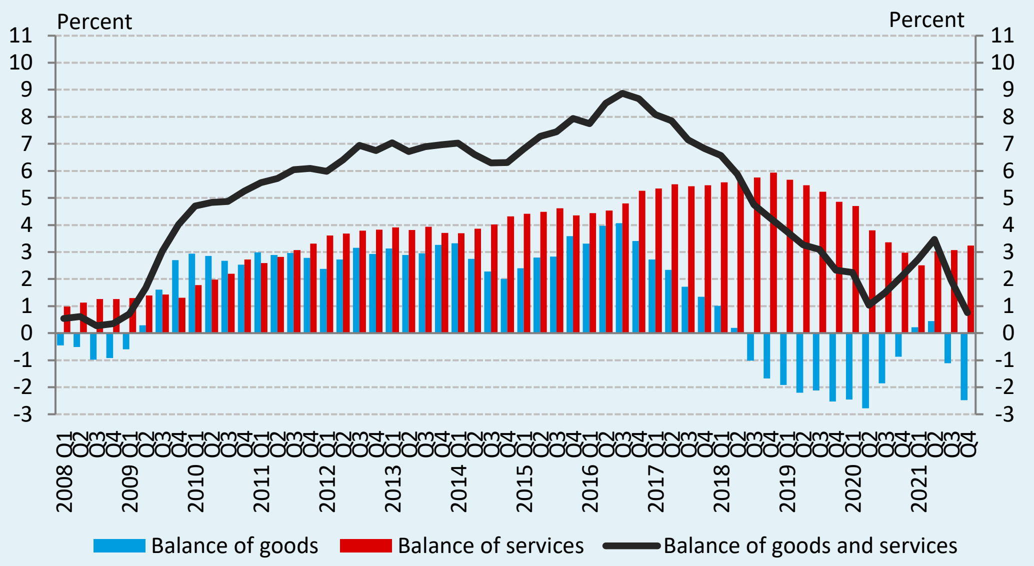


Source: Unless otherwise indicated, the source of the charts is the MNB.

1.1 Trade balance

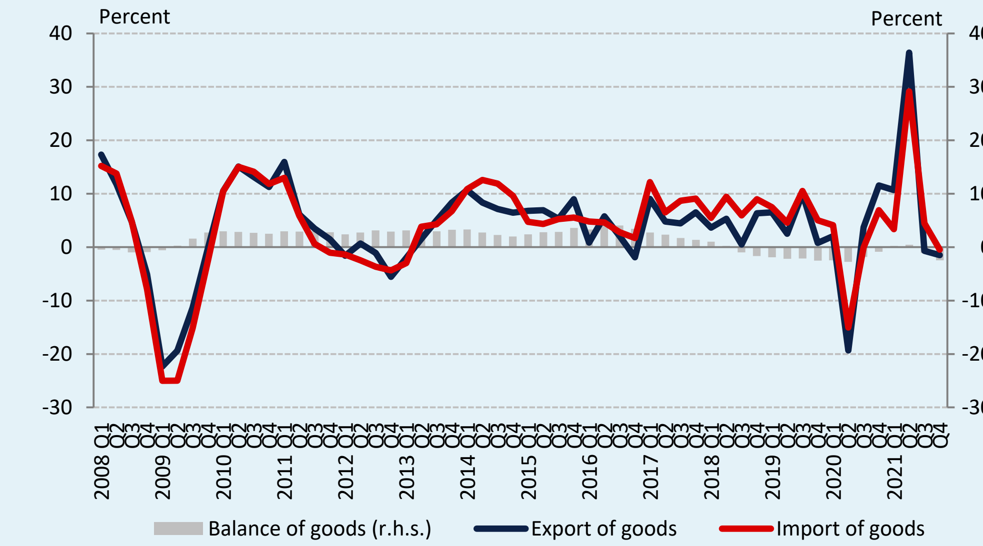
In 2021 Q4, the trade surplus amounted to 0.8 percent of GDP, with a rise in the services surplus and a significant increase in the goods deficit during the year (Chart 3). The trade balance was shaped by contrasting effects in 2021. While in H1 the goods balance turned into surplus after the negative balance of the previous two years, in H2 it deteriorated significantly again due to the global shortage of semiconductors, disruptions in supply chains, the sudden rise in commodity and energy prices, and weaker external demand. At the same time, the gradual deterioration in the services balance observed since 2019 came to an end in early 2021 and a slight improvement was already seen starting from Q2. Accordingly, the four-quarter services balance surplus advanced to 3.2 percent by the end of the year. Nevertheless, the improvement in the services balance was not able to offset the deterioration in the trade balance, and thus the latter – which had been improving in spite of the coronavirus pandemic – started to deteriorate in 2021 H2, sinking to a low level typical of the time of the first wave of the pandemic (2020 Q2).

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



In 2021 Q2, growth rates for exports and imports of goods surged considerably due to base effects, but in H2 imports of goods expanded faster than exports, leading to a worsening goods balance (Chart 4). Starting from end-2016, along with exports, the 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. In line with the large fall from one year earlier and the continued expansion in industrial production, year-on-year real growth in exports amounted to 24 percent in 2021 H1, significantly exceeding the rate of the same period of the previous year. In 2021 H2, as a result of the global shortage of semiconductors, disruptions in supply chains, the surge in commodity and energy prices, the deteriorating external demand and the higher base, year-on-year real growth in exports already turned negative, declining considerably compared to the extremely high level of H1. Real growth in imports also fell, but was still higher than export growth, and as a result, the difference between the increases in the two indicators reversed, indicating higher dynamics for imports again: this contributed to the changes in the goods balance, which worsened in H2 again.

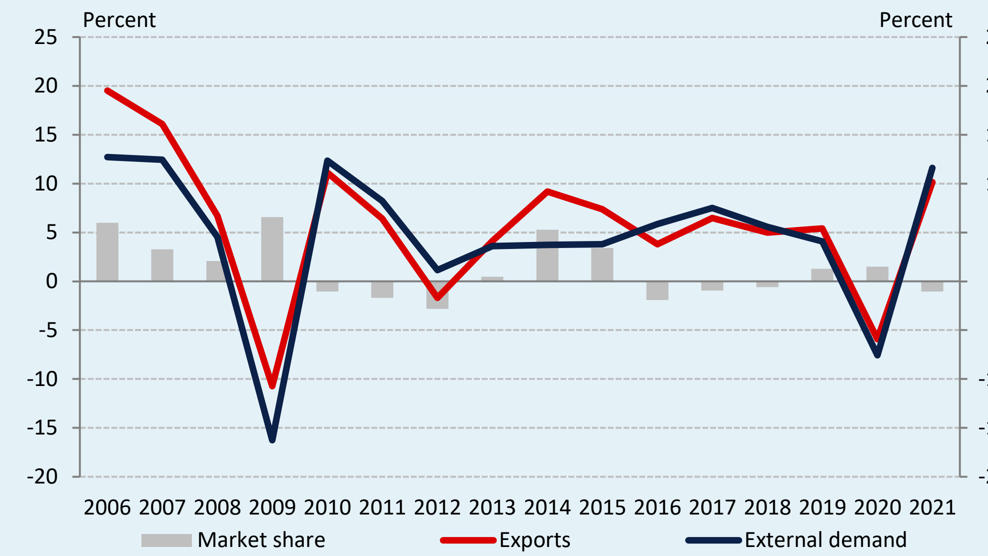
Chart 4: Annual volume growth in exports and imports of goods and the four-quarter balance of goods relative to GDP



Source: HCSO, MNB.

Despite the new waves of the coronavirus pandemic, economic recovery continued, and Hungarian companies' exports already grew significantly in 2021 (Chart 5). In 2021 H1, strong external demand contributed to the continued economic recovery from the pandemic, while prospects for export of goods improved as a result of the rebound, which was robust in view of the base effect as well. Following that, however, Hungarian companies' foreign trade opportunities in H2 were already negatively affected by the global shortage of semiconductors, disruptions in supply chains, the high commodity and energy prices as well as the weaker external demand. On the whole, despite the rise in exports, the Hungarian economy's export market share declined moderately last year.

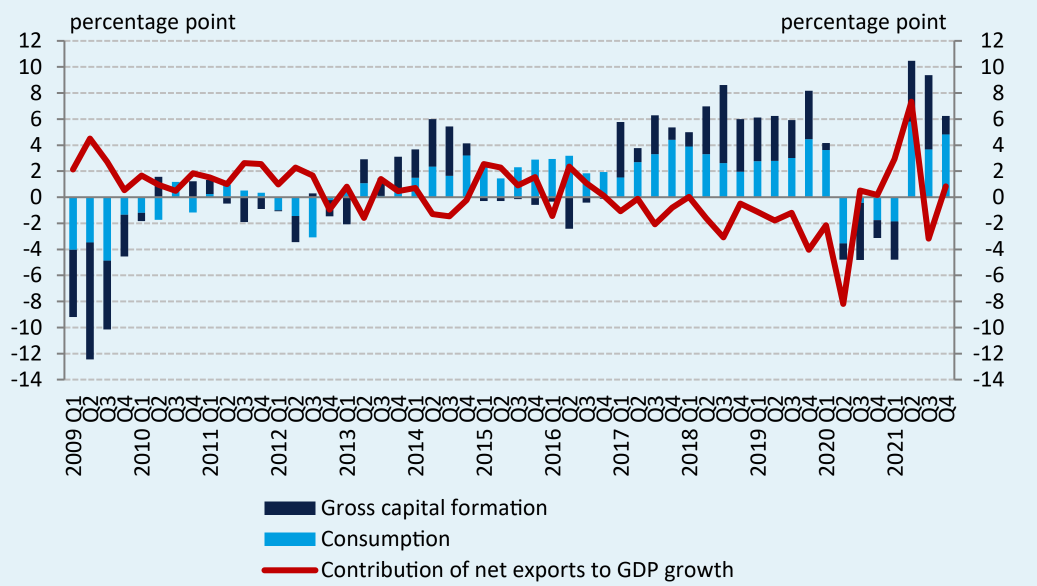
Chart 5: Real growth in exports and external demand* and developments in Hungary's export market share



**Weighted by export markets..*

In view of the improving economic situation and the base effect, domestic absorption items showed dynamic growth from 2021 Q2, while the contribution of net exports to GDP was also positive (Chart 6). The sharp increase in domestic absorption was strongly supported by all three factors. With the gradual lifting of the containment measures and restrictions, household consumption grew considerably during the year. The expansion in actual final government consumption raised domestic absorption to a degree typical of the previous years, while investment also expanded significantly year on year. Due to the factors detailed above, the contribution of net exports to growth became negative in H2, after a significant contribution at the beginning of the year.

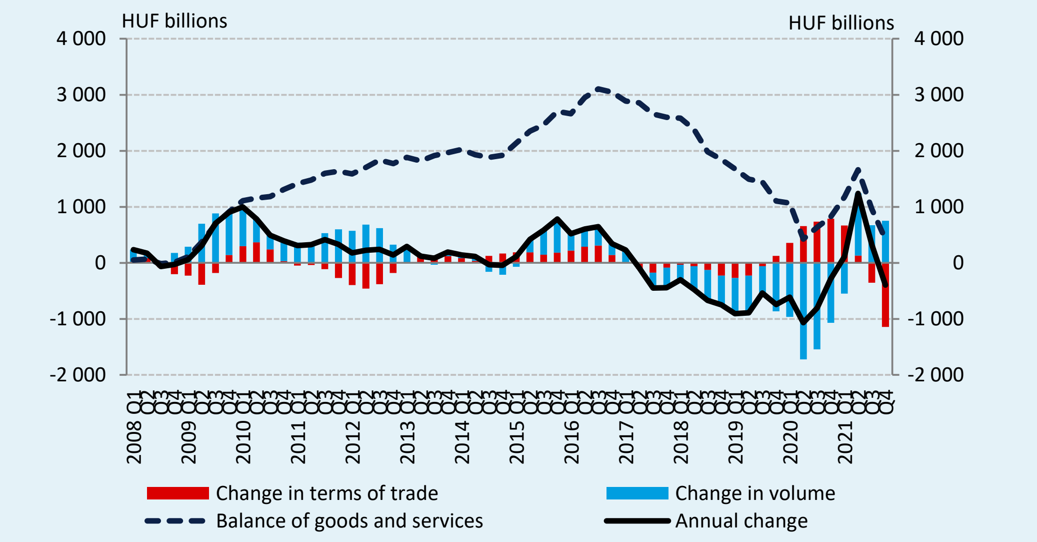
Chart 6: Main domestic absorption items and the contribution of net exports to GDP growth



Source: HCSO.

Following a rise in the spring, the trade balance gradually started to decline, which was increasingly related to the deterioration in the terms of trade (Chart 7). In 2021 H1, the contribution of the terms of trade to the increase in the trade balance was still positive, and developments in the volume of net exports also pointed to a rise in the balance. In H2, however, the deterioration in the terms of trade due to rising oil and commodity prices had an increasingly negative impact on the trade balance.

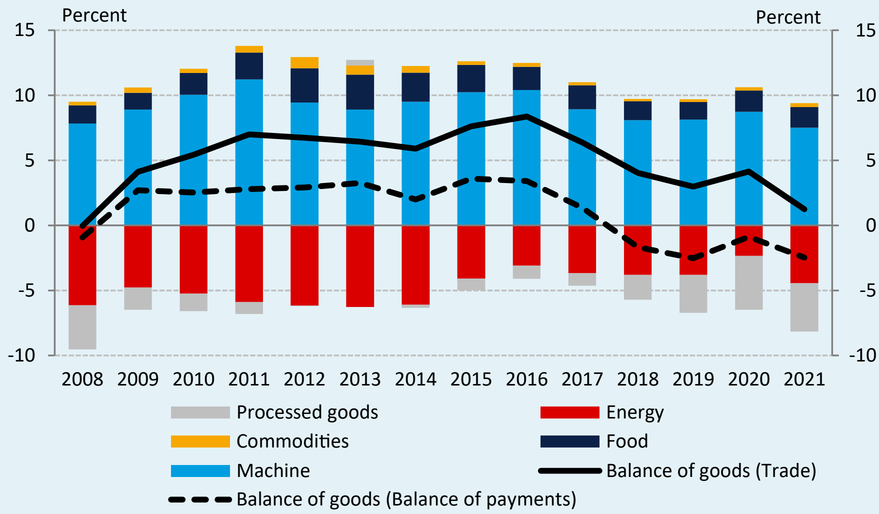
Chart 7: Development of trade balance factors according to GDP (year-on-year)



Source: HCSO.

The fall in the goods balance in 2021 amounted to 1.6 percentage points of GDP; this was primarily attributable to a rise in net imports of energy and a decline in net machine exports (Chart 8). Presumably in relation to the lockdowns due to the pandemic, net imports of energy ebbed considerably in 2020. In relation to the global market situation that evolved due to the lifting of the lockdowns in mid-2021 and the drastic rise in commodity and energy prices in H2, the trade balance turned out to be much lower than in the previous year. In addition, as a result of the global shortage of semiconductors and slacker external demand due to supply chain disruptions, a decline of 1.2 percentage point was observed in the volume of net machine exports compared to the previous year.

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



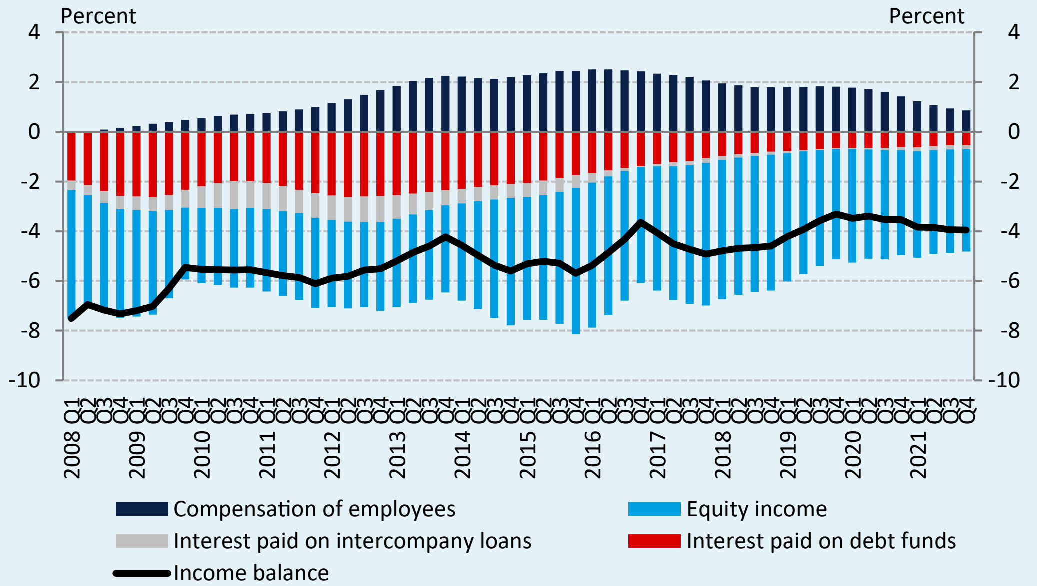
Note: The difference between trade in goods according to the trade balance and the balance of payments depends on the different requirements of the methodologies and the content of data sources. We obtain the trade in goods figures of the balance of payments by means of adjustment factors derived from 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

The income balance deficit as a percentage of GDP increased further to 4.0 percent in 2021, mainly due to the fall in compensation of employees (Chart 9). Foreign-owned companies' profits[1] account for most of the income balance. Their value as a percentage of GDP remained practically unchanged during the year, and thus amounted to 4.1 percent of GDP by the last quarter of 2021 (it is important to emphasise that the balance of payments reflects the profit/loss according to COPC and not the accounting income; for more details see the October 2021 Report). At the same time, in relation to the impact of the pandemic, the earned income of those working temporarily abroad declined steadily during 2020 and 2021. Since many employees lost their jobs abroad or were on compulsory leave due to the pandemic, in the last quarter of 2021 their earned income amounted to only 0.9 percent of GDP, falling nearly 1 percentage point short of the end-2019 (pre-pandemic) value. Net interests on loans to and from the rest of the world declined slightly further compared to 2020, decelerating the increase in the income balance deficit to some extent.

