# REPORT ON THE BALANCE OF PAYMENTS

2023
JANUARY

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

*Letters 27*
*Gábor Bethlen*

# REPORT ON THE BALANCE OF PAYMENTS

2023

JANUARY

Published by the Magyar Nemzeti Bank

Publisher in charge: Eszter Hergár

H-1013 Budapest, Krisztina körút 55.

www.mnb.hu

ISSN 2064-8707 (print)

ISSN 2064-8758 (on-line)

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

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

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

*The analysis was prepared by the Directorate Monetary Policy and Financial Market Analysis. Contributors: Judith Balázs, Anna Boldizsár, Gábor Horváth, Péter Koroknai, Balázs Sisak and Daniella Tóth. The Report was approved for publication by Barnabás Virág, Deputy Governor.*

*The Report is based on information pertaining to the period ending 22 December 2022.*

# Summary

***The current account deficit of the Hungarian economy rose*** *in 2022 Q3, the change was broadly in line with the* ***developments typically also seen in the other countries in the region. The energy balance, which deteriorated significantly due to energy prices peaking in the summer, raised the four-quarter deficit of the current account to 7.3 percent of GDP,*** *while net borrowing corresponded to 4 percent of GDP. The* ***decline in external balance indicators was mainly attributable to the lower balance of goods,*** *but the transfer balance also fell slightly, while the change in the services surplus and the income balance both had a contrasting effect.*

*The economy's net borrowing according to the financial account exceeded that of the previous quarter and* ***was primarily financed by net foreign direct investment,*** *but moderate net debt inflows also continued. In addition to reinvested earnings, significant inflows of new, equity-type funds also contributed to the* ***record high quarterly net FDI inflow of more than EUR 3.2 billion.*** *The* ***debt inflow was mainly related to the general government and the banking sector,*** *while the indicator for companies dropped considerably.*

*By end-September 2022, Hungary's* ***net external debt*** *according to underlying trends* ***declined to 5.6 percent of GDP, i.e. close to its historical low.*** *The decrease in the debt ratio is attributable to the effect of the revaluation of net outstanding debt due to an increase in yields as well as to the expansion in nominal GDP, which together exceeded the debt-increasing effect of transactions during the quarter. The decline in net external debt was related to improvements in the indicators for non-financial corporations and the general government consolidated with the MNB.* ***Gross external debt*** *rose slightly owing to the banking sector and* ***reached 60 percent of GDP*** *at end-September 2022. International reserves amounted to EUR 38.7 billion at the end of the quarter and thus* ***continued to exceed considerably the level of short-term external debt,*** *which is closely monitored by investors.*

*The* ***external balance position*** *according to the economic sectors' savings declined, as a result of* ***lower net financial savings in the private sector. The decline in the net borrowing of the general government stopped*** *in 2022 Q3, presumably temporarily, due to the large amount of gas purchased during the quarter.* ***Households' and companies' net positions continued to decline,*** *driven by the deceleration in consumption and investment as well as the negative impact of much* ***higher energy and commodity prices*** *on corporate income. Households' financial* ***savings were also eroded by higher consumption expenditure due to rising inflation,*** *which caused the indicator to fall as a percentage of GDP, in conjunction with the robust nominal GDP growth in Q3.*

*In our special topic, we show that in most EU countries* ***the fall in the energy balance due to drastic price increases was also reflected in a deterioration of the current account.*** *In view of the high energy intensity of the Hungarian economy and the low share of renewable energy sources,* ***Hungary's energy dependency is relatively high.*** *Accordingly, Hungary's energy imports as a percentage of GDP rose considerably, increasing faster than those of other EU countries in 2022. A* ***major shift occurred within the energy balance,*** *which was previously mostly driven by oil imports, but is now increasingly dominated by net gas and electricity imports, due to the rise in gas prices. Consequently,* ***the significant fall in gas prices observed since the end of the summer foreshadows a turnaround in net energy imports and thus in the current account*** *as well. Nevertheless, in addition to improving the energy balance of the Hungarian economy, current account items not originating from energy also need to be improved, and thus,* ***in addition to the reduction of energy dependency, a turnaround in competitiveness is also vitally important.***

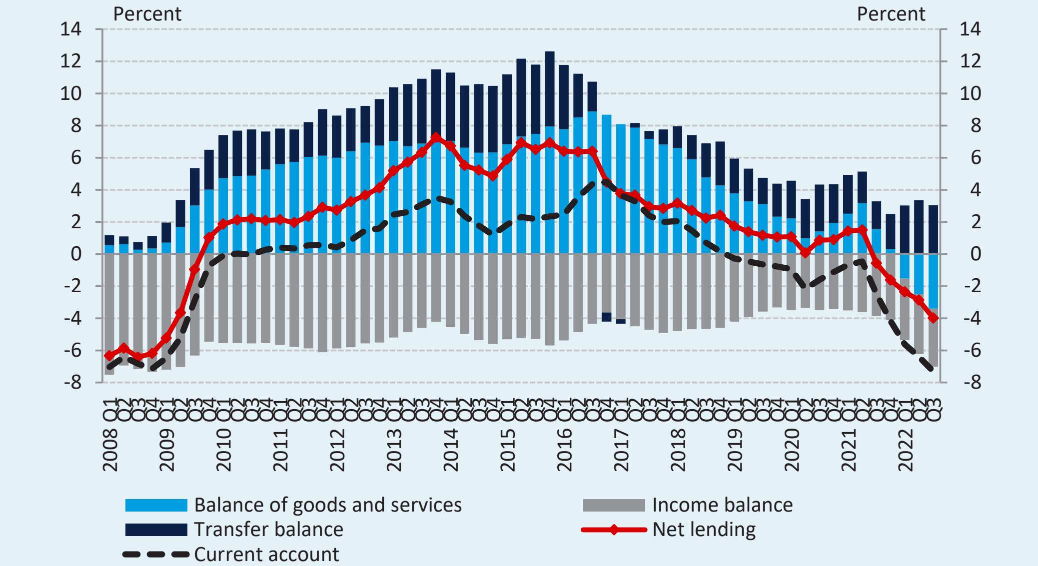
# Content

# 1 Real economy approach

According to the real economy approach, Hungary's four-quarter net borrowing amounted to 4 percent of GDP in 2022 Q3, while the current account deficit stood at 7.3 percent of GDP. The decline in external balance indicators was mainly attributable to the decrease in the trade surplus, which was driven by the deterioration in the energy balance due to worsening terms of trade, but the transfer balance also fell slightly, while the moderate improvement in the income balance had a contrasting effect. Similarly to the developments observed in Hungary, external balance indicators also continued to decline in the countries of the region in the third quarter.