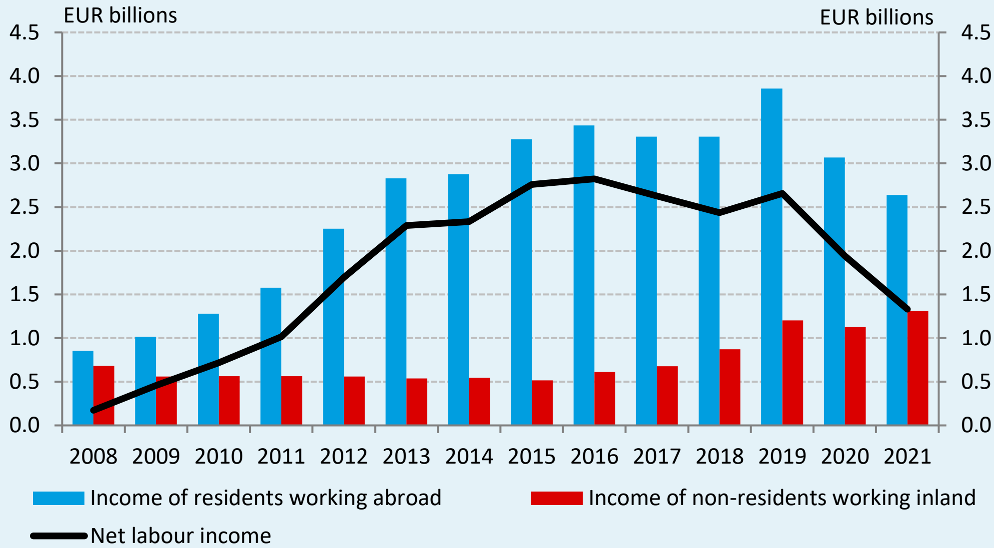
[1] We only have limited quarterly data concerning the profits of foreign-owned companies. Therefore, the information on profit outflows is based on estimates. For more details, see the publication 'Methodological notes to the balance of payments and international investment position'.

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



As in 2020, partly in relation to the pandemic, the balance of the incomes of those working abroad declined further in 2021, but the growth in the income of foreigners working in Hungary also contributed to the worsening in the indicator (Chart 10). In 2008-2015, the compensation of employees working temporarily abroad rose dynamically, which helped to improve the income balance. This trend reversed from 2016, and the balance started to decline slightly, which is attributable 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 moderately rose temporarily, but in 2020 – as a result of the coronavirus pandemic – the compensation of those employed abroad dropped significantly, which continued in 2021. Last year, however, the rise in the income of foreigners working in Hungary for less than a year also contributed to the decline in the balance of employee compensation, and thus the value of the indicator sank to nearly its 2011 level.

Chart 10: Compensation of employees working abroad temporarily

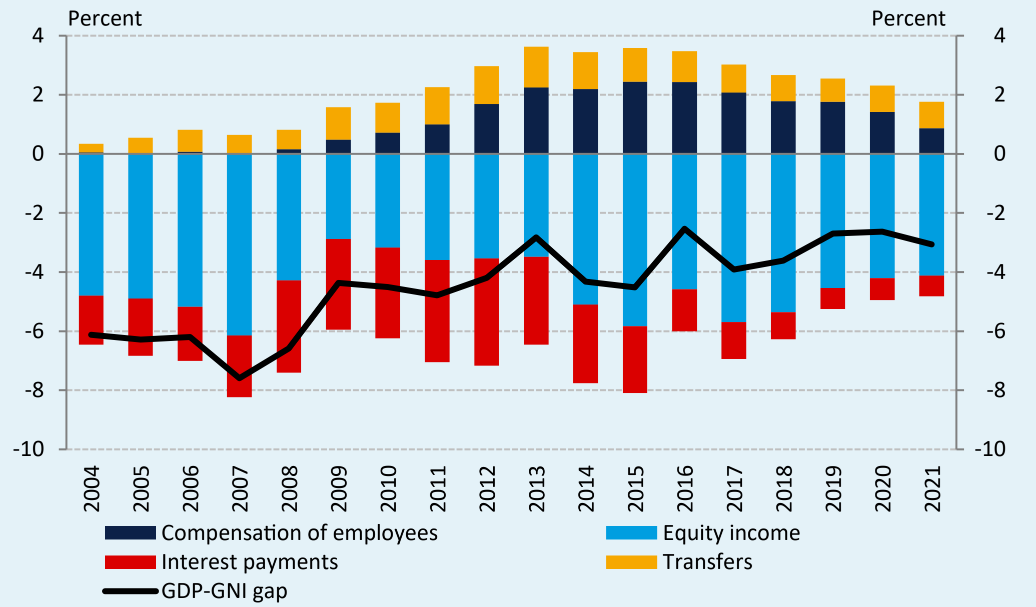


Source: HCSO, MNB.

Box 1: GDP-GNI gap

The GDP-GNI gap may have increased slightly in 2021, as a result of which the disposable income of domestic sectors fell some 3 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 large drop in the 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. The gap fluctuated around 4 percent of GDP until 2018, before narrowing significantly in 2019. Contrary to the expectations due to the effects of the pandemic, the gap did not become smaller in 2020, which may have been followed by a slight increase in the gap in 2021 (see the note under the chart). It is attributable to the fact that, in contrast to expectations, the coronavirus pandemic did not reduce the profits of foreign-owned companies operating in Hungary, and thus corporate profitability also did not deteriorate significantly in relation to the pandemic. In the past two years, it was primarily the decline in the employee compensation balance that pointed to an increase in the GDP-GNI gap: the drop in the income of Hungarian employees working abroad in the past years was accelerated by the pandemic, and in 2021 this effect was intensified by the rise in the income of foreigners working in Hungary for less than one year.

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

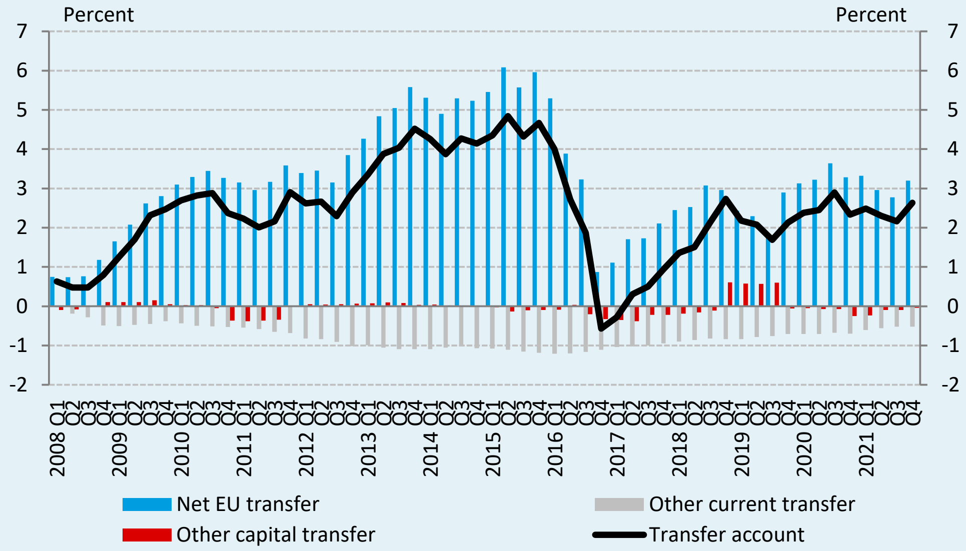


Note: At present, no official GNI data (published by the HCSO) are available for 2021. The data are based on the primary income of the balance of payments data release (excluding SPEs,containing an estimate for the profit of foreign-owned companies for the time being).

1.3 Transfer balance

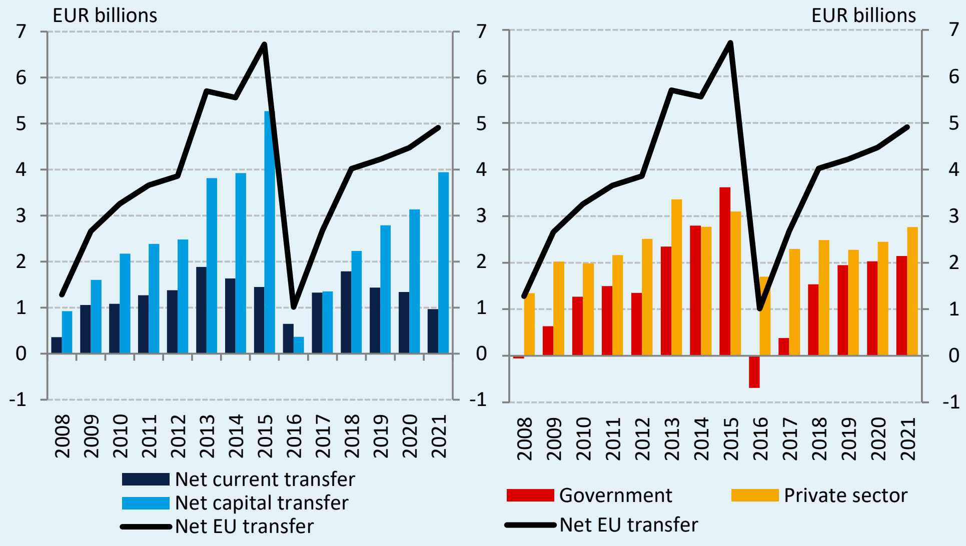
The transfer balance surplus rose to 2.6 percent of GDP by end-2021, and the impact of the high absorption of EU transfers throughout the year was increased by the gradual decline in other current and capital transfer expenditures as a percentage of GDP during the year (Chart 12). In 2019, a temporary downturn was observed in the four-quarter absorption of EU funds, but then the absorption of net EU transfers was around 3 percent of GDP. At end-2021, the transfer balance corresponded to 2.6 percent of GDP, with net EU transfer inflows and the decline in the negative balance of other current transfers and other capital transfers as contributors. In relation to the fall in the wages of those working temporarily abroad, the decline in taxes paid to abroad is also reflected in the decreasing negative balance of other current transfers.

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



Absorption of EU-funds rose to nearly EUR 5 billion in 2021, also supported by growth in government and private sector capital transfers (Chart 13). As a result of the EU programming period and the related rules on using funds, the absorption of EU transfers reached its low in 2016. Since then, the annual absorption of funds has been increasing year after year, supported by advance payments as well. Accordingly, the absorption of EU transfers rose further in 2021. The rise was a result of a decline in current transfers and a higher absorption of capital transfers. In a breakdown by sector, in 2021 the larger part of the rising absorption was related to corporations and the smaller part of it to the general government, as in previous years.

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

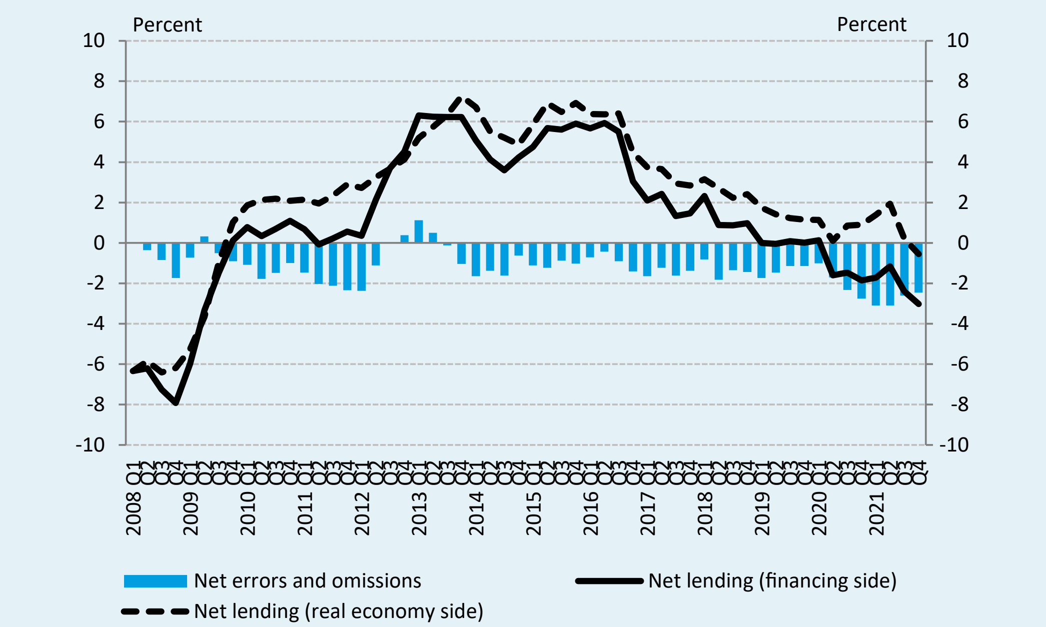


2 Financing approach

In 2021, net borrowing calculated on the basis of financing items expanded to 3 percent of GDP. Although the pace declined slightly compared to the previous year, net FDI inflows continued as a result of a significant increase in foreigners' investments in Hungary and Hungarian investments abroad. Domestic actors' purchases of foreign equities and mutual fund shares rose further in 2021, while non-residents reduced their portfolio equity investments. At an annual level, net debt liabilities rose, with a larger contribution by the general government and a much smaller contribution by corporations, while the banking sector's indicator declined slightly. The rise in the indicator of the general government was attributable to expenditures related to the pandemic and defence spending as well as to the FX reserve-reducing effect of the central bank swap instruments and issuance of the two-week central bank discount bond. In parallel with that, banks' net external debt contracted, with contributions from the aforementioned central bank measures as well.

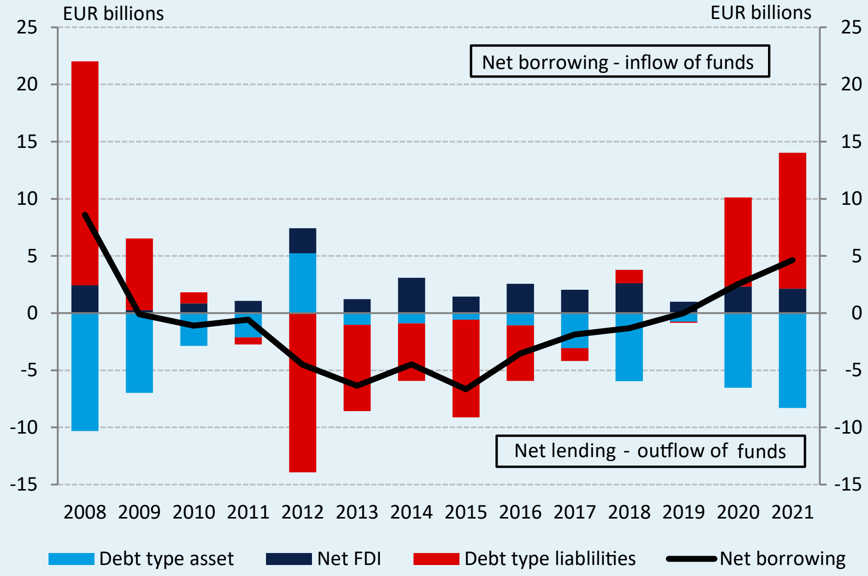
In 2021 Q4, the four-quarter net borrowing of the economy according to the financing approach rose to 3.0 percent of GDP. The balance position according to financing data fell significantly short of the net borrowing calculated from the real economy side, amounting to 0.6 percent of GDP (Chart 14). Net errors and omissions, i.e. the difference between the real economy and financing balance indicators was above 2 percent of GDP, slightly exceeding the average from previous years.

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



As in the previous year, net FDI inflows exceeded EUR 2 billion in 2021, while inflows of debt liabilities were also significant (Chart 15). In 2021, the net external debt of the economy due to transactions rose by EUR 4.6 billion, which was attributable to an increase of EUR 12.4 billion in external liabilities – also including the FX bond issuance of nearly EUR 5 billion by the general government – and an expansion of EUR 7.8 billion in external assets. Foreign-owned companies' direct investments were mainly related to reinvested earnings, while residents' investments abroad also continued.

Chart 15: Development of foreign direct investment and debt liabilities*

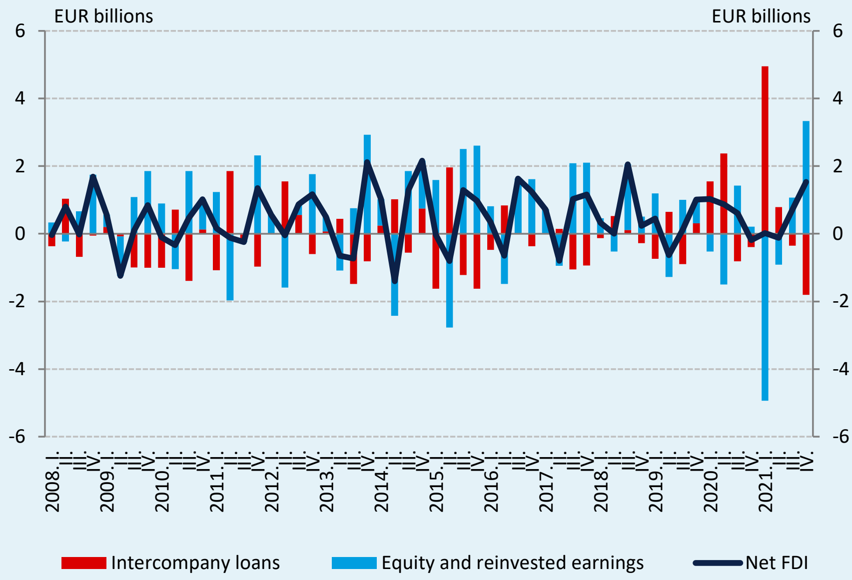


**In addition to the components presented in the chart, net borrowing also includes the equity transactions of portfolio investments and transactions associated with derivatives. In economic terms, the fundamental development of the debt is not influenced by the conversion between gold accounts and gold bullion, and thus this technical effect has been filtered out.*

2.1 Non-debt liabilities

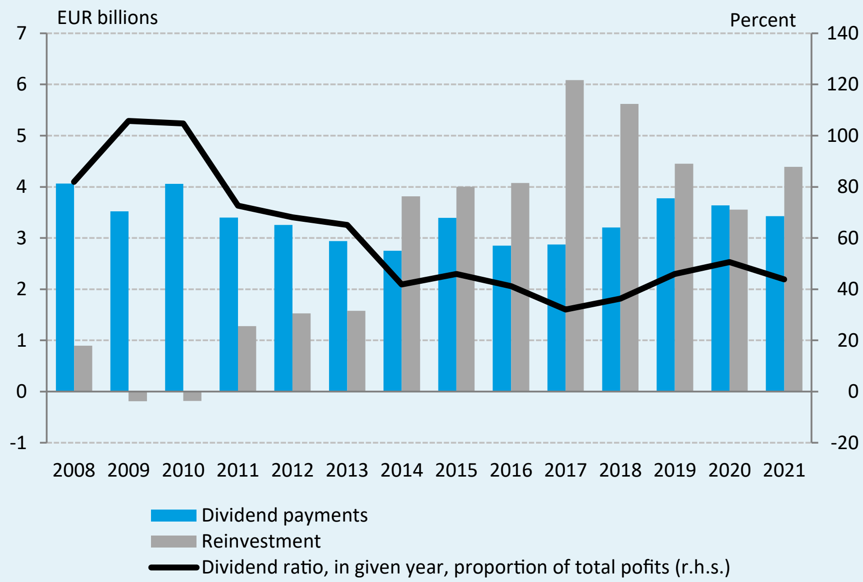
FDI inflows to Hungary reached around EUR 3.8 billion in 2021, while net FDI inflows amounted to EUR 2.1 billion (Chart 16). In the transactions net of capital in transit, foreign direct investment in Hungary showed an inflow of some EUR 3.8 billion last year as a whole, representing a major increase compared to 2020. In parallel with that, the value of Hungarian investments abroad also rose markedly, nearly doubling (EUR 1.7 billion). As a result, net FDI inflows amounted to EUR 2.1 billion in 2021 as a whole. Equity-type liabilities were reduced by outstanding and regular dividend disbursements in 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. The trend observed following the financial crisis continued in 2021 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 rather considers intercompany loans as equity-type liabilities, and does not take them into account in the developments in external debt). Accordingly, net FDI slightly decreased compared to 2020.