**According to the real economy approach, Hungary's four-quarter net borrowing amounted to 4 percent of GDP in 2022 Q3, while the current account deficit rose to 7.3 percent of GDP** (Chart 1). According to *unadjusted quarterly data*, net borrowing amounted to more than EUR 3.9 billion in the third quarter, as a result of a current account deficit of EUR 4.4 billion, which was partially offset by a capital account surplus of around EUR 0.5 million. The rise in four-quarter net borrowing was mainly due to the trade balance as a percentage of GDP (and within that the energy balance corresponding to a deficit of 8.6 percent).

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

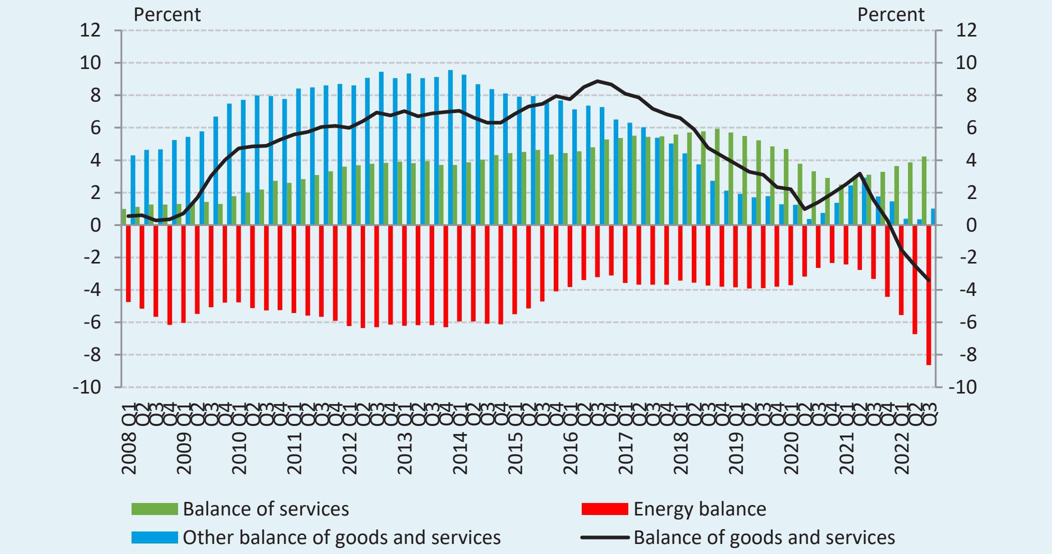



** Income balance: earned income, income on equity and income on debt. Transfer balance: sum of the capital account and other primary and secondary income.*
*Unless otherwise indicated, the source of the charts is the MNB.*

## 1.1 Trade balance

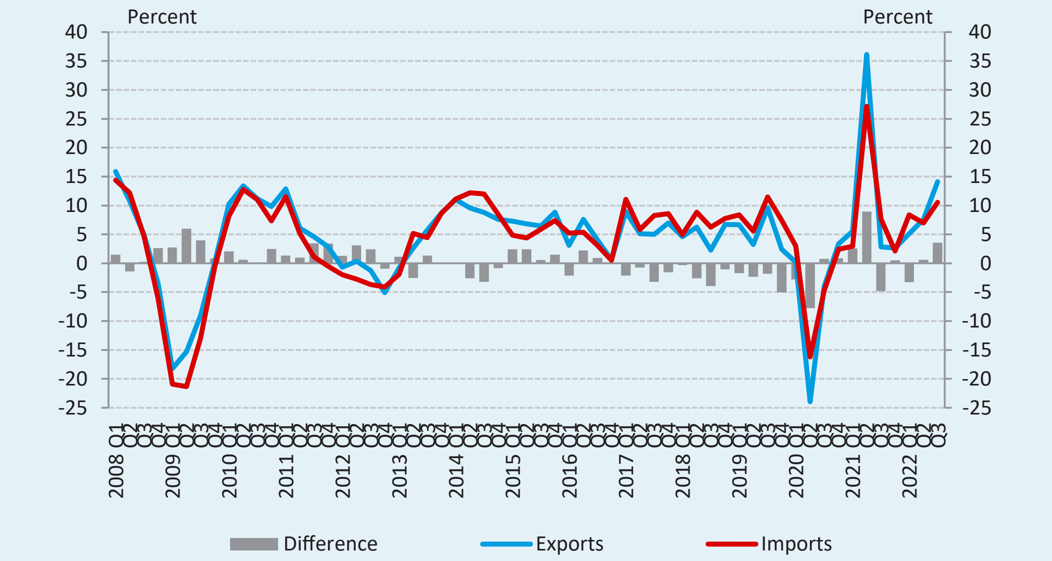
**In 2022 Q3, the four-quarter trade deficit continued to increase, despite improvement in the services balance and the balance of goods excluding energy.** The deterioration in the trade balance was primarily related to the increasing deficit on the energy balance due to the sharp rises in energy prices (Chart 2). Following the previous years' growing negative balance, the balance of goods as a proportion of GDP temporary improved in 2021 H1, but this positive trend broke in 2021 H2, and since then the balance of goods has reflected an increasing deficit. Within the goods balance, it was primarily the deterioration in the energy balance since 2021 that caused the decline in the indicator, which showed a deficit that was nearly 2 percentage points higher in 2022 Q3 versus the previous quarter. The significant negative impact of the energy balance on the goods and services balance is reflected in the fact that the trade balance excluding the energy balance had a surplus of more than 5 percent in the third quarter. Following the downturn due to the outbreak of the pandemic, with the lifting of the containment measures, the surplus on the balance of services, which plays an important role in trade balance developments, reached 4.2 percent of GDP in 2022 Q3, marking the highest level since the beginning of 2020. Another important development is that the surplus on the balance of goods excluding energy also increased in the third quarter, indicating the beginning of adjustment by the economy.

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




**Compared to 2022 H1, export growth and import growth increased more strongly in 2022 Q3, but the still positive exports-to-imports ratio contributed to the improvement in the trade balance** (Chart 3). Both exports and imports accelerated in parallel with the upswing in domestic industrial production, driven by an increase in the output of manufacturing sectors. The difference between export and import growth widened as a result of the stronger export growth and the adjustment that had started in the Hungarian economy. Real growth in exports and imports was around 14 percent and 11 percent, respectively, in the third quarter.

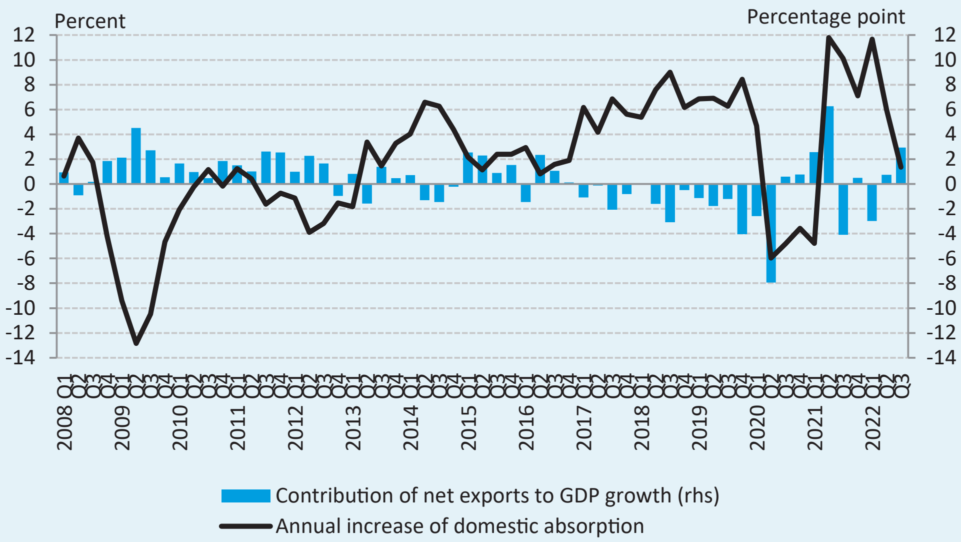
**Chart 3: Annual real growth in exports and imports**




*Source: HCSO, MNB*

**In relation to the above, net exports made positive contribution to growth again in 2022 Q3, while the annual growth rate of domestic absorption was more subdued, in parallel with consumers' adjustment that evolved due to the rising utility costs** (Chart 4). A wide range of absorption items was responsible for the slower growth rate of domestic absorption: in addition to a decline in the real growth of household consumption and actual final government consumption, growth in gross capital formation expenditures also decelerated considerably. The subdued consumption is primarily attributable to consumers' adjustment that evolved due to the rising utility costs. In line with the moderate growth in domestic absorption and the accelerating expansion in exports, the contribution of net exports to GDP was positive.

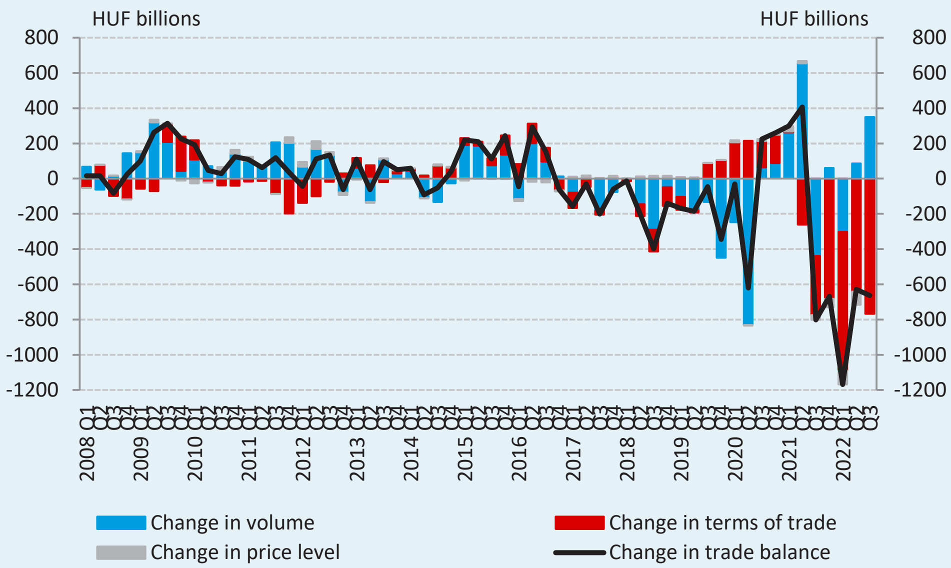
**Chart 4: Annual growth rate of domestic absorption and contribution of net exports to GDP growth**




*Source: HCSO*

**The unfavourable trend in the trade balance in 2022 Q3 was primarily driven by the effect of the deterioration in the terms of trade, whereas the change in volume supported an improvement in the balance** (Chart 5). In the third quarter, in line with the positive growth contribution of net exports, the increase in exports due to volume exceeded that of imports and thus improved the trade balance. At the same time, the continued rise in commodity and energy prices was reflected in a sharp deterioration in the terms of trade, which had an unfavourable impact on the nominal volume of net exports. In addition, in recent quarters the rising level of foreign trade prices – together with the trade deficit – also reduced net exports.

**Chart 5: Development of trade balance factors according to GDP (year-on-year)**

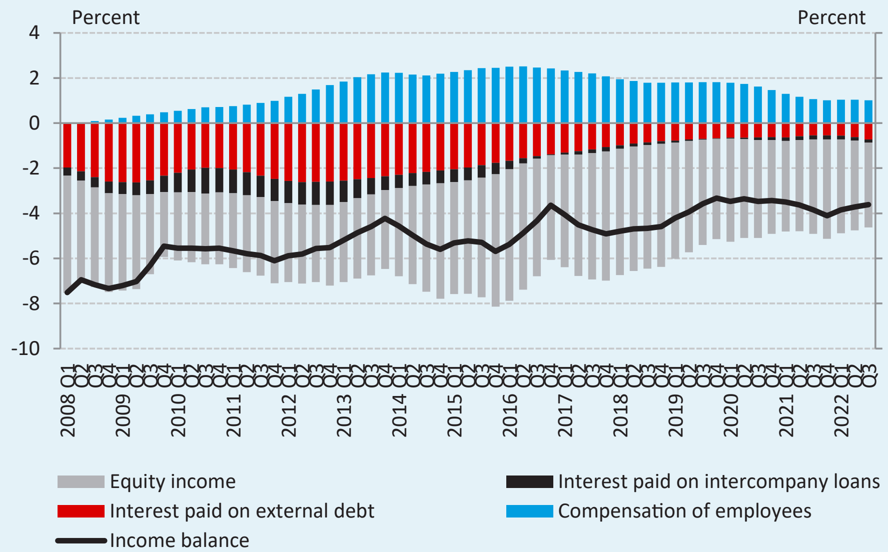



*Source: HCSO*

## 1.2 Income balance

**As a percentage of GDP, the income balance deficit fell slightly further in 2022 Q3, due to lower profit incomes of foreign-owned companies** (Chart 6). In 2021, while the income of residents working temporarily abroad declined, the four-quarter deficit of the income balance exceeded 4 percent of GDP, before falling to 3.8 percent of GDP in 2022 H1 and 3.6 percent of GDP in 2022 Q3, primarily due to the lower estimated profit of foreign-owned companies. At the same time, interest paid on external debt had a slightly negative impact on the changes in the indicator, in parallel with higher nominal debt and the rising interest rate environment. Despite the lifting of containment measures, Hungarian employees' income from abroad remained at an unchanged low level of around 1 percent of GDP (compared to nearly 2 percent prior to the pandemic).