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



In parallel with foreign-owned companies' slightly expanding income, reinvested earnings grew considerably, which was due to a drop in the dividend ratio. The income of foreign-owned companies rose to EUR 7.8 billion in 2021.[2] On the other hand, dividend payments – following a minor decrease – were around EUR 3.4 billion, and thus the dividend ratio fell to nearly 40 percent. In an international comparison this ratio is considered low, and thus it still means significant reinvestment, as in most countries in the region the dividend ratio consistently exceeds 50 percent (for more details, see Section 5.6 of the October 2021 Report on the Balance of Payments). Along with growth, the reinvestment of earnings presented in the balance of payments statistics continued to make a major contribution to the inflow of foreign direct investment (Chart 17).

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

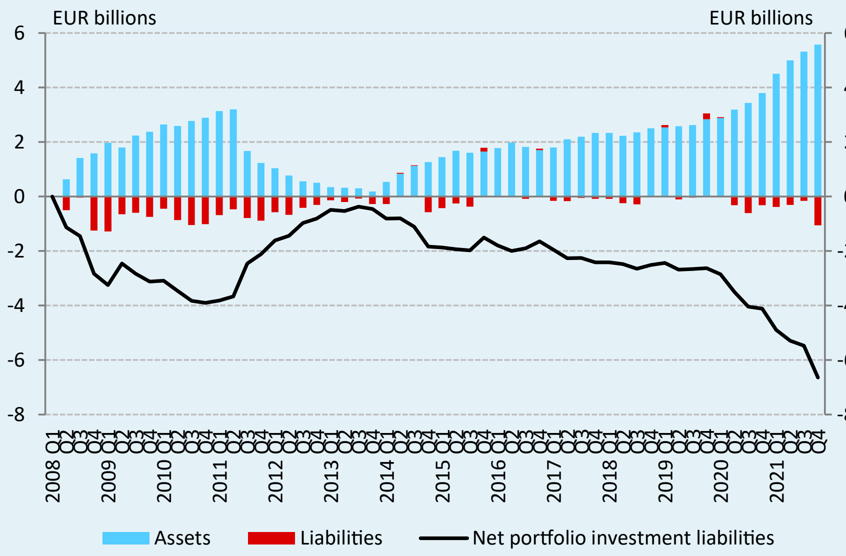


Non-residents' net portfolio equity investments in Hungary fell by EUR 2.5 billion in 2021 (Chart 18). The outflow of non-debt liabilities observed in 2021 was mostly related to mutual fund shares and portfolio equity investments. The rise of

[2] The profit of foreign-owned companies and the reinvested income shown in the income balance are based on an estimate for 2021, which will be replaced by actual figures based on corporate surveys together with the publication in September 2022

almost EUR 1.8 billion in domestic actors' investments abroad contributed to this to a larger degree, while the drop of EUR 0.75 billion in non-residents' equity investments in Hungary contributed to this to a lesser degree. The significant growth in Hungarian investments abroad was mainly due to the rise in the – equity and mutual fund share – savings of domestic actors, in particular households. In the persistently low yield environment, all of this may be connected to the fact that domestic investors regarded the falling foreign stock exchange prices resulting from the pandemic as a good entry point.

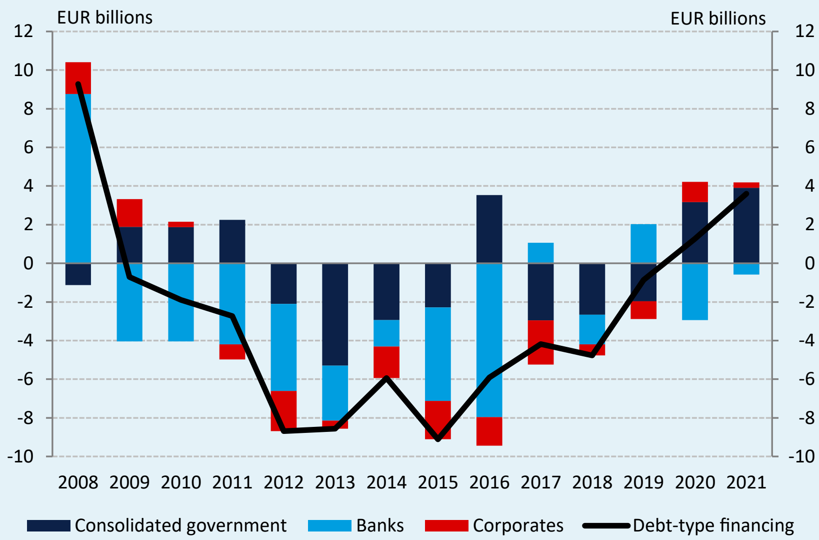
Chart 18: Development of net portfolio equity and mutual fund share liabilities (cumulative transactions)



2.2 Debt liabilities

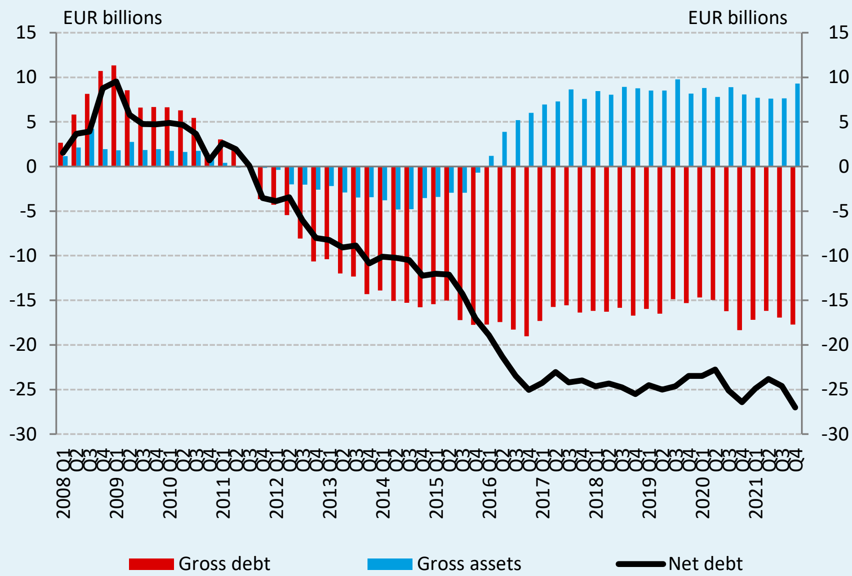
Due to transactions, the net external debt of the economy grew by more than EUR 0.4 billion in Q4 and by some EUR 3.6 billion in the year 2021 as a whole, with the general government as the main contributor, while the indicator for the banking sector fell slightly (Chart 19). In 2021, the economy's net external debt rose by around EUR 3.6 billion, i.e. to a greater degree than in the previous year. The net external debt of the consolidated general government rose by EUR 3.9 billion, while the indicator for the banking sector dropped EUR 0.6 billion. In parallel with that, corporations' net external debt rose by nearly EUR 0.3 billion, which was related to an increase in foreign liabilities, which exceeded the expansion in receivables.

Chart 19: Changes in the debt liabilities of individual sectors (annual transactions)



The net external debt of the banking sector edged slightly lower last year, due to a sharp increase in foreign receivables in Q4 (Chart 20). Based on financial accounts and monetary statistics, non-financial corporations steadily increased their foreign currency deposits with banks, especially in Q4, which was also reflected in the rise in banks' foreign assets. In parallel with that, the rise in banks' external liabilities seen in H1 turned into a decline in H2. The drop in the banking sector's net external debt in H2 was also attributable to a decline in outstanding central bank forint liquidity-providing swap contracts and an increase in the amount of euro liquidity-providing swap instruments, which contributed to the sector's debt reduction by increasing banks' foreign currency liquidity. The two-week central bank forint-denominated discount bond issued at end-December had a similar effect. It should be noted that the changes in the central bank's outstanding swap contracts had a neutral effect on net external debt at the national economy level, as the foreign currency liquidity obtained from the central bank improved the banks' indicator. During the year, banks' long-term liabilities rose slightly, advancing by some EUR 50 million, while short-term liabilities rose by EUR 550 million.

Chart 20: Development of the banking sector's external debt and receivable transactions (cumulative transactions)



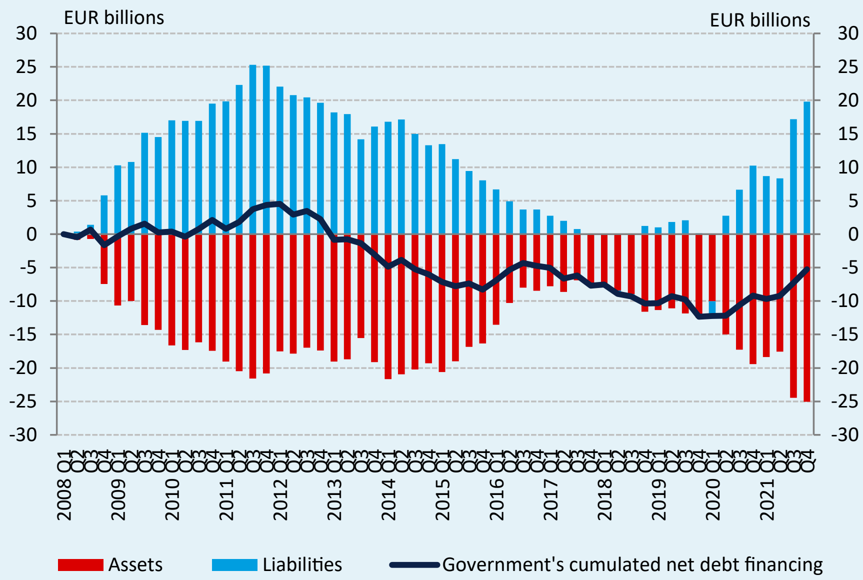
The net external debt of the consolidated general government including the MNB grew significantly in Q4 as well, which was attributable to an expansion in gross liabilities, which exceeded the rise in foreign receivables (Chart 21). Considering the year as a whole, the net external debt of the consolidated general government including the MNB was shaped by the following key factors:

- The absorption of EU transfers reduced net external debt during the whole year, and especially in the last four months of the year.
- In spite of the rise observed in Q3, non-residents' forint government securities holdings fell by some EUR 1.5 billion in 2021 as a whole.
- The foreign currency bond issuances during the year and the SDR allocation provided by the IMF added to the foreign exchange reserves as well as to gross debt, and thus had no effect on net external debt.
- The government expenditures incurred during the year in connection with the prevention of the pandemic and the military industry reduced foreign exchange reserves, which contributed to the rise in net external debt.
- Gross external debt was increased by the recourse to the MNB's repurchase agreements vis-à-vis international organisations, but FX reserves also increased simultaneously with that, so this transaction itself did not affect the net external debt.
- The decrease in the central bank' forint liquidity-providing swaps and – temporarily – the use of the euro liquidity-providing swap instruments both reduced foreign exchange reserves, and thus contributed to the rise in the

government's net external debt. The foreign currency liquidity provided to the banking sector through the instruments reduced banks' debt ratio.

- The two-week central bank discount bond issued to ease swap market tensions added some EUR 2 billion to the net external debt of the consolidated general government, but had a contrasting effect on the indicator for banks.

Chart 21: Breakdown of the change in the net external debt of the consolidated general government including the MNB (cumulative transactions)



In 2021 Q4, the net external debt of non-financial corporations rose by around EUR 800 million. In Q4, the decline in foreign assets as well as the rise in liabilities generated an increase in the net indicator. Bond issuance by a Hungarian-owned company also contributed to the expansion in external liabilities in Q4. At an annual level, corporations' net external debt rose by some EUR 300 million, which was attributable to a rise in foreign liabilities, which exceeded the expansion in foreign assets.

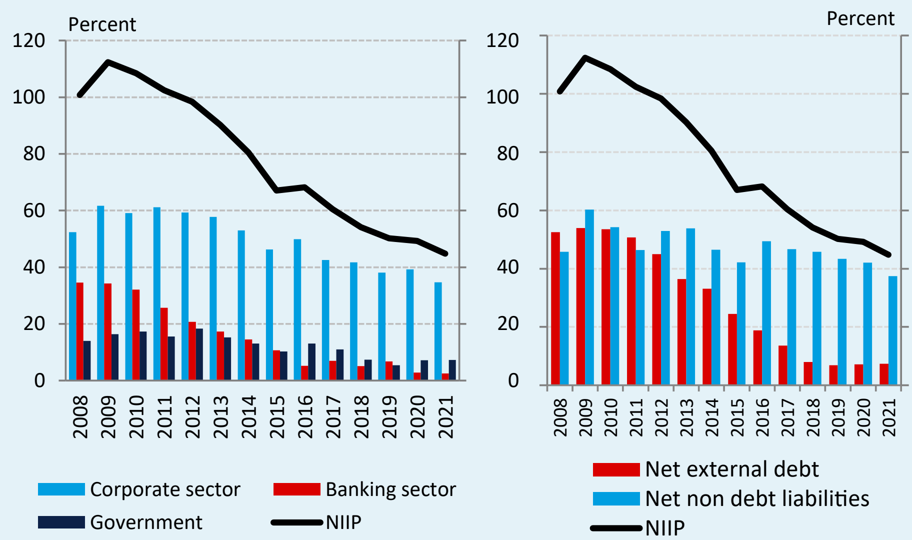
3 Developments in debt ratios

In 2021, against the background of vibrant economic growth following economic reopening, developments in the debt ratios that are crucial in terms of external vulnerability were favourable. Hungary's net external liabilities declined in parallel with an outflow of non-debt liabilities, while – following a temporary rise at the beginning of the year – net external debt stabilised close to the level registered at the end of last year, i.e. at 7.3 percent of GDP. Inflows of debt liabilities were offset by a significant expansion in nominal GDP as well as by a decline in stocks, due to revaluation taking place primarily as a result of an increase in yields. Following a decrease in the first half, the net external debt of the government rose, which was mainly attributable to the central bank swap instruments, the one-off discount bond issue and the government's foreign currency expenditures. At the same time, the central bank instrument that increased the net external debt of the state contributed to a decline in banks' net debt indicator. The net external debt of the private sector remained almost unchanged, and foreign receivables continue to exceed foreign liabilities. Hungary's gross external debt rose to 59.7 percent of GDP, in which the issuance of foreign currency bonds by the government, the central bank's discount bond issuance and the financing of the central bank swap instrument also played a role, the impact of which was attenuated by a decline in non-residents' government securities holdings. The gross external debt of the private sector fell primarily as a result of the reduction of banks' liabilities. Short-term external debt, which is crucial in terms of Hungary's external vulnerability, amounted to EUR 26.7 billion at end-2021. In 2021, foreign exchange reserves rose significantly as a result of the foreign currency bond issuances, the inflow of EU transfers and other items, and thus the reserves still significantly exceed the level expected by investors, by EUR 11.7 billion.

3.1 Net external liabilities

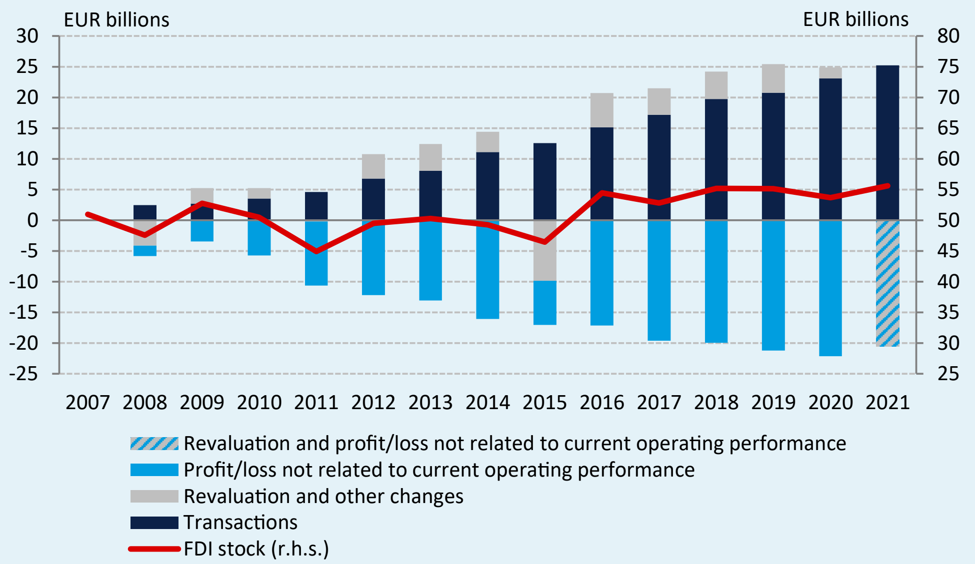
In 2021, as a result of robust GDP expansion, Hungary's net external debt-to-GDP ratio declined further, which was mainly attributable to a fall in companies' non-debt liabilities as a percentage of GDP (Chart 22). Following deceleration in 2020, the gradual decline in net external liabilities seen since the 2008 crisis– comprising external debt and non-debt liabilities (including foreign direct investment, portfolio equities and derivative liabilities) – accelerated in 2021, and by the end of the year the indicator had fallen below 45 percent of GDP. The annual decline of 4.6 percentage points was related to a decrease in non-debt liabilities, while net external debt remained stable at a level close to its historical low. A decline in net external liabilities took place in the private sector: corporations' net external liabilities as a percentage of GDP fell considerably, the indicator for the banking sector decreased to a lesser extent, while that of the government remained practically unchanged.