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

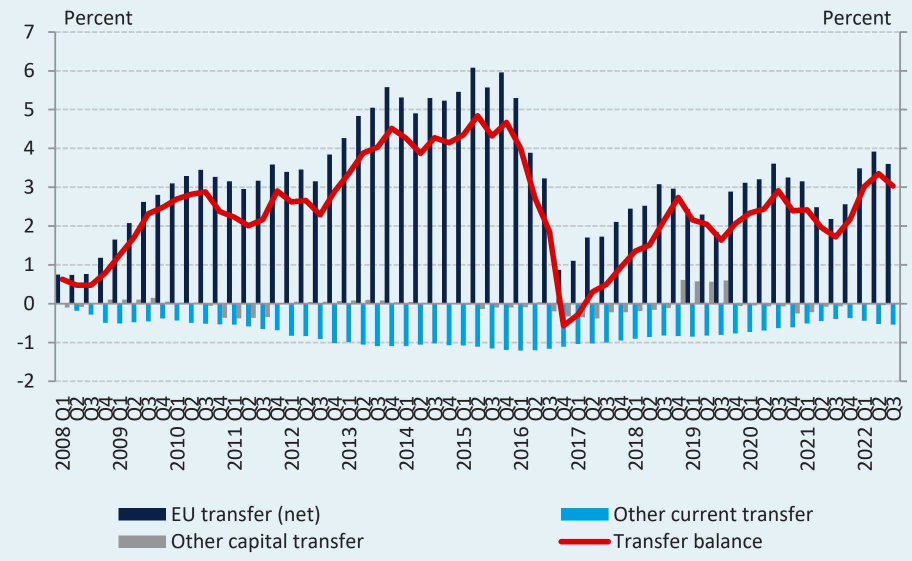



** Income balance: earned income, income on equity and income on debt.*

## 1.3 Transfer balance

**In 2022 Q3, the surplus on the transfer balance was 3 percent of GDP, which mitigated the impact of trade balance deterioration** (Chart 7). According to four-quarter data, net EU fund inflows corresponded to 3.6 percent of GDP in 2022 Q3, representing a slight decline compared to the previous quarter, but still significantly exceeding the figure for 2021. Other current transfers only resulted in a mild deterioration in the transfer balance. The four-quarter transfer balance surplus, which was high, but slightly lower than in the previous quarter, resulted from the above factors.

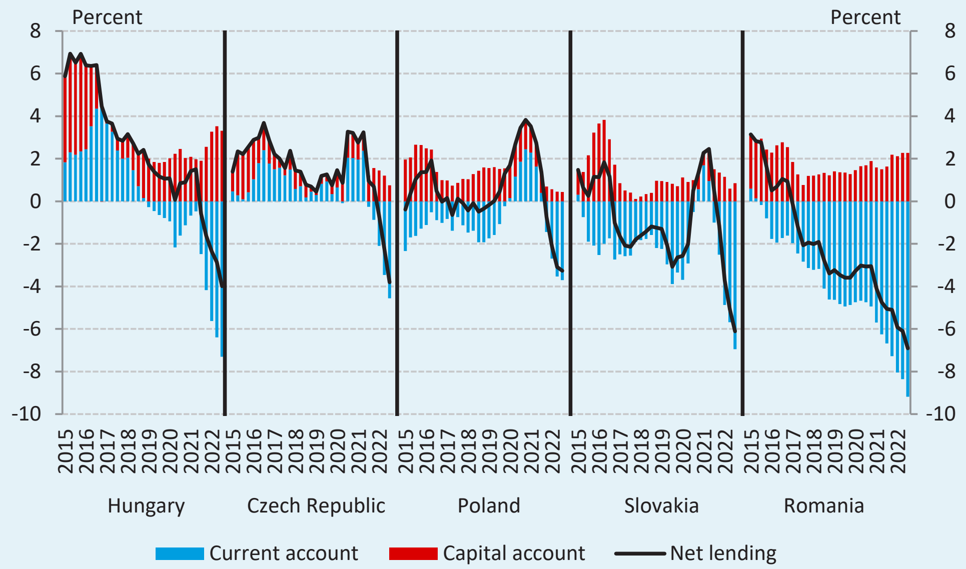
**Chart 7: Four-quarter development of transfer balance items (four-quarter values as a percentage of GDP)**




## 1.4 Regional comparison

**As a result of rising global commodity and energy prices, external balance indicators continued to deteriorate in the countries of the region, and net borrowing increased everywhere** (Chart 8). Starting from 2020 H2, the external balance position of the region's countries typically improved due to the impact of the coronavirus pandemic, but from 2021 H2 the trade balance and thus the current account in all of the regional countries worsened, owing to disruptions in supply chains as well as the global increases in commodity and energy prices. While net borrowing in Poland continued to deteriorate only slightly in 2022 Q3 and amounted to 3.3 percent of GDP, net borrowing in the Czech Republic continued to worsen significantly, moving to close to 4 percent of GDP. In the region, the level of net borrowing was the highest in Slovakia and Romania, at around 6 percent and 7 percent, respectively. In Romania, even the relatively low surplus on the stable capital account was unable to offset the high trade deficits of the past period, while in Slovakia the surplus on the capital account actually declined compared to the beginning of the year.