Chart 22: Development of net external liabilities (period-end values as a percentage of GDP)



Following temporary decline in the previous year, net FDI stock rose again in 2021, reflecting the effect of the new FDI inflow, while revaluation effects slightly reduced the stock. Net FDI inflow materialised as a result of the fact that the expansion in Hungarian investments abroad was exceeded by the effect of the FDI inflow into Hungary. On the whole, the revaluation of outstanding stocks slightly reduced the net FDI stock (we will only receive information on corporations' profit/loss on non-recurring items in September). Based on trends from recent years, foreign direct investment due to transactions has gradually increased, while the rise in non-residents' net FDI stock fell short of that increase (Chart 23). This was mainly attributable to losses not related to the normal course of business, the impact of which was typically partly offset by the effect of the revaluation of the stock. Between 2008 and 2021, these two items reduced the FDI stock by nearly EUR 20 billion in total (for more details on profit/loss of non-recurring items, see the October 2021 Report).

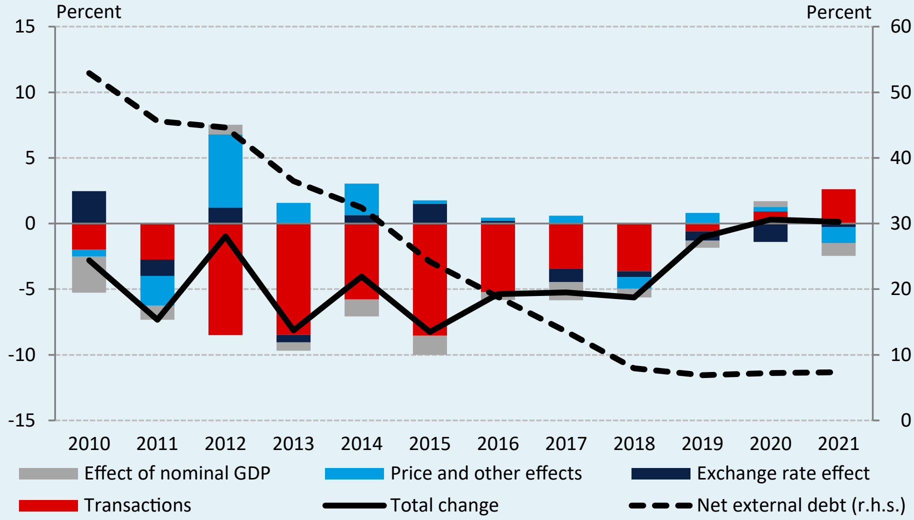
Chart 23: Decomposition of the change in net FDI stock (cumulative transactions and stock)



3.2 Net external debt

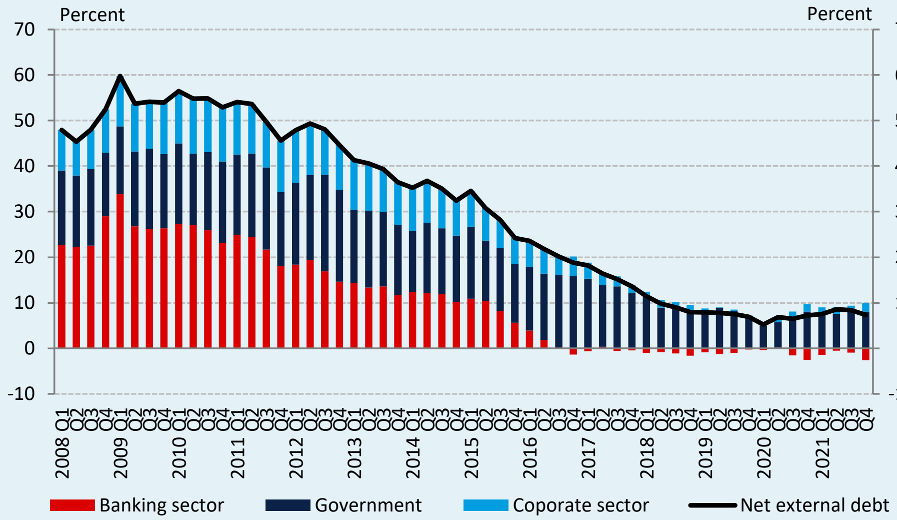
Net external debt was close to the level observed a year earlier and stood at 7.3 percent of GDP at end-2021. The stabilisation of the debt indicator at a level close to the historical low was a result of the fact that the debt-increasing effect of the inflow of debt liabilities was offset by the revaluation of stocks and a strong expansion in nominal GDP (Chart 24). Following a significant decline observed since the crisis, the debt ratio was relatively stable in the past 4 years, at around 7 to 8 percent of GDP. The net external debt accumulated in the years before the 2008 crisis declined by nearly 46 percentage points in the 2010s, which was primarily attributable to outflows of debt liabilities. In addition, to a lesser degree, nominal GDP growth also contributed to the improvement in the indicator. Hungary's net external debt stabilised at a level close to the historical low, at 7.3 percent of GDP at end-2021. The inflow of debt liabilities contributed to the rise in the debt indicator, which was offset by an expansion in nominal GDP and an increase in forint yields (via a decline in the price of government securities held by non-residents).

Chart 24: Decomposition of the change in net external debt (as a percentage of GDP)



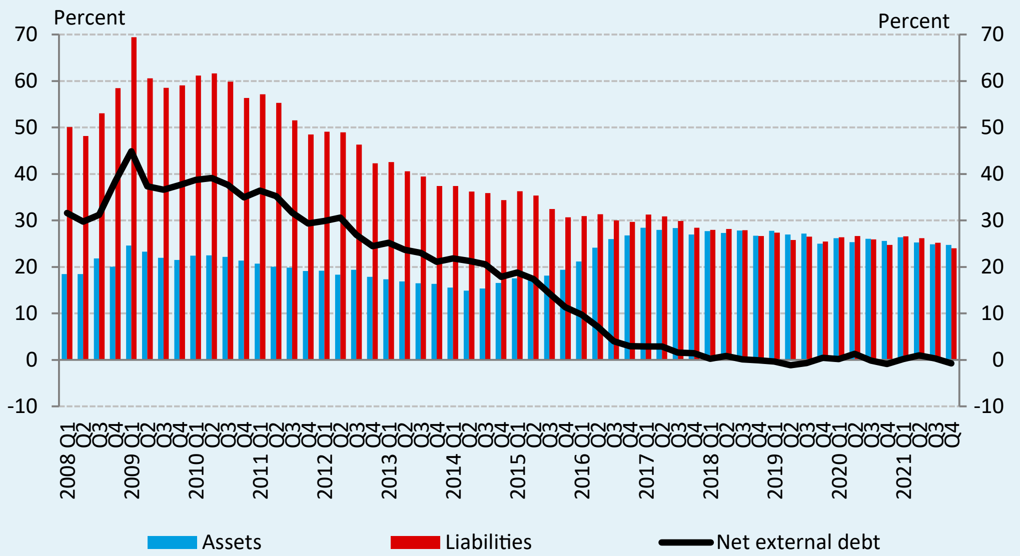
Stable net external debt at an annual level evolved as a result of nearly unchanged levels of the net external debt-to-GDP ratios of the private sector and the government. Following a decline in H1, the general government's net external debt rose back to nearly 8.1 percent of GDP in H2, which had been observed at end-2020 (Chart 25). FX bond issues and repurchases by the government added to both gross liabilities and assets and were thus neutral in terms of the changes in the net external debt of the state. The increase in the government's debt indicator observed in H2 was partly attributable to the foreign currency expenditures (related, for example, to defence development projects) of the government concentrated to the end of the year and partly to the FX reserve-reducing effect of the central bank swap instruments, but the central bank discount bond issued to address market tensions at the end of the year also contributed to the increase in the net external debt of the state. The impact of all this was offset by the fact that EU transfer inflows and the decrease in non-residents' government securities holdings reduced the net external debt of the government. In addition, revaluation effects also supported an improvement in the net indicator: the changes in FX rates and the rise in the price of gold added to the FX reserves, while the yield increase at the end of the year lowered the external liabilities of the government via the fall in the prices of government securities held by non-residents. Simultaneously with the FX reserve-reducing effect, the central bank swap instruments provided FX liquidity to the banking sector, thus also resulting in an improvement in the net debt indicator of banks, while the portion of the one-off discount bond issue held by non-resident actors – partly replacing foreign client deposits – also contributed to the decrease in banks' external liabilities.

Chart 25: Breakdown of net external debt by sectors (as a percentage of GDP, excluding inter-company loans)



On the whole, the private sector's debt indicator remained unchanged in 2021 and is still negative, i.e. the sector's foreign receivables exceed foreign liabilities. As a result of a slight rise in corporates' net external debt and a minor decline in the banking sector's debt indicator, the indicator as a percentage of GDP amounted to -0.8 percent at end-2021. The slight annual increase of 0.2 percentage point in the net external debt indicator for corporates was a result of the fact that the sector's foreign liabilities expanded to a greater degree than foreign assets. This was attributable to a stronger expansion in commercial loan debts as well as to corporate bond issues. The net external debt of the banking sector was down slightly, by 0.1 percentage point compared to end-2020. Changes in the indicator for the banking sector were significantly affected by the developments in the central bank swap instrument and the one-off discount bond issuance aiming at reducing market tension at the end of the year. Resulting in a rearrangement between the indicators for the government and the banking sector, these instruments supported a sharp decline in the net debt indicator for banks, and offset the impact of debt inflow resulting on the basis of fundamentals. At end-2021, banks' net external debt amounted to -2.6 percent, i.e. the sector's foreign assets continue to exceed foreign liabilities. Taking the banking sector and corporations together, it can be stated that the net external debt of the private sector has been persistently close to zero since 2018 (Chart 26).

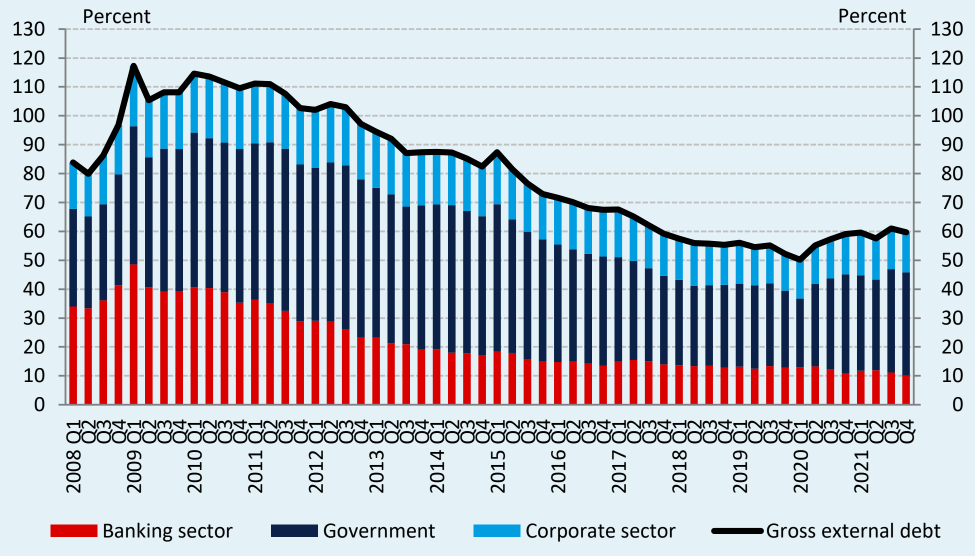
Chart 26: Development of the private sector's external assets and debt (as a percentage of GDP)



3.3 Gross external debt

In the relation to the general government, Hungary's gross external debt increased from end-2020, while the indicator for the private sector declined (Chart 27). As a result of a rise in the government debt ratio, gross external debt rose to 59.7 percent of GDP by end-2021. The annual, 1.4-percentage point increase in the gross external debt of the consolidated general government including the MNB as a percentage of GDP was attributable to the significant FX bond issues implemented during 2021. In addition, the funding of the central bank's euro liquidity-providing swap instrument and the central bank's discount bond issuance at the end of the year also contributed to the higher debt ratio. At the same time, the decline in non-residents' government securities decelerated the rise in the debt indicator. In 2021, the banking sector's debt indicator declined by 0.6 percentage point, which was attributable to the FX liquidity provided through the central bank swap instrument and to the effect of the foreign bank funds replaced by the central bank discount bond issuance at the end of the year. Corporations' debt indicator reduced the country's gross external debt slightly, by 0.1 percentage point: the rise in the sector's foreign liabilities due to transactions and the stock-increasing effect of the revaluation due to the weaker exchange rate of the forint against the euro were more than offset by the effect of the expansion in GDP.

Chart 27: Breakdown of gross external debt by sector (market value as a percentage of GDP, excluding intercompany loans)

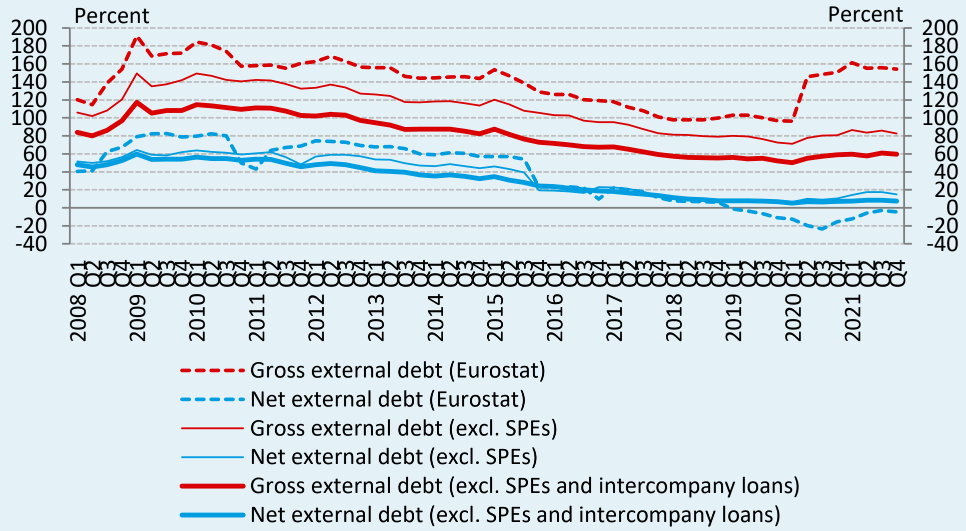


Box 2: Changes in external debt from various points of view

Regardless of SPEs and intercompany loans, net external debt reached a persistently low level, but in the case of gross external debt, the indicators including SPEs and intercompany loans also continue to exceed the debt ratio according to underlying trends. Based on economic considerations, in order to present the underlying developments, the MNB's analyses and publications analyse the debt indicators excluding SPEs (special purpose entities) and intercompany loans.[3] 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 that, 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 declined to a low level in the past years. At end-2021, net external debt calculated by Eurostat, amounted to -4.6 percent (i.e. according to the ratio also including SPEs, the stock of external assets exceeded that of external debt from 2019), while the net external debt ratio calculated without SPEs, but including intercompany loans was around 15 percent of GDP, slightly exceeding the basic indicator used in our Report (Chart 28). However, the levels of gross indicators vary significantly according to various methodologies, whereas in terms of their dynamics they typically indicate changes in a similar direction. However, in 2020 gross external debt calculated by Eurostat 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.

[3] 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.

Chart 28: Development of net and gross external debt (as a percentage of GDP)

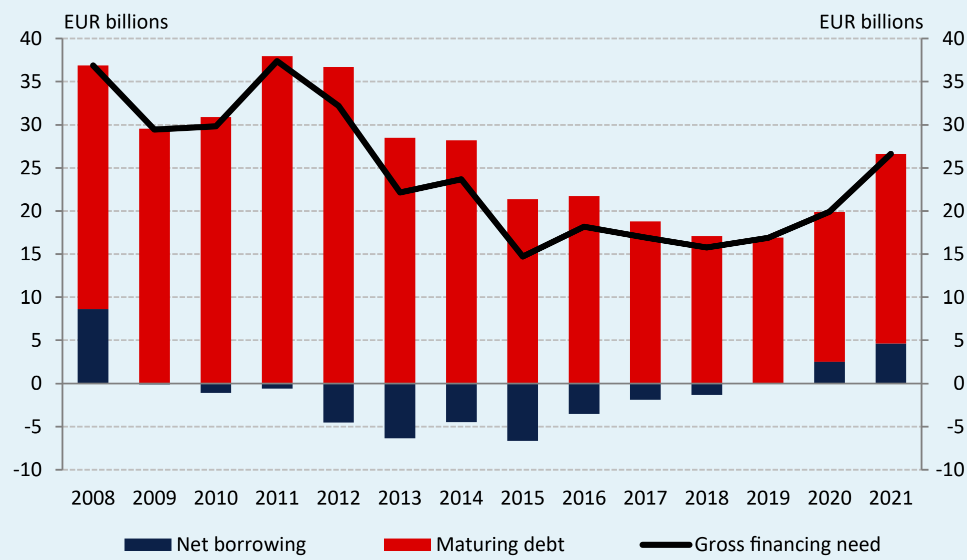


Source: Eurostat, MNB

3.4 Gross borrowing need and reserve adequacy

Hungary's gross financing need increased in 2021. Following a gradual decline since 2011, the gross financing need was increasing in the past 2 years in parallel with the external balance position turning into net borrowing. At end-December 2020, short-term external debt – i.e. expiring in 2021 – amounted to EUR 22 billion, which represents an increase compared to the previous year's level (Chart 29). The external net borrowing calculated from the items in the financial account, which shows the external funding requirement of the country, amounted to EUR 4.6 billion. Accordingly, the gross financing need, which shows the value of the external liabilities of the Hungarian economy to be renewed in a given year, amounted to EUR 26.6 billion.

Chart 29: Development of gross financing need



The level of international reserves rose EUR 0.1 billion in 2021 Q4. The increase was mostly attributable to inflows of funds from the European Union, which were partly offset by the reserve-reducing effect of the MNB's swap instruments. Following EUR 38.3 billion at end-September 2021, the MNB's reserves amounted to EUR 38.4 billion at end-2021. The development of reserves was affected by various factors, the most important of which were the following:

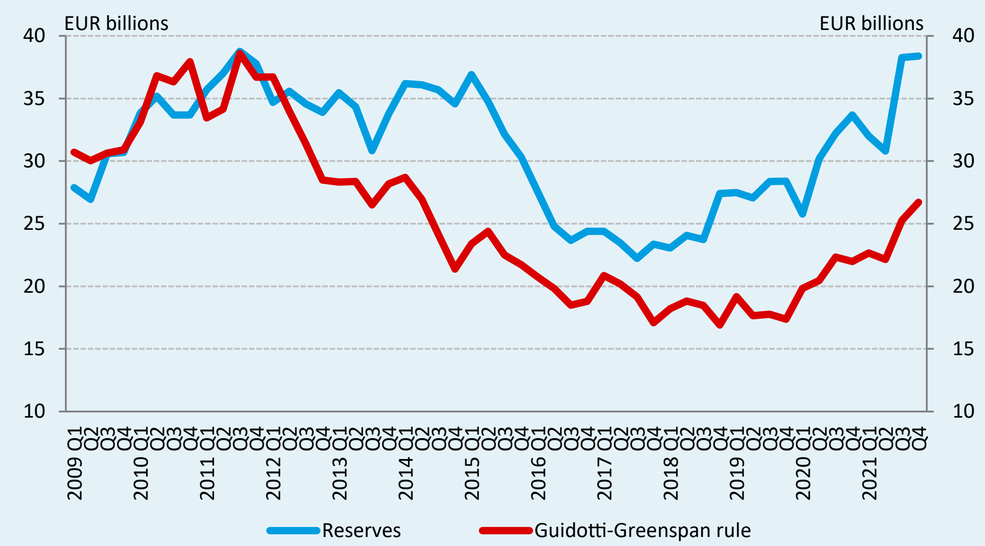
- *The reserve-increasing effect of EU funds was EUR 1.5 billion,* resulting primarily from the payment of performance-based invoices of the 2014-2020 EU programming period.
- The *revaluation* stemming from other currencies appreciating against the euro and the increase in the price of gold expressed in EUR boosted the reserves by nearly EUR 0.7 billion.
- *The net FX financing of the Government Debt Management Agency (GDMA) r*educed the reserves by EUR 0.7 billion in total. The green Panda bond issuance of RMB 1 billion in December added some EUR 140 million to the reserves; its degree was exceeded by the GDMA's retail FX bond maturities, foreign currency loan repayments and dollar bond repurchases
- The reserve-reducing effect of the *Hungarian State Treasury's foreign currency* transactions amounted to almost EUR 1 billion. The Treasury's foreign exchange conversions are typically unevenly distributed during the year, and are mostly concentrated to the last quarter.
- The change in the stock of the forint liquidity-providing FX swap instrument reduced the reserve level by EUR 1.6 billion. In September 2021, the Monetary Council first announced the gradual phasing out of the swap instrument, but then a decision to completely phase out the swap instrument was made in mid-November 2021. Accordingly, the tenders, which had previously been held every week, were no longer announced.
- The balance of the *euro liquidity-providing swap instrument* and the international *repo drawdowns* increased reserves compared to the end of September 2021.

Throughout 2021, the MNB's international reserves rose by EUR 4.7 billion. The reserve-increasing effect of EU transfers and the FX bond issuances by the GDMA was only partly offset by the Treasury's foreign currency expenditures and the fall in the central bank swap stock. Foreign exchange reserves increased from EUR 33.7 billion registered at the end of December 2020 to EUR 38.4 billion by the end of 2021, due to the following factors:

- The annual net amount of *transfers from* the *European Commission and of the payments made* affecting the FX reserves exceeded EUR 3.6 billion..
- *Net foreign currency funding by the Government Debt Management Agency in the amount of EUR 1.6 billion* contributed to the growth in reserves. The GDMA's issuances denominated in euro, dollar and renminbi in September and December amounted to nearly EUR 4.7 billion in total. The effect of the issuances was only partly offset by the GDMA's FX repayments and FX interest payments.
- The revaluation effect stemming from the changes in the exchange rates of other currencies and in the price of gold added nearly EUR 1.1 billion to the reserves. In March 2021, the MNB tripled Hungary's gold reserves, and thus the value of the total amount increased from EUR 1.6 billion to EUR 4.9 billion for the year as a whole.
- As result of the *SDR allocation* by the IMF, foreign exchange reserves rose by SDR 1.9 billion (EUR 2.25 billion); Hungary automatically received a share from the SDR allocation.
- It also had a reserve-increasing effect that the stock of the *euro liquidity-providing swaps and the international repo drawings used for their funding* were different.
- The above items were somewhat offset by the negative balance of EUR 2.3 billion of the *foreign currency expenditures of the Hungarian State Treasury.*
- Expressed in EUR, *the forint liquidity-providing swap stock* fell EUR 3.1 billion, marking another major decline in 2021.

At the end of 2021, the MNB's international reserves exceeded the level of short-term external debt, which is closely monitored by investors, by EUR 11.7 billion, representing a high level, just as at the end of the previous year. At the end of 2021, international reserves and short-term external debt amounted to EUR 38.4 billion and EUR 26.7 billion, respectively. In the last quarter, the adequacy compared to the Guidotti–Greenspan indicator declined, which was attributable to the rise in short-term external debt. At the same time, looking at the year as a whole, the leeway over the short-term external debt remained practically unchanged. As a result of similar rises in international reserves and the short-term external debt, the leeway above the Guidotti–Greenspan indicator, which is closely followed both by the central bank and investors, changed from EUR 11.9 billion at end-2020 to EUR 11.7 billion, representing an especially safe reserve adequacy (Chart 30).

Chart 30: Short-term external debt of the Hungarian economy and international reserves

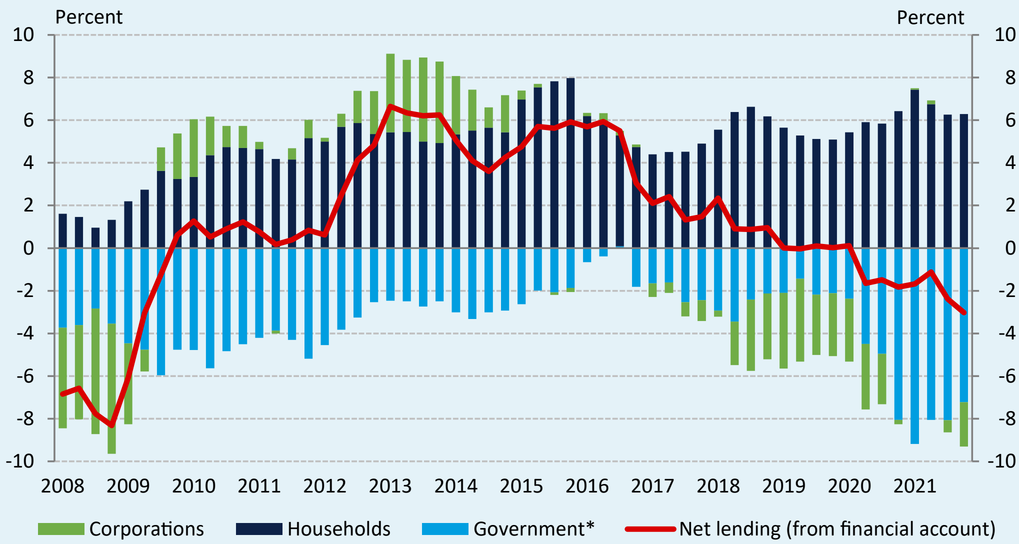


4 Savings approach

In 2021, the declining general government deficit was unable to offset the decreasing net savings of the private sector (and within that, of companies), and thus the economy's net borrowing by sector increased. Starting from a high level, the budget deficit declined slightly in 2021. In parallel with that, the government debt-to-GDP ratio fell slightly, which was also attributable to the robust GDP expansion. Within government debt, the share of foreign currency somewhat increased, and the ratio of government debt held by foreign investors continued to decrease. The latter process was mainly due to the steady, keen household demand for government securities, which also provided stable financing for the general government during the crisis and reduced its vulnerability.

In the final quarter of 2021, net borrowing according to sectors' savings increased further, which was attributable to the declining financing position of the private sector, while the high general government deficit fell considerably (Chart 31). 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. Based on preliminary data, the annual net borrowing of the consolidated general government decreased slightly in 2021. The declining deficit of the government was primarily related to higher tax revenues and postponed investment projects. With the lifting of the lockdown measures, households significantly boosted their consumption, resulting in declining net financial savings according to the underlying trends. The corporate sector increased its investment and inventories alike, as a result of which the sector's four-quarter net position turned into net borrowing in H2. The phasing out of the repayment moratorium in 2021 H2 accelerated the repayment of the private sector's loan debts, contributing to an increase in net savings.

Chart 31: Net lending 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.*

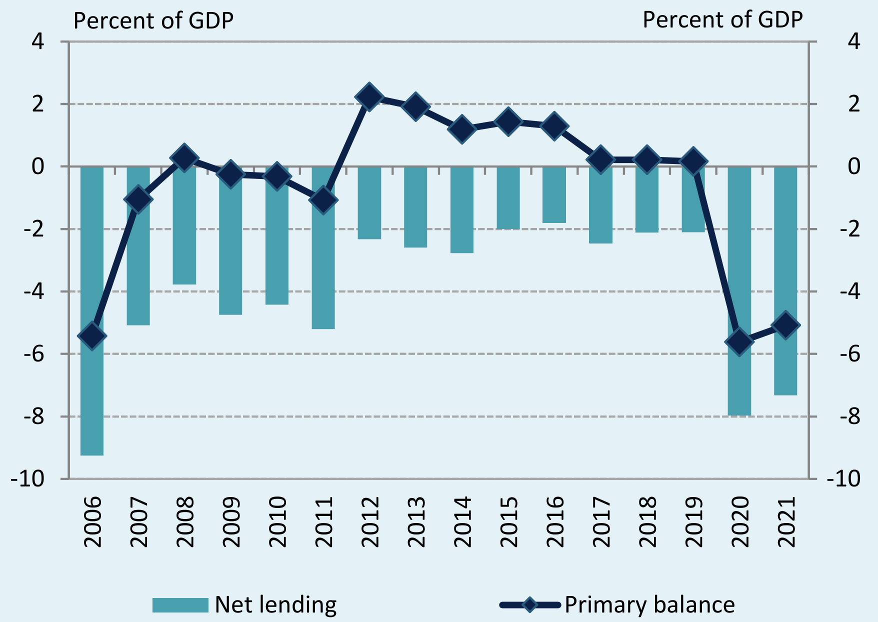
4.1 General government

Although the net borrowing of the general government declined somewhat in 2021, it remains high. Based on preliminary financial accounts data, the net borrowing of the general government amounted to 7.3 percent of the gross domestic product in 2021, which is lower than the 7.5 percent set out in the Budget Act (Chart 32). As a result of the dynamic growth in tax revenues in view of the rapid and strong economic recovery and the investment projects postponed by the government in December, the balance of the budget[4] was more favourable in 2021 than expected before. Following

[4] Data regarding the ESA budget balance is not yet available for 2021; however net lending calculated based on the preliminary financial accounts data usually only differs from the ESA balance to a minor degree.

a rise in 2020, government interest expenditure as a percentage of GDP declined somewhat in 2021 as a result of a decrease in government debt and a pick-up in economic growth.

Chart 32: Development of the net lending of the general government (as a percentage of GDP)

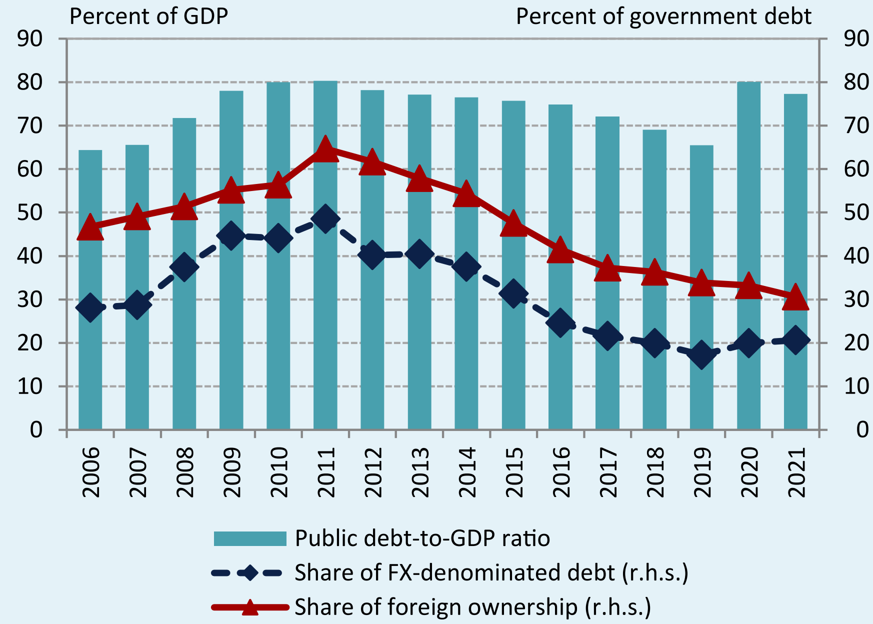


Note: 2021 data based on the preliminary financial accounts of the MNB.
Source: MNB and Eurostat.

The gross government debt-to-GDP ratio fell to 77.3 percent at end-2021 (Chart 33). Accordingly, the debt ratio dropped by 2.7 percentage points from 80 percent at end-2020. The significant GDP growth and the decline in liquid reserves (Treasury Single Account and FX deposit) supported a decline in the government debt ratio. In addition, the MNB's dividend disbursement of HUF 250 billion also contributed to the decline in the level of the government debt ratio in 2021.

As a result of the FX bond issuances, the foreign currency ratio within government debt increased somewhat by end-2021, while 2021 Q3 data suggest that the ratio of non-resident holdings within government debt continued to decline. In 2021, the Government Debt Management Agency carried out net FX issuance in excess of HUF 900 billion, while gross FX bond issuance was close to HUF 1,700 billion. As a result of the FX bond issues, the share of foreign currency within central government debt rose from 19.9 percent in 2020 to 20.6 percent, which is in line with the tolerance band of 15-25 percent determined by the Government Debt Management Agency. One of the key objectives of the government's debt management strategy is to strengthen domestic financing, owing to which the ratio of non-resident holdings within government debt may have declined to almost 30 percent by the end of 2021, continuing the trend seen since 2011. The low ratio of non-resident holdings and the foreign currency ratio are key to the decrease in external vulnerability and to Hungary's continuing favourable credit rating.

Chart 33: Development of gross public debt, the proportion of non-resident holdings and the FX ratio

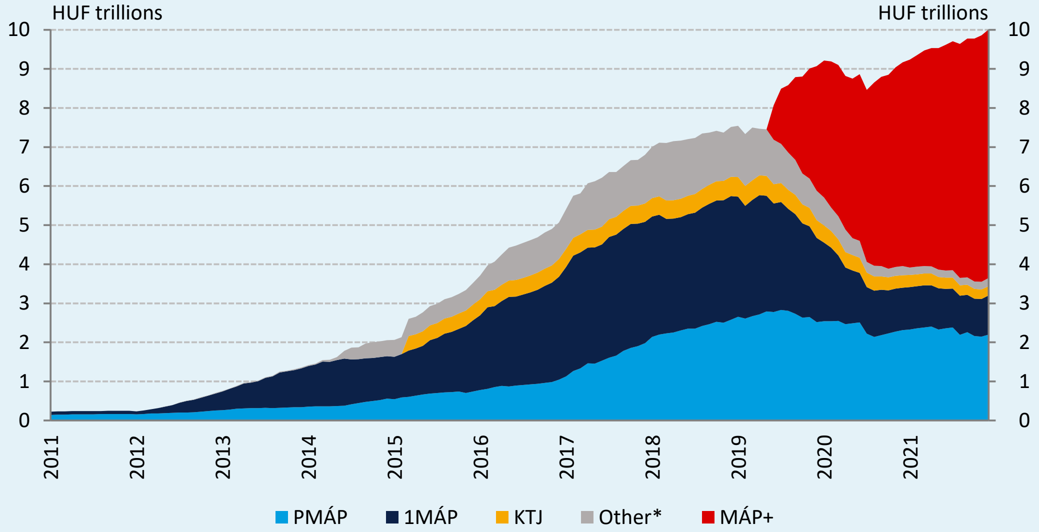


Note: Ratio of non-resident holdings based on nominal value; the 2021 value is an MNB estimate.
Source: GDMA and MNB.

In 2021, the retail government securities strategy reached a milestone, as households' government securities holdings exceeded HUF 10,000 billion at the end of the year. The renewal of the retail government securities strategy in 2019 (the key elements of which include the introduction of the MÁP Plus security, the simplification of the product offering and the tax exemption of interest income) continues to support favourable changes in the debt structure. In 2021, households were once again strongly interested in government securities, although this interest was somewhat more restrained compared to the increases in outstanding amounts in the previous two years. Firstly, demand for retail schemes started to wane slightly, which was natural after the initial momentum in 2019. Secondly, the uncertainty evolving in view of the appearance of the coronavirus pandemic in the spring of 2020 and the changing inflation environment also had an impact on the retail government securities market. As a result, MÁP Plus redemptions stabilised at a level that was higher than earlier, although the expansion in retail government securities was still close to the increase seen in 2020, and the outstanding amount reached the milestone of HUF 10,000 billion.

The development of the inflation environment triggered a structural change in the retail government securities market in H2. Interest in MÁP Plus waned, while demand for the inflation-indexed Premium Hungarian Government Security (PMÁP) became increasingly significant. On the whole, households' government securities holdings rose by HUF 839 billion in 2021: MÁP Plus holdings and the Baby Bond increased by HUF 1,140 billion and 38 billion, respectively. By contrast, the holdings of 1MÁP, KTJ, 2MÁP and BMÁP declined by some HUF 230 billion in total. As a result of the large maturities, PMÁP holdings fell HUF 107 billion, although this is less compared to the change in 2020. Sales of the inflation-indexed version followed an uptrend during 2021, which may persist in the future as well, in parallel with redemption above the historical average and the weakening demand typical of MÁP Plus. The elevated inflation and the related upside risks may reverse the dynamics of the changes in the holdings of the two versions typical of the past years, i.e. significant interest in PMÁP may offset the decline in demand for MÁP Plus. This changing trend is able to ensure that households' demand for government securities remains strong and that the share of government securities within savings stabilises at a high level.

Chart 34: Retail government securities holdings



** Baby-bond, Half-year Hungarian Government Security (FMÁP), 2-year Hungarian Government Security (2MÁP), Bonus Hungarian Government Security (BMÁP)*
Source: Government Debt Management Agency (GDMA)

The household sector's government securities holdings rose in 2021, and the average residual maturity of the government debt also increased, due to the rise in the share of longer-term government securities. Non-residents' Hungarian government securities holdings (denominated in foreign currency and forint) declined by some HUF 400 billion in total in 2021 (Chart 35). Within that, non-residents' foreign currency denominated government securities holdings increased by HUF 700 billion, while the holdings of forint-denominated government securities dropped HUF 1,100 billion, partly as a result of sales and partly as a result of revaluation. Due to the increasing share of domestic sectors, non-residents' share within the total portfolio decreased moderately and was around 28 percent. Banks' government securities holdings dropped by HUF 780 billion, while those of households rose HUF 980 billion. The central bank's government securities holdings purchased at market value expanded by nearly HUF 1,700 billion in 2021, and thus the government securities held by the MNB rose to 7.5 percent of the total outstanding amount. In line with the GDMA's target, with the preference towards longer-term bonds, the average residual maturity of Hungarian government debt advanced further in 2021, amounting to 6.8 years at the end of the year, which is a significant rise compared to 5.6 years in 2020.