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



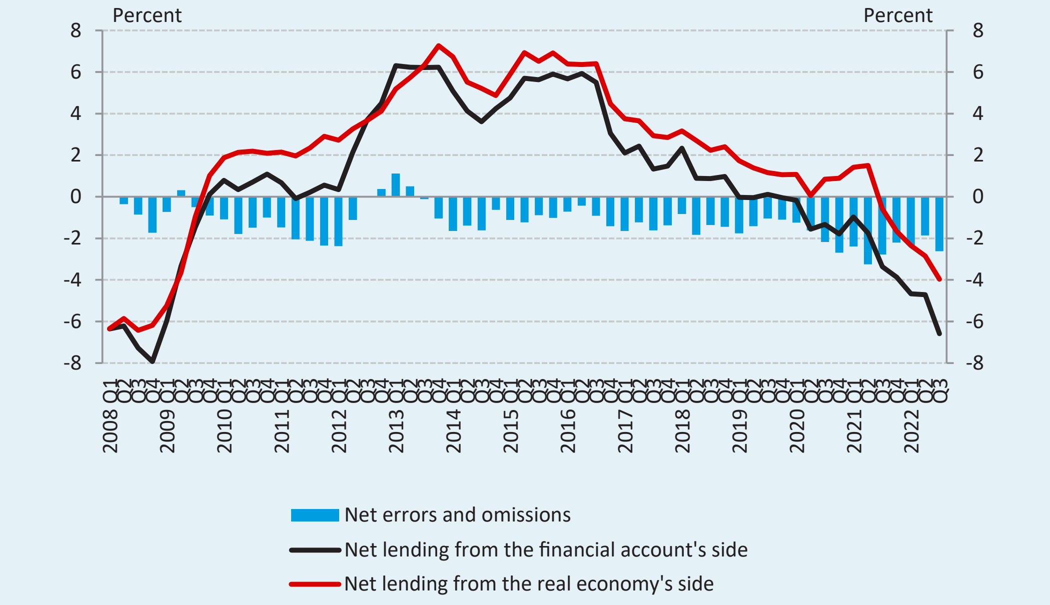

*Note: Except for Hungary, the 2022 Q3 data were calculated from monthly data.*
*Source: MNB, Eurostat*

# 2 Financing approach

In 2022 Q3, the four-quarter value of the net borrowing of the economy according to the financial account corresponded to 6.6 percent of GDP. During the quarter, net borrowing was primarily financed by net foreign direct investment, but net debt inflows also continued to a moderate degree, with the general government and the banking sector as main contributors, while the indicator for companies fell considerably.

**According to financing-side data, following a significant rise, the four-quarter net borrowing of the economy amounted to 6.6 percent of GDP in 2022 Q3** (Chart 9). The rise in four-quarter net borrowing calculated on the basis of the real economy approach was exceeded by the inflow of funds according to financing items, and thus the gap between these two indicators widened substantially. As a result, the difference between the four-quarter external balance indicators ('Net errors and omissions'[1]) rose to over 2 percent of GDP.

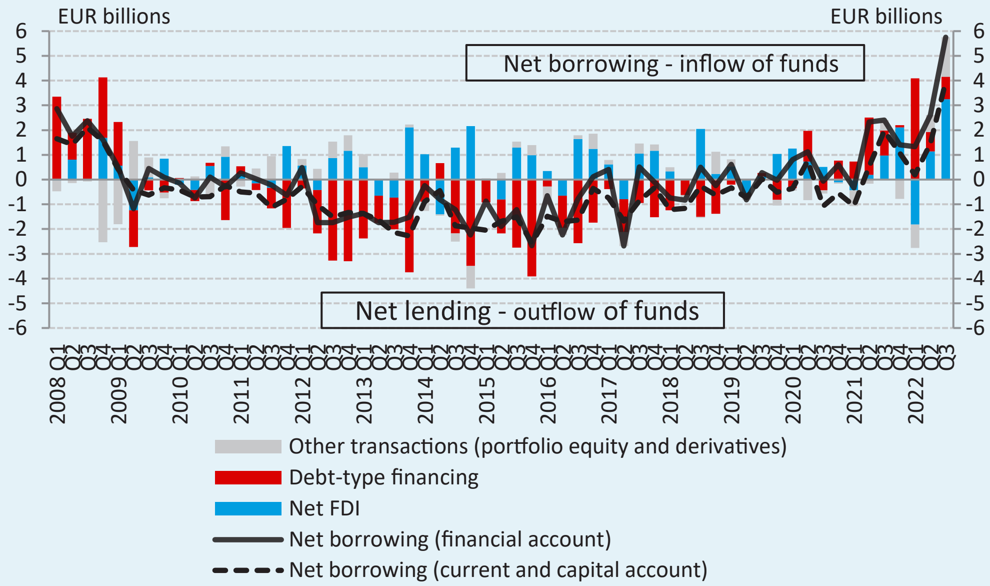
**Chart 9: Two types of net lending (four-quarter data as a percentage of GDP)**




**According to quarterly data, the net borrowing of the economy amounted to nearly EUR 6 billion in 2022 Q3, which was primarily financed by net foreign direct investment, with contributions from inflows of debt liabilities as well** (Chart 10). In the past quarter, net borrowing was at a high level again, at around nearly EUR 6 billion, which is the highest figure in the period since the 2008 financial crisis. Fund inflows were financed by net foreign direct investment (EUR 3.2 billion) and debt liabilities (EUR 0.9 billion) as well. Following extremely strong expansion of more than EUR 4 billion in 2022 Q1, net outstanding debt rose to a much lesser extent, increasing by less than EUR 1 billion in both the second and third quarters, due to transactions.

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

**Chart 10: Structure of net lending (unadjusted transactions)**

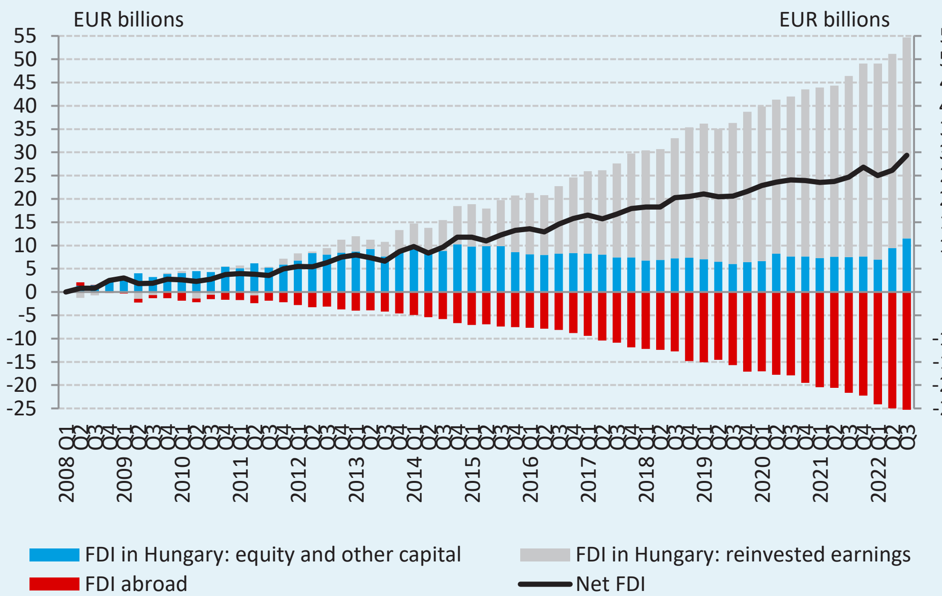



*In economic terms, the fundamental development of the debt is not influenced by the conversion between account balance and bullion balances, and thus this technical effect has been eliminated.*

## 2.1 Non-debt liabilities

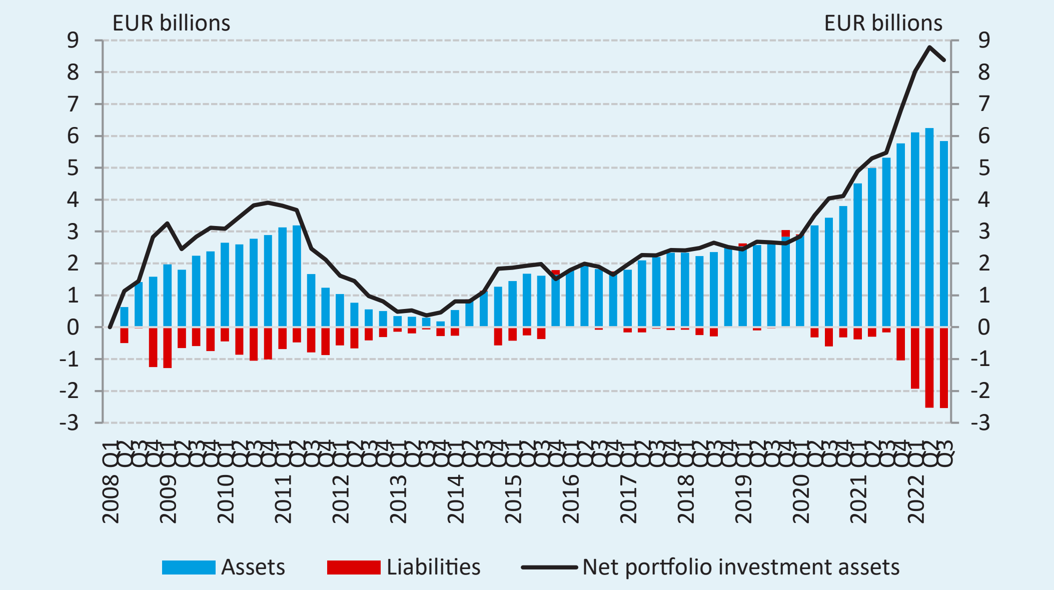
**Net foreign direct investment rose significantly again in 2022 Q3, on the basis of transactions** (Chart 11). In the third quarter, net FDI inflows excluding capital in transit amounted to EUR 3.2 billion: this was mainly related to new investment by multinational battery manufacturing companies, which increased equities as well, and to a rise in reinvested earnings. According to data net of capital-in-transit transactions and asset portfolio restructuring, foreign-owned companies' investments in Hungary increased by more than EUR 2 billion, comparable to the previous quarter. Following strong expansion in 2022 Q1, a slower pace of increase in Hungarian investments abroad was recorded, supported by a Hungarian bank's share purchase in a bank abroad, in one of the countries in the region.

**Chart 11: Development of FDI, excluding capital-in-transit transactions (cumulative transactions)**



**Following net outflows in the previous quarters, portfolio investments were characterised by net inflows in 2022 Q3, due to a decline in residents' investments abroad** (Chart 12). In the third quarter, net portfolio equity investments increased the net balance of non-debt liabilities by EUR 0.4 billion due to transactions. Residents' reduced their foreign mutual fund share holdings accumulated in the previous quarters by nearly EUR 0.4 billion, and their equity holdings also declined slightly in parallel with that. Due to transactions, non-residents' net portfolio investments remained practically unchanged in the quarter.

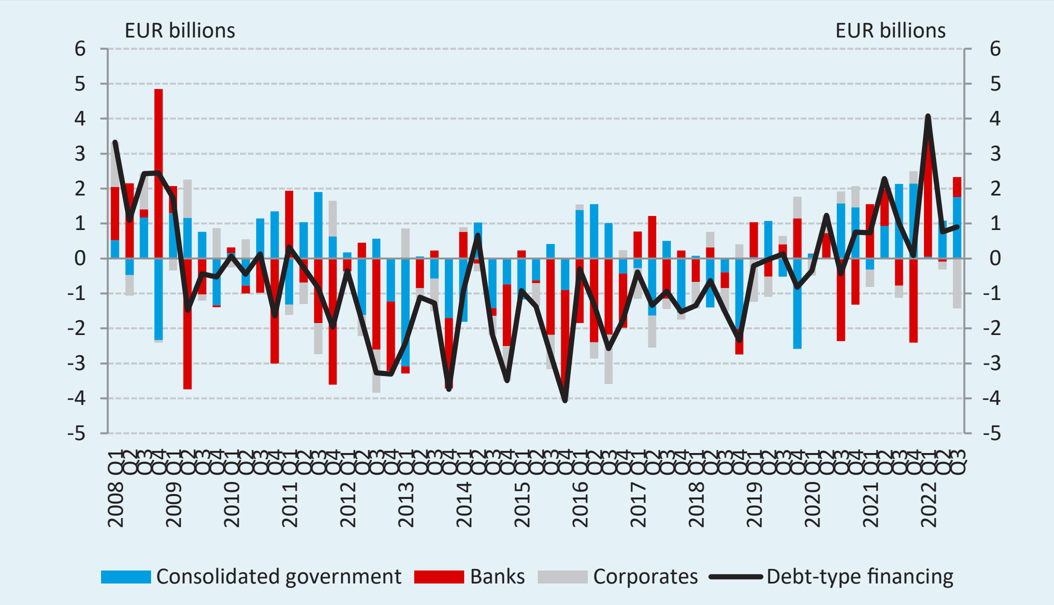
**Chart 12: Developments in net portfolio equity and mutual fund share receivables (cumulative transactions)**