Chart 35: Government securities holdings of households, banks and non-residents

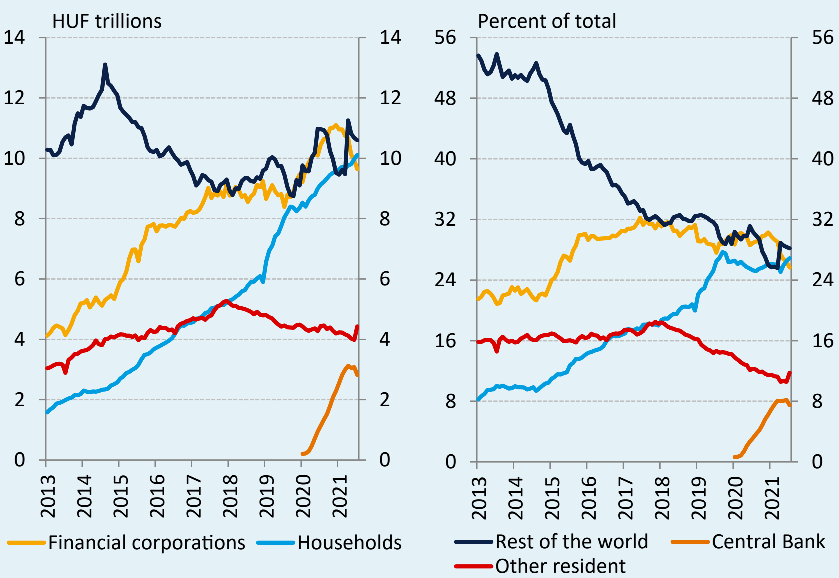
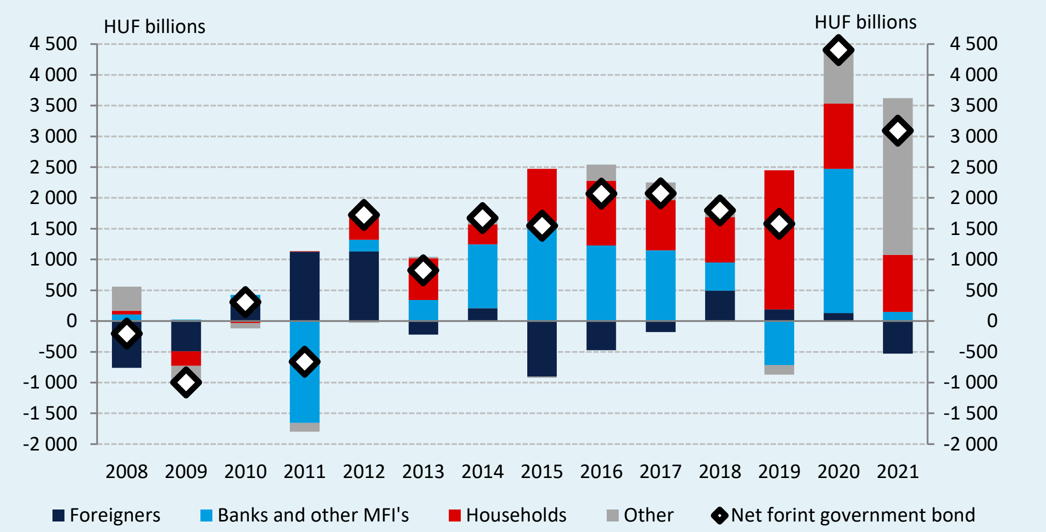
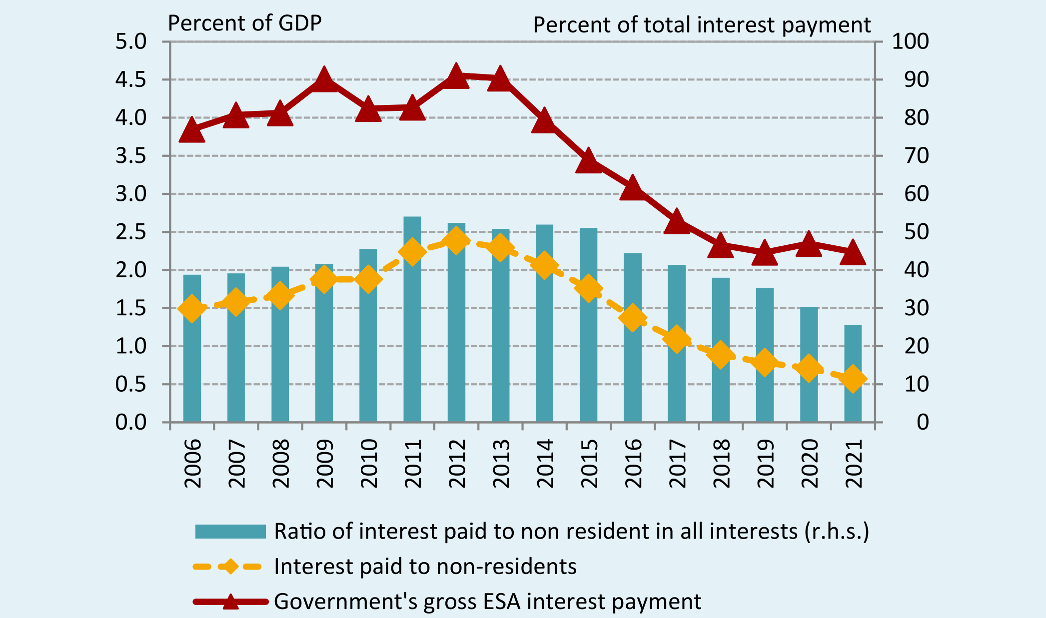


Chart 36: Net demand of sectors for HUF-denominated government securities (annual transactions)



In 2021, government interest expenses amounted to 2.2 percent of GDP. Interest expenditure remained low in historical terms, and the amount of interest paid to non-residents declined further (Chart 37). In view of the strong economic growth, government interest expenditure declined by 0.1 percentage point compared to 2020. The repricing effect of the expected increase in the yield environment is somewhat restrained by the extension of the government debt maturity, and thus interest expenditures may rise slightly in the future. In 2021, government interest paid to non-residents fell to 0.6 percent of GDP, accounting for roughly 25.6 percent of the total interest expenditure. Last year, forint bonds accounted for the largest part of the issuance, and thus the ratio of interest paid on these instruments rose within interest expenditures. As a result of the fall in 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 37: Development of the interest expenditures of the general government

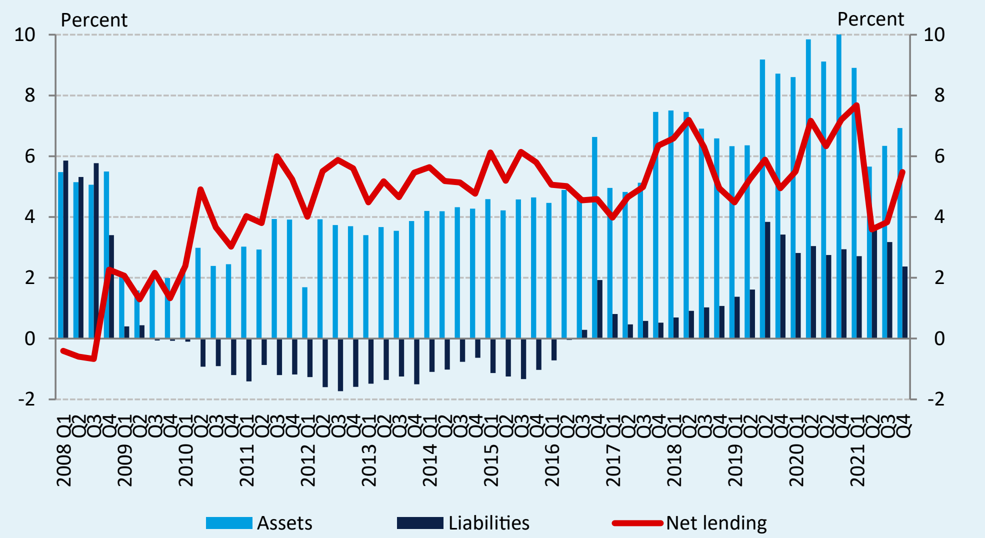


Source: MNB, Eurostat.

4.2 Households

Following a temporary decline in the middle of the year, the net lending of households according to underlying trends rose to 5.5 percent of GDP in 2021 Q4, falling short – on the whole – of the high level observed in 2020 (Chart 38). In relation to the coronavirus pandemic, households accumulated substantial forced savings in 2020, spending a large part of that on boosting their consumption after the lockdowns were lifted. In parallel with that, households' net financial savings fell to 4 percent of GDP in the middle of the year. As a result of a further rise in incomes in H2 and one-off social benefits (e.g. the pension premium) as well as the repeated increase in uncertainty in view of the new wave of the pandemic, seasonally adjusted net savings rose to 5.5 percent of GDP. Growth in borrowing continued to be driven by the prenatal baby support loans in 2021: in parallel with the stable rise in housing loans, the drawdown of prenatal baby support loans gradually declined from a high level in the second half of the year.

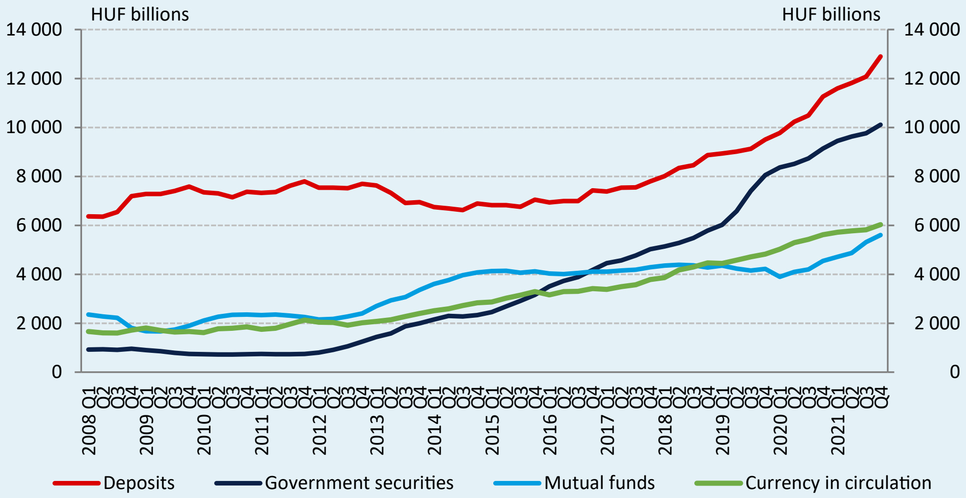
Chart 38: Households' net lending according to underlying trends* (seasonally adjusted data as percent of GDP)



**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.*

The broad-based growth in households' financial assets continued in 2021, which was especially visible in the case of mutual fund shares (Chart 39). The steady expansion of households' government securities holdings since 2012 continued in 2021 as well, although the rate of growth was slightly below the 2020 level. In parallel with that, households also further increased their savings in bank deposits, primarily including overnight deposits. The expansion in cash savings decelerated considerably in 2021, with possible contributions from the use of forced savings as well. Within mutual fund shares, domestic and international equity funds and mixed funds expanded significantly, the underlying reason for which may have been that – as in the case of portfolio equity investments abroad – households considered the period following the fourth wave of the coronavirus pandemic as a favourable point of entry. Households' robust demand for government securities facilitated the domestic funding of the general government in 2021 as well, which is favourable with respect to Hungary's external vulnerability.

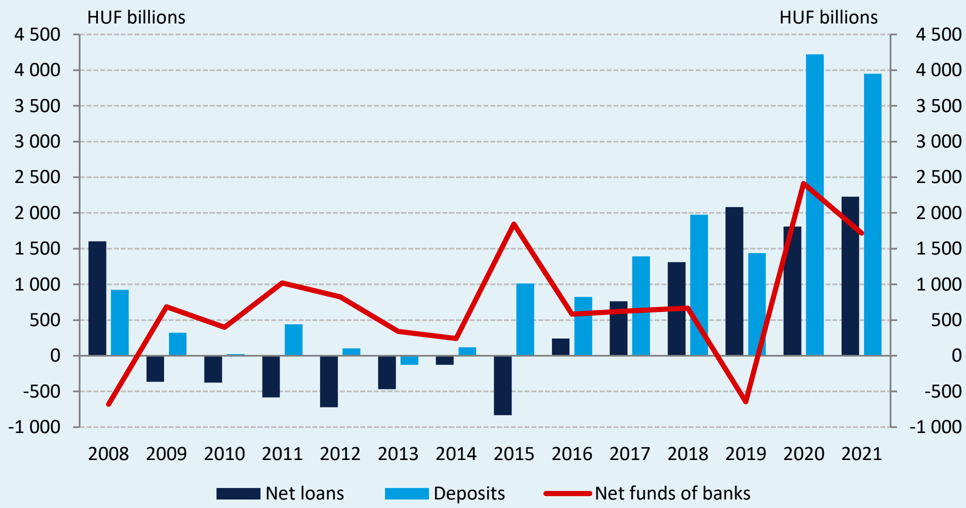
Chart 39: Stock of households' key financial assets



Box 3: Developments in the private sector's bank loans and deposits

The private sector's net borrowing increased slightly in 2021, but in parallel with a high level of deposits, banks' net liabilities from the private sector continued to rise. The bank loans of households and companies contracted continuously in the post-crisis years, but there was a turnaround in 2016 (Chart 40). In relation to the pandemic, the private sector's borrowing growth came to a halt in 2020, while deposit placements were extremely high, declining only slightly in 2021 as well, which was attributable to the significant income outflow and government transfers. Accordingly, the net liabilities of banks grew significantly, i.e. in addition to lending by banks, the financing of other bank operations (e.g. purchase of government securities or other securities) was also allowed by the deposits of the private sector.

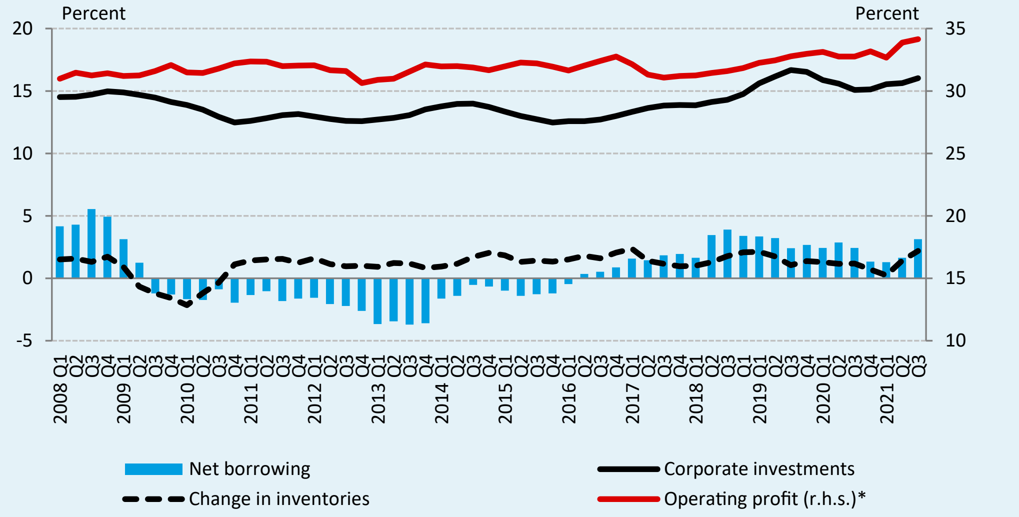
Chart 40: Development of the private sector's bank loans and deposits



4.3 Corporate sector

Corporate net borrowing rose considerably as a result of growing investment and inventory accumulation. In 2021, according to real economy developments, in spite of the rising energy prices and subdued export performance, the corporate sector's four-quarter operating profit as a percentage of GDP rose slightly. In addition, together with the expansion in investment as a percentage of GDP, inventory accumulation by the sector increased steadily during the year, resulting in a rise in four-quarter corporate net borrowing as a proportion of GDP (Chart 41).

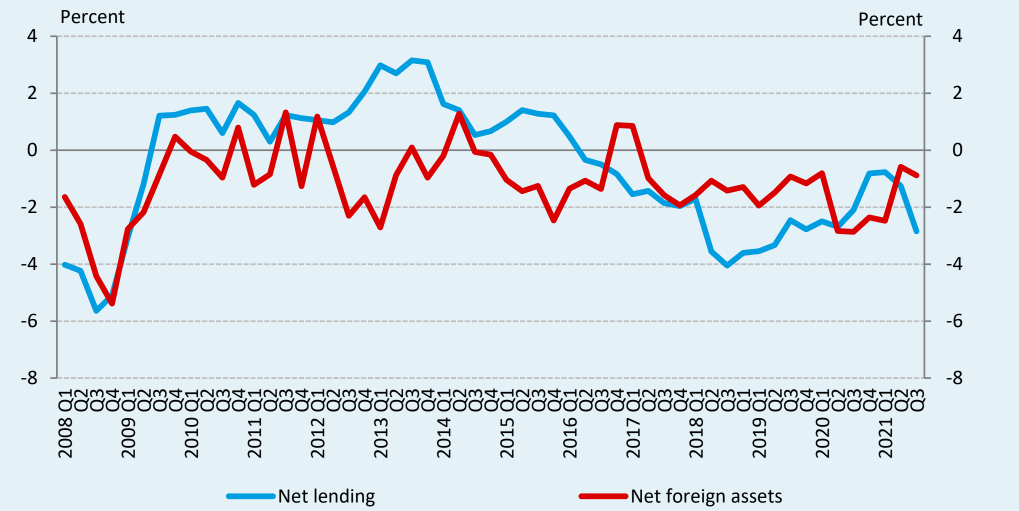
Chart 41: Non-financial corporations' net borrowing and its main factors (four-quarter values as a percentage of GDP)



** Indicator adjusted for 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' rising net borrowing, the value of the change in the sector's net foreign assets is still negative, although to a declining degree, indicating moderate external borrowing (Chart 42). The rise in corporate liabilities was attributable to the increase in bank loans and corporations' foreign – partly intercompany – loans, while liabilities from reinvested earnings also grew. The rise in the corporate sector's bank loans was significantly facilitated by the moratorium used by companies, the FGS Go! scheme and state-owned banks' loan and guarantee schemes. Domestic loan type liabilities were increased by the significant amount of bonds issued by companies in Q3. Accordingly, the sector's increasing net borrowing was supported by the expansion in domestic borrowing.