## 2.2 Debt liabilities

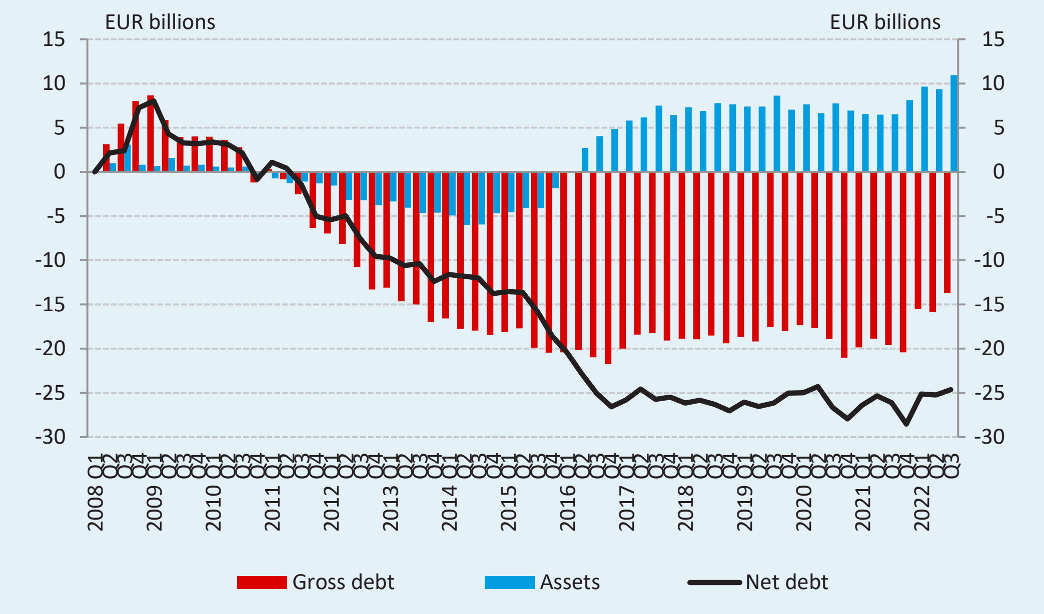
**Compared to the previous quarter, inflows of debt liabilities increased slightly in 2022 Q3** (Chart 13). Net debt due to transactions increased by approximately EUR 0.9 billion, which was mainly related to the consolidated general government, but the indicator for the banking sector also rose. Companies' net external debt declined by more than EUR 1.4 billion, with a surge in credit claims as a major contributing factor.

**Chart 13: Development of net debt-type financing by sector**



**Following a decline in 2022 Q2, the net external debt of the banking sector rose slightly in the third quarter** (Chart 14). The growth of around EUR 0.6 billion in the net indicator was due to the fact that the expansion in banks' liabilities modestly exceeded the increase in assets. The rise in liabilities concerned short-term debt and long-term liabilities as well.

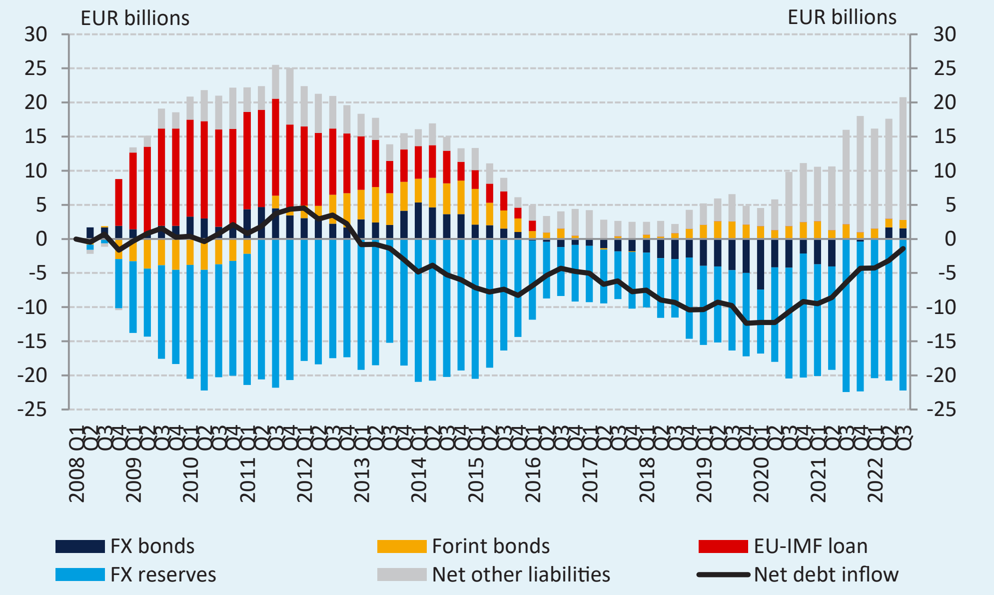
**Chart 14: Changes in the banking sector's external debt and asset from 2008 (cumulative transactions)**




**Due to transactions, the expansion in the net external debt of the consolidated general government including the MNB amounted to EUR 1.7 billion in 2022 Q3, representing an increase compared to the previous quarter, but falling short of the levels seen in 2021 H2.** The change in the net external debt of the state was the result of contrasting effects (Chart 15):

- Foreign exchange expenditures of the Hungarian State Treasury and the phasing out of the central bank's forint liquidity providing facility reduced the FX reserves, contributing to the rise in net external debt.
- Conversely, the reserves rose as recourse to central bank swaps providing FX liquidity to banks was considerably lower than the June level. As a factor contributing to the decline in banks' external debt, it should be noted that the central bank FX swaps providing FX liquidity have a neutral effect on net external debt at the level of the national economy. Recourse at end-September was lower than in the second quarter and this contributed to the rise in the indicator for banks and the decline in the net indicator of the government.
- Issuance of the one-off central bank discount bond used to ease swap market tensions, which exceeded the previous quarter's issuance by EUR 1.7 billion, increased the net external debt of the government, but reduced that of banks.
- The absorption of EU funds also contributed to the decrease in the net external liabilities of the government.