Chart 42: 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 2021 Q3.

5 Regional overview

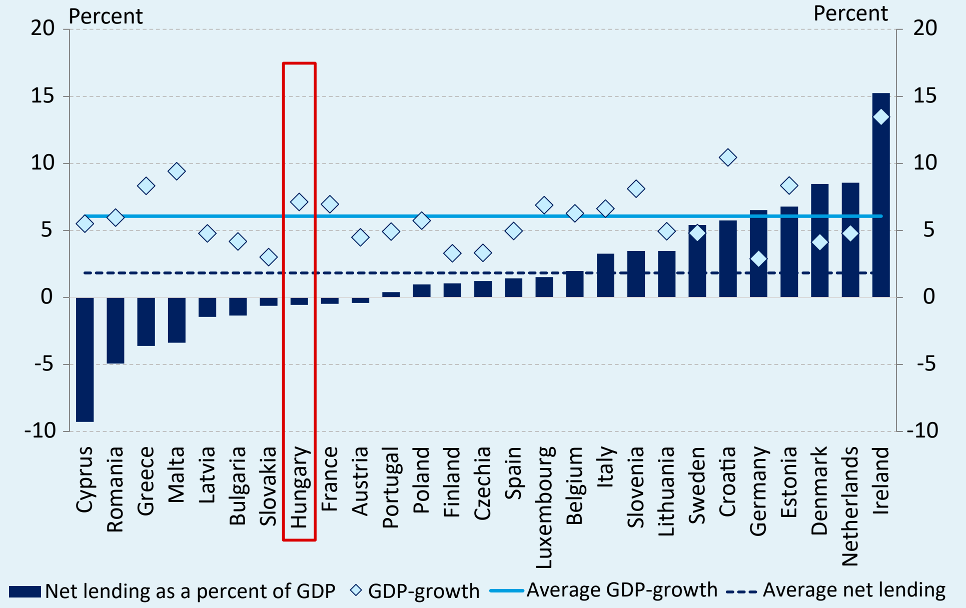
Hungary's external balance indicators in 2021 fell short of the values typical in the Czech Republic or Poland, but were around the level of Slovakia and exceeded the value for Romania. Developments in the countries' external balance positions were driven by the changes in the balance of goods. The latter was significantly influenced by the lockdowns due to the coronavirus pandemic, the effect of the easing and lifting of the containment measures as well as by the global shortage of semiconductors observed in H2 as well, the deterioration in the terms of trade due to high commodity and energy prices and the drop in external demand in view of the above. At the same time, services balance surpluses and the transfer balance in the whole region continued to significantly contribute to the reduction of the negative effects stemming from the balances of goods. In 2021, the income balance deficit typically increased in the countries of the region, which was attributable to a decline in employee compensation and the deterioration in corporate profit balances in some places. In addition to the external environment, regional developments also reflect the effects of internal factors: domestic absorption typically rose in the region, driven by a pick-up in investment activity and consumption. The private sector's net financial savings declined in parallel with economic reopening, while the government's net borrowing fell, following a surge in the previous year. The impact of the expansion in nominal GDP offset the rise in external liabilities, and thus the decline in net external debt indicators continued in the region in 2021 again. In a regional comparison, Hungary's net external liabilities and debt correspond to the level observed in the other countries.

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. Accordingly, our regional overview is mainly based on these aspects. 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 and does not always show the same trends as those observed in the Visegrád countries.

5.1 Brief overview of the situation in Europe

Economic growth in Hungary exceeded the EU average in the pandemic situation, but was coupled with net lending below the EU average (Chart 43). External balance developments and economic performance in the EU countries were mainly influenced by the effect of the lockdowns and easing related to the coronavirus pandemic in 2021 as well. Following the steep downturn in the European Union in 2020, the economic recovery and upswing were a general phenomenon, the degree of which was also influenced by the extent of restrictions and the easing (also related the severity of the pandemic) introduced in the given country. In H2, however, external balance indicators already deteriorated in Europe as well due to the global shortage of semiconductors, the deteriorating terms of trade in view of the high commodity and energy prices, and the declining external demand as a result of the above, with net borrowing evolving in a number of countries in 2021. Hungary's net lending was around the average of the region: it fell short of the figures for Poland and the Czech Republic and was nearly at the same level as in Slovakia, while it exceeded the Romanian level. Of the countries of the region, with growth of 7.1 percent, Hungary recorded the strongest economic upturn in 2021.

Chart 43: Development of net lending and growth in 2021

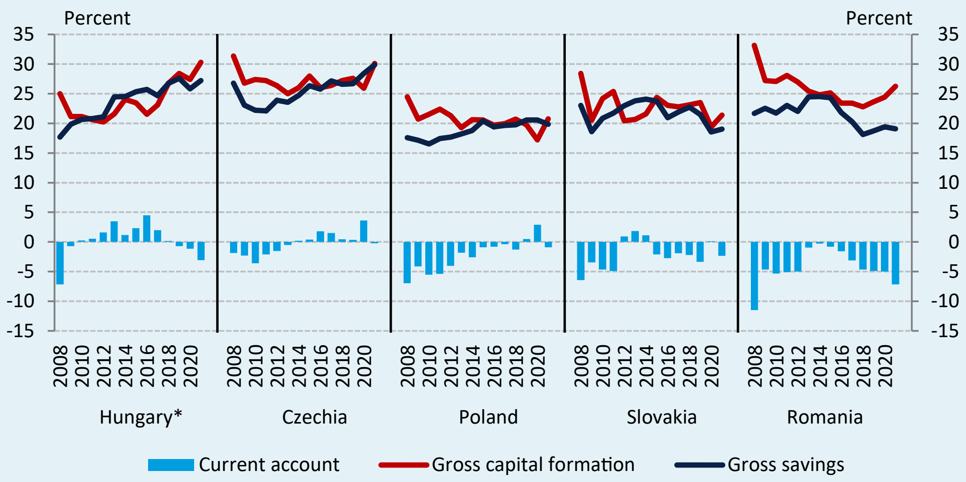


**Annual volume change in four-quarter GDP between 2020 and 2021.*
Source: Eurostat.

5.2 Gross saving and investment

In 2021, gross capital formation expenditures typically increased in the region. At the same time, due to developments in gross savings there were significant differences in the changes in external balances across countries (Chart 44). An economy's current account 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 blocked by the drop in domestic demand as a result of last year's pandemic. In 2021, however, investment activity compared to the previous year increased in all the countries of the region with the easing and partial lifting of the containment measures, the relaunching of previously postponed investment projects and the increasing changes in inventories typical in the Visegrád countries in H2, while the reaction of savings rates varied across countries. As in previous years, the rate of accumulation continued to be the highest in Hungary in 2021, while the highest savings rate was measured in the Czech Republic: In the Czech Republic – where both indicators are similarly high as in Hungary – both investments and gross savings increased. In parallel with a rise in gross capital formation, the savings rate declined in Poland and Romania, which was reflected in an increase in the current account deficit. In Slovakia, the increase in capital formation as a percentage of GDP exceeded the rise in the level of savings, entailing an increase in the current account deficit. However, it is worth emphasising that in spite of the rise in 2021, the Slovak savings rate is well below the level that used to be typical there and is also far below the figures for Hungary or the Czech Republic.

Chart 44: Development of gross savings and total investment ratios (as a percentage of GDP)*

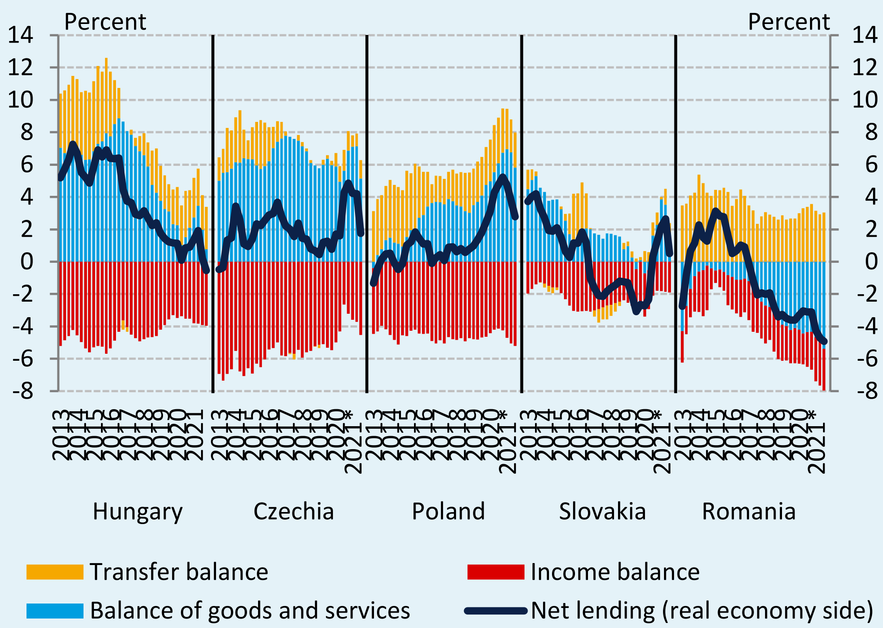


** For 2021, the gross savings ratio will be derived from the accumulation and current account data. 2021 values in the rest of the region are based on WEO estimates.*
Source: MNB, KSH, WEO.

5.3 Real economic factors of net lending

The external balance typically deteriorated in the countries of the region in 2021 (Chart 45). At end of 2021, according to data available until Q3, the four-quarter net lending of Hungary calculated on the basis of real economy data at the annual level is expected to be slightly below the figure for Slovakia and well below the values for the Czech Republic and Poland, significantly exceeding the Romanian level. At the same time, a deterioration in net lending similar to the one in Hungary was observed in the region: net lending declined substantially in the Czech Republic and Slovakia in 2021 Q3, while it declined in Poland both in the second and third quarters. In contrast to the region, Romania has been characterised by net borrowing for a longer time, and this increased further in 2021, to nearly 5 percent of GDP.

Chart 45: Net lending in the countries of the region (four-quarter values as a percentage of GDP)



** The 2021 value is a four-quarter figure up to the third quarter.*
Source: Eurostat, national central banks.

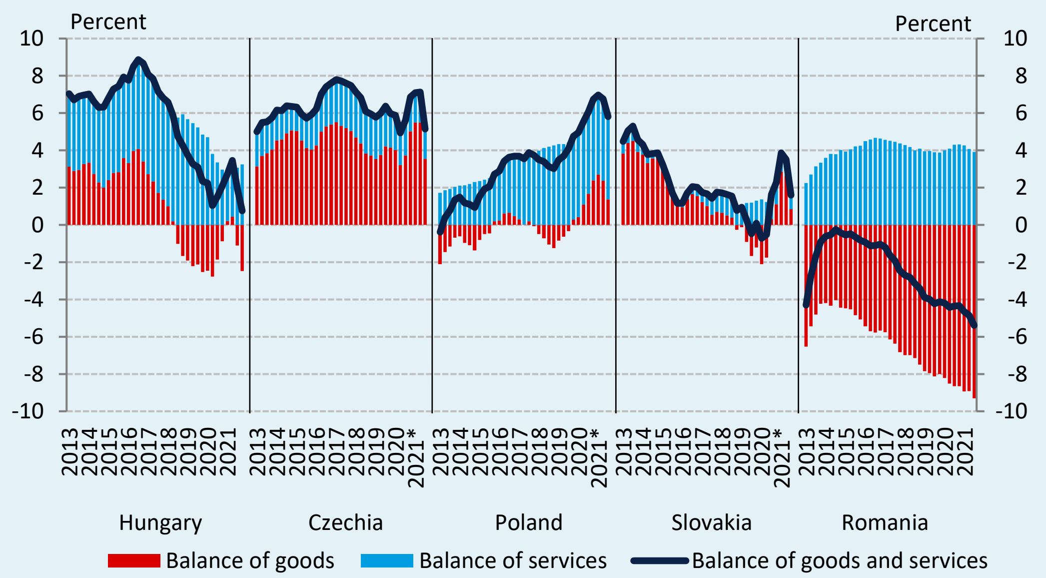
Changes in external balance indicators were determined by the following factors:

- In the first half of 2021, as in Hungary, the surplus of the **goods and services balance** as a percentage of GDP also increased in the Visegrád countries with the start of a pick-up in the services sector and a continued recovery of the economy, prior to the adverse impact on the trade balances from a deterioration in the goods balances due to global supply disruptions in production and surging commodity and energy prices in the second half of the year. By contrast, the decline in the trade balance in Romania only decelerated in the first half of 2021, followed by major worsening in the second half of the year, as in the other countries.
- The **income balance** deficit typically increased in the countries of the region during 2021, which was attributable to a decline in employee compensation and developments in corporate profit balances.
- The **transfer balance** typically supports the economy's external balance position in the countries of the region. In 2021, the value of the transfer balance as a percentage of GDP was the highest in Romania, followed by the figure for Hungary, while this value was the lowest in Slovakia. EU transfer inflows typically slowed down in the first half of 2021, before stabilising and accelerating in the whole region from Q3. Of the countries of the region, Hungary is still a leader in the absorption of EU funds: in 2021, the use of EU transfers was the highest in Hungary and Poland.

5.4 Trade balance

The deterioration that took place in the goods balances of the countries of the region could not be offset by the moderate improvement in the services balance due to the slow reopening of services and tourism (Chart 46). Similarly to Hungary, the weight of vehicle and electronic products manufacturing is significant within industrial production and exports of the other countries of the region as well, which typically reduced the trade balances through deteriorating goods balances due to the shortage of semiconductors and disruptions in supply chains from Q3. Services balance surpluses in the whole region continued to significantly contribute to the mitigation of the negative effects stemming from the goods balances. According to data available for the region through Q3, services balance surpluses declined slightly in Romania and Slovakia, were stagnant in Czechia and Poland, but grew slightly in Hungary. On the whole, however, trade balances – which had been improving as a result of the recovering industrial production and exports – started to deteriorate again in the second half of 2021. Accordingly, the indicators for Slovakia and Hungary declined to nearly 1-1.5 percent. In spite of the decline, exceeding the regional average, the value of the trade balance in Poland and Czechia was around 5-6 percent of GDP, while the deficit in Romania fell to below -5 percent.

Chart 46: Distribution of the balance of goods and services (four-quarter values as a percentage of GDP)

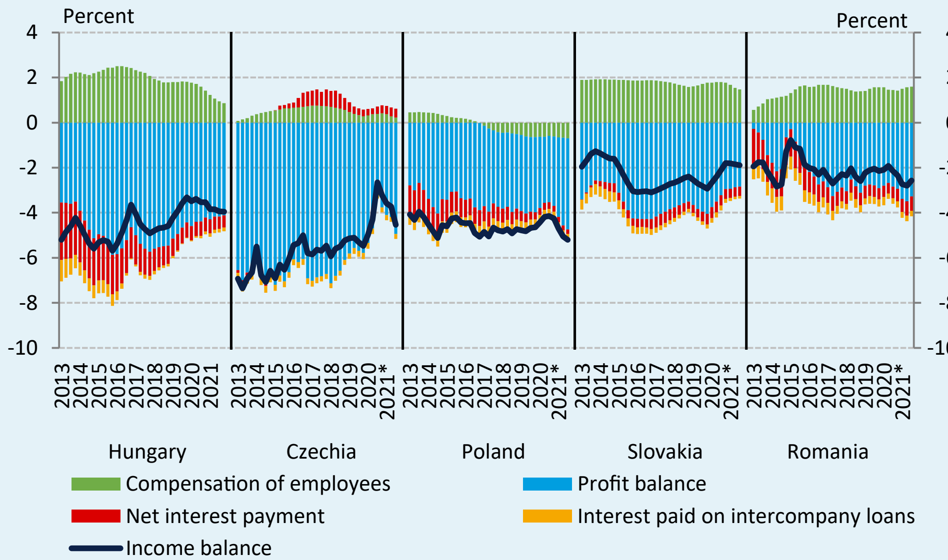


** The 2021 value is a four-quarter figure up to the third quarter.*
Source: Eurostat.

5.5 Income and transfer balance

In 2021, the income balance deficit typically increased in the countries of the region, which was attributable to a decline in employee compensation and the deterioration in corporate profit balances in some places (Chart 47). In 2021, the income balance deficit is usually reduced by the income of employees temporarily working abroad, but this declined compared to the previous year in Hungary, Czechia and Slovakia, which may be attributable to the lay-offs due to the pandemic. As regards temporary labour incomes, Poland is an exception, since in recent years it employed a large number of Ukrainian workers,[5] and the value of their income earned in Poland typically exceeds the income of Polish workers temporarily working abroad, which increases the income balance deficit. Non-resident companies[6] 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. In Poland and Czechia, the deficit of profit balances increased during 2021 in spite of the pandemic, i.e. the pandemic did not have a negative impact on the profitability of the foreign-owned companies producing there, and thus in these countries it contributed to the worsening of the income balance, while in the other countries of the region this indicator was rather stagnant. In 2021, the balance of interest paid to the non-resident sector had no material impact on the income balances of the region's countries.

Chart 47: Development of income balance components* (four-quarter values as a percentage of GDP)



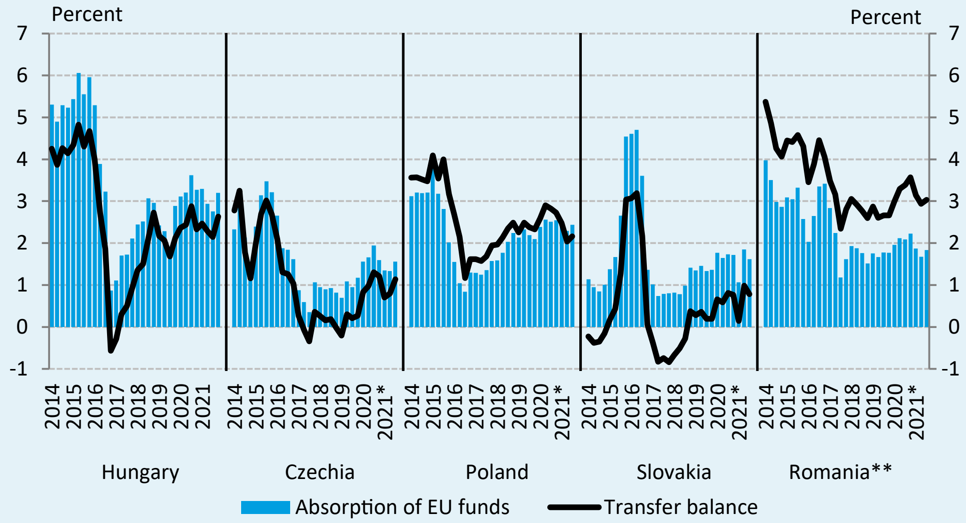
** The 2021 value is a four-quarter figure up to the third quarter.*
Source: Eurostat.

EU transfer inflows typically slowed down in the first half of 2021, before stabilising and accelerating in the whole region from Q3. Hungary continues to be at the forefront in the use of funds among the countries in the region (Chart 48). The transfer balance supports the external balance position to a varying degree, which is largely determined by the accelerating inflow of funds that may be absorbed in the EU 2014-2020 programming cycle towards the end of the cycle. In Hungary, the four-quarter EU transfer absorption increased to more than 3.5 percent of GDP in 2020, before declining again until 2021 Q3 and rising once more to above 3 percent at the end of the year. The indicator for Poland amounted to 2.5 percent of GDP in 2021. At the beginning of the year, EU transfer absorption in Slovakia declined to nearly 1 percent, before rising to above 1.5 percent by Q3, similarly to the Czech Republic, where, following a minor decrease, it increased to nearly the end-2020 level, i.e. to 1.5 percent by 2021 Q3. EU transfer absorption was below 2 percent of GDP in Romania.

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

[6] 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'.

Chart 48: Transfer balance and the absorption of EU transfers in the countries in the region (as a percentage of GDP)

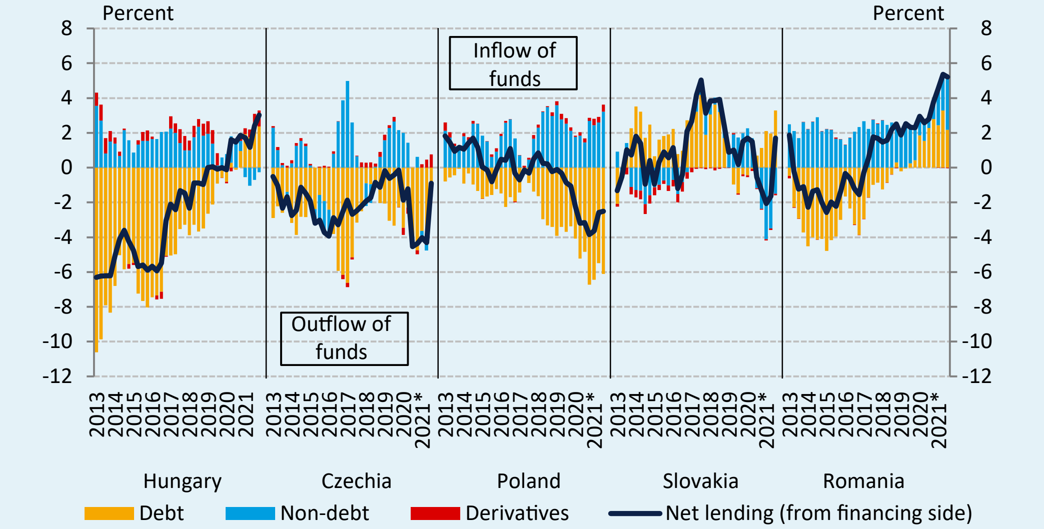


** The 2021 value is a four-quarter figure up to the third quarter.*
*** Data for secondary income is missing for 2020-2021.*
Source: Eurostat.

5.6 Financing side developments

According to the financial account, a rise in external liabilities was common in the majority of the countries of the region in 2021, concerning both debt and non-debt liabilities (Chart 49). Developments in financing vary across the countries of the region, but the direction of the changes in 2021 indicate a decline in the external balance position in every country. In Czechia and Poland, the previous year's major outflows of funds decelerated in the second half of 2021, while increasing net inflows of funds took place in Hungary, Slovakia and Romania. In terms of the types of funds, non-debt liabilities were already increasing in the region as of H2, following declines related to the pandemic situation experienced in the previous year and in early 2021. The expansion in non-debt liabilities was the greatest in Poland and Romania, while the rate of fund outflow dropped considerably in Slovakia. Despite the differences in levels seen in the developments in financing in the region, the dynamics of the changes in debt liabilities showed similar pictures across the countries of the region: debt inflows accelerated in parallel with a rise in net borrowing in Hungary, Slovakia and Romania, while debt outflows slowed considerably in Czechia, in parallel with a fall in net lending. Of the countries of the region, the drop in the external balance position was the most moderate in Poland, and in line with that the pace of debt outflow declined only slightly.

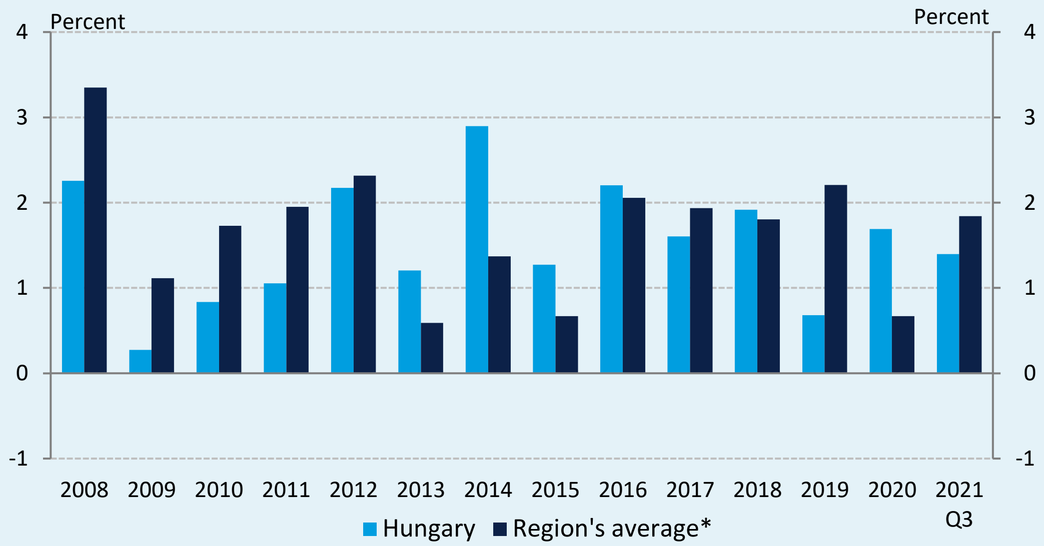
Chart 49: Net borrowing and the form of financing (four-quarter data, as a percentage of GDP)



** For the countries of the region, data were available up to 2021 Q3.*
Source: MNB, Eurostat.

The foreign direct investment-to-GDP ratio rose in the region from the previous year's low level, and was close to the average level seen between 2016 and 2018 (Chart 50). In the past ten years, net FDI inflows followed a similar pattern in the region's countries. After a downturn following the crisis, FDI inflows shifted upwards from 2010 and following a temporary decline in 2013, they then began to rise again. Between 2016 and 2018, FDI inflows to Hungary fluctuated around 2 percent of GDP, similarly to the average of the countries in the region. Contrary to the developments observed in the region, net FDI inflows to Hungary rose in 2020, and continued to do so at a similar pace in 2021 as well. The correlation between the net foreign direct investment inflows of the regional economies indicates that, in line with global economic trends, non-residents essentially judge these countries similar for investment purposes.

Chart 50: Net FDI inflows in the Visegrád countries (as a percentage of GDP)

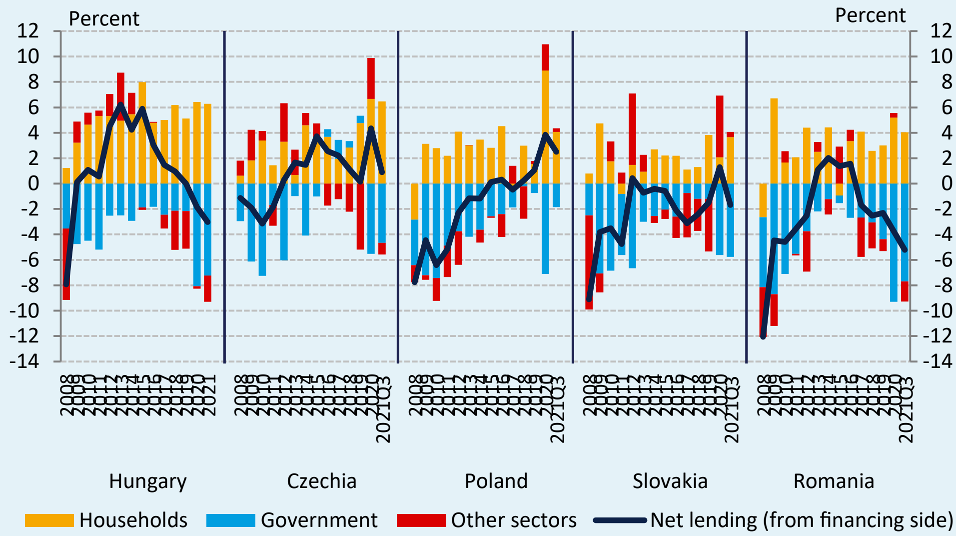


** For the countries in the region, four-quarter data were available up to 2021 Q3.*
(The regional average does not include Hungary.)

5.7 Financial savings of individual sectors

In parallel with economic reopening, savings developments in the regional countries were similar in 2021 again: the net financial savings of the private sector typically declined, whereas the budget deficit contracted, following a surge in the previous year (Chart 51). Net lending in the regional countries declined in each country in 2021, which is primarily attributable to a pick-up in corporate investment activity, following a major drop in 2020; the net lending of companies typically turned into net borrowing again. In parallel with a renewed upturn in consumption, households' net financial savings declined everywhere (except Slovakia), which was also attributable to a decrease in the forced savings related to the lockdowns. Households' net financial savings continue to be the highest in the region in Hungary and Czechia (exceeding 6 percent of GDP); households' savings in these two countries declined only slightly in 2021. As a result of the renewed growth of economies, in parallel with an increase in tax revenues and a decline in the costs of reopening and prevention, the budget deficit decreased compared to the outliers of the previous year. Nevertheless, it typically continued to exceed the levels seen prior to the outbreak of the coronavirus pandemic.

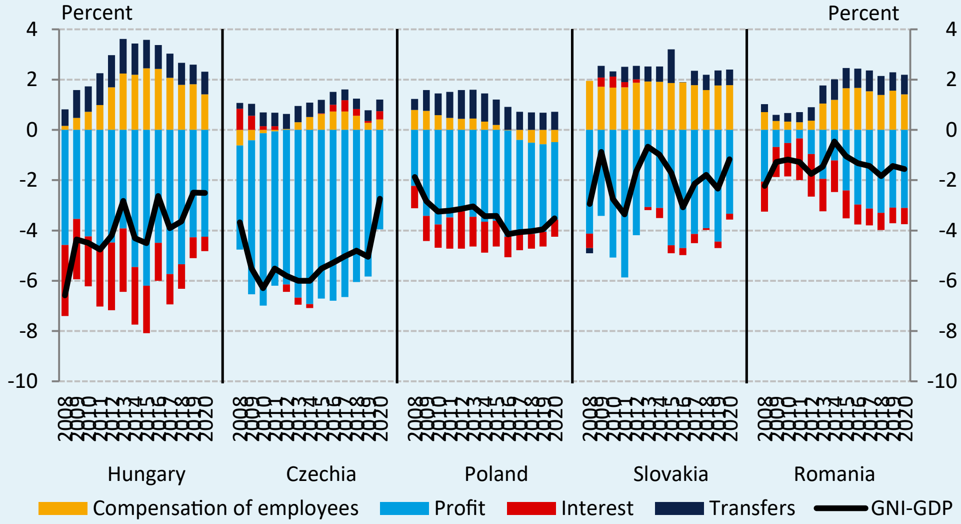
Chart 51: Net lending of the economy in a breakdown by sector (as a percentage of GDP)



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

Hungary's GDP–GNI gap, which stabilised below 3 percent in 2020, roughly corresponded to the average of the region, while the increase in the income balance deficit in 2021, which is typical across the region, points to a widening of the gap. Compared to the level before the 2008 crisis, the gap between production and income decreased to the largest degree in Hungary, which managed to work off the difference compared to the region in terms of this indicator. In 2020, the gap between GDP and GNI stabilised below 3 percent of GDP (Chart 52). 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. Due to this, the profit deficit in the Visegrád countries was between 4 and 6 percent of GDP in the previous years, whereas in Romania, which joined the EU later, it also exceeded 3 percent of GDP. In 2020, in spite of the economic downturn, foreign-owned companies' profits remained relatively stable in Poland, Romania and Hungary, while the downswing was greater in the other countries of the region. Previously, the national income in the countries of the region was less and less reduced by the interest balance, which was primarily supported by the low international interest rate level. Due to the compensation of employees working abroad and the inflow of EU funds, the primary transfers reduce the GDP-GNI gap in the region. Contrary to other countries in the region, in Poland the balance of the wages of employees temporarily working abroad is negative.

Chart 52: Factors of the GDP-GNI gap

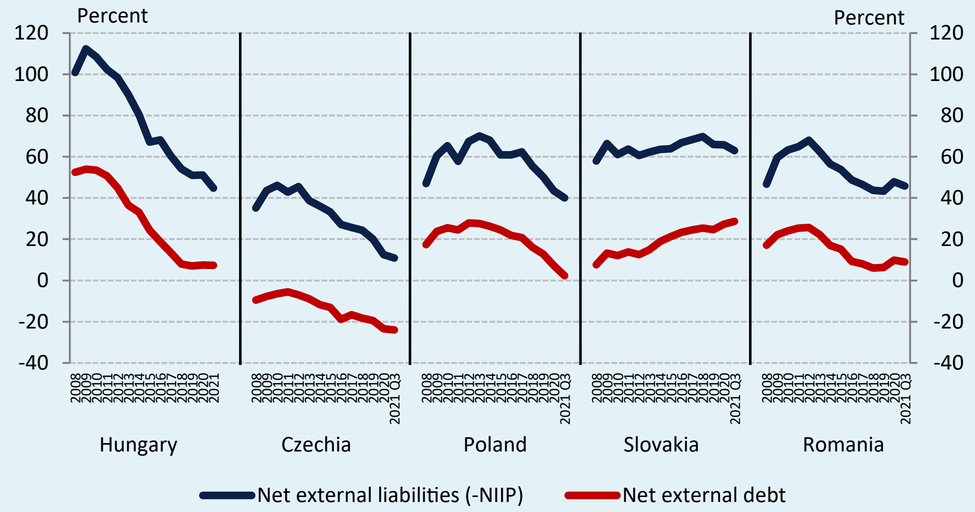


** Transfers included in other primary incomes.*
Source: Eurostat, HCSO.

5.8 External debt indicators

The decline in net external debt indicators continued in most countries of the region in 2021, and Hungary's net external liabilities and debt are in line with average levels observed in the other countries (Chart 53). Due to the steady decline since 2009, Hungary's net external debt fell to below 45 percent of GDP by the end of 2021, and is thus already lower than the Slovak figure, but still exceeds the Czech indicator. In terms of net external debt, Hungary experienced the strongest adjustment since the 2008 crisis, falling from an extremely high level of over 50 percent of GDP to below 8 percent of GDP by 2019 and then stabilising at this level in the past two years. Except for Slovakia, net external debt has typically been declining in the other countries of the region as well since the crisis, but due to the significant decline in Hungary, the net external debt of the Czech Republic and Poland is lower than the Hungarian figure (in the case of the former, foreign liabilities are exceeded by foreign receivables). Of the developments in the region in 2021, it is worth emphasising that the debt indicators, which had been temporarily increasing before, declined again in Romania in 2021. A major role in the changes in debt ratios in the region was played by the 2021 economic growth, which contributed to improvements in the debt indicators even in the countries that showed debt inflows.

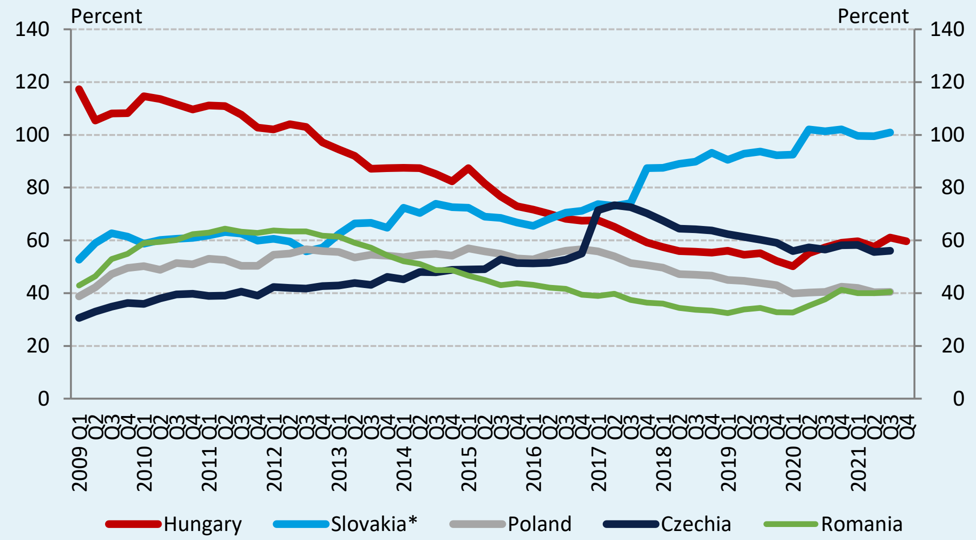
Chart 53: Development of net external liabilities and external debt (as a percentage of GDP, debt without intercompany loans)*



** For the countries of the region, the data set is until 2021 Q3.*
Source: MNB, Eurostat (data for Hungary without SPVs).

Following an increase last year, the gross external debt-to-GDP ratio excluding intercompany loans stabilised in the majority of the countries of the region, and the figure for Hungary was close to the Czech debt ratio (Chart 54). 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, it fell below the Czech and Slovak levels by 2016, reaching the mid-range for the region. Following a rise in the previous year, gross external debt stabilised in the countries of the region in 2021, in parallel with the renewed economic expansion. The growth in the Slovak gross external debt was caused by the TARGET liabilities accumulated as a result of the euro area accession, the rise in which may have been also attributable to the liquidity increasing measures of the ECB in 2020.

Chart 54: Development of gross external debt in the countries in the region (as a percentage of GDP, excluding intercompany loans)



*Note: * The increase in Slovakia's gross external debt is also attributable to the debt increase related to the euro area payment system. For the countries of the region, the data set is until 2021 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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