**Chart 15: Breakdown of changes in the net external debt of the consolidated general government (cumulative transactions)**



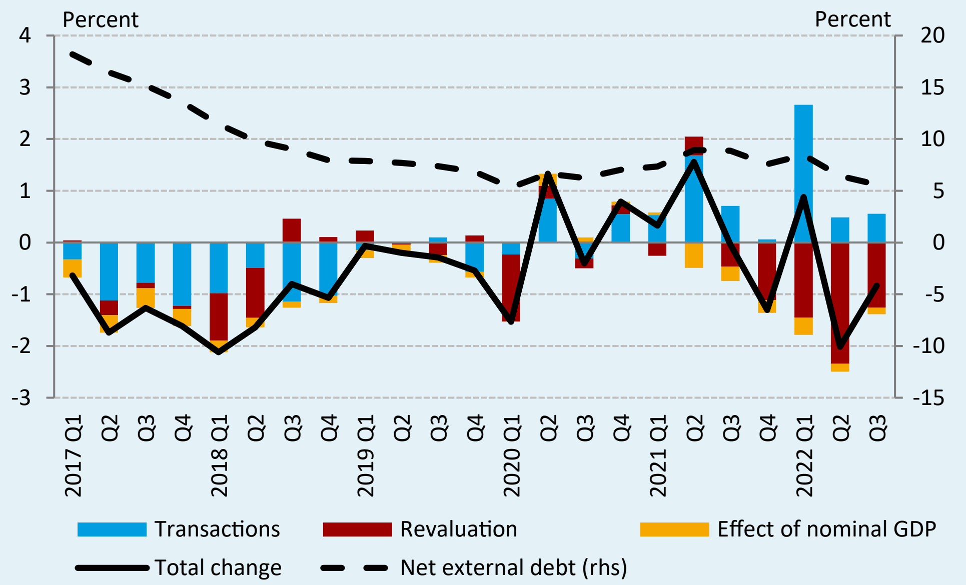
# 3 Developments in debt ratios

By end-September 2022, Hungary's net external debt according to underlying trends fell to 5.6 percent of GDP, i.e. close to its historical low. The Q3 decrease of 0.8 percentage point in the debt ratio is largely attributable to the effect of the revaluation of net outstanding debt due to an increase in yields as well as to the expansion in nominal GDP, which together exceeded the debt-increasing effect of transactions during the quarter. The decline in net external debt was related to improvements in the indicators for non-financial corporations and the general government consolidated with the MNB, while the debt ratio of the banking sector rose slightly. Gross external debt increased slightly in relation to the banking sector, corresponding to 60 percent of GDP at end-September 2022. International reserves amounted to EUR 38.7 billion at the end of the quarter and continued to exceed the level of short-term external debt, which is closely monitored by investors, by more than EUR 3 billion.

## 3.1 Developments in debt indicators

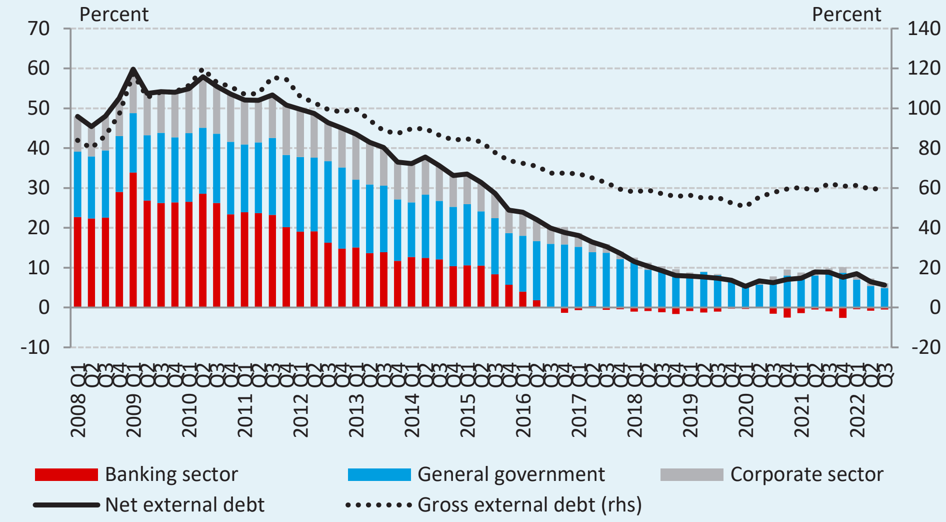
**In 2022 Q3, the net external debt of the economy according to underlying trends fell to 5.6 percent of GDP, i.e. close to its historical low.** The inflow of debt liabilities caused the indicator to rise again, but at the same time this effect was more than offset by revaluation, which reduced the outstanding debt, and to a lesser degree by nominal GDP growth (Chart 16). Revaluation was due to the fact that, as a result of rising yields, the prices of government securities held by non-residents declined, lowering outstanding debt. As in the previous quarters, the rise in nominal GDP moderately reduced the net external debt-to-GDP ratio in the third quarter as well.

**Chart 16: Components of the change in net external debt (values excluding intercompany loans as a percentage of GDP)**




**The decline in the net external debt ratio related primarily to non-financial corporations and the state, while the indicator for the banking sector rose slightly** (Chart 17). Net external debt of the *consolidated general government including the MNB* declined by 0.5 percent of GDP, as the effect of the major debt inflow in 2022 Q3 was more than offset by the revaluation of the outstanding debt due to yield increases and related to exchange rate changes of the FX reserves. On the whole, the net external debt-to-GDP ratio of the private sector declined: the decrease in the indicator for companies exceeded the modest rise in banks' debt indicator. *Companies*' net external debt-to-GDP ratio dropped by 0.7 percent of GDP, as the rise in foreign receivables (related to loans and commercial lending) exceeded the expansion in foreign liabilities. The indicator for *banks* rose slightly, advancing by 0.3 percent of GDP, due to net debt-type financing, as a result of liabilities increasing more than foreign receivables. The *banking sector's* net external debt ratio continues to be negative, i.e. banks' foreign assets exceed foreign liabilities.

**Chart 17: Breakdown of net external debt by sectors and gross external debt (as a percentage of GDP, excluding intercompany loans)**




**Hungary's gross external debt stood at 60 percent of GDP at the end of the third quarter.** The debt indicator has been relatively stable since 2020 H2, fluctuating around 60 percent of GDP in recent quarters. After declining in 2022 Q2, the gross external debt-to-GDP ratio rose slightly, by 0.6 percent in 2022 Q3. This was primarily attributable to the 1.2-percent increase in the indicator for the *banking sector,* which resulted from the expansion of the sector's foreign liabilities in relation to short-term deposits and ones with maturities over one year. The moderate rise in the gross external debt-to-GDP ratio for *companies* was driven by higher commercial loan debts and long-term loans. The indicator for *the general government consolidated with the MNB* dropped by 0.6 percent of GDP, as the rise in external debt due to transactions was more than offset by the effect of the revaluation (owing to higher yields) which lowered outstanding debt and the effect of nominal GDP growth.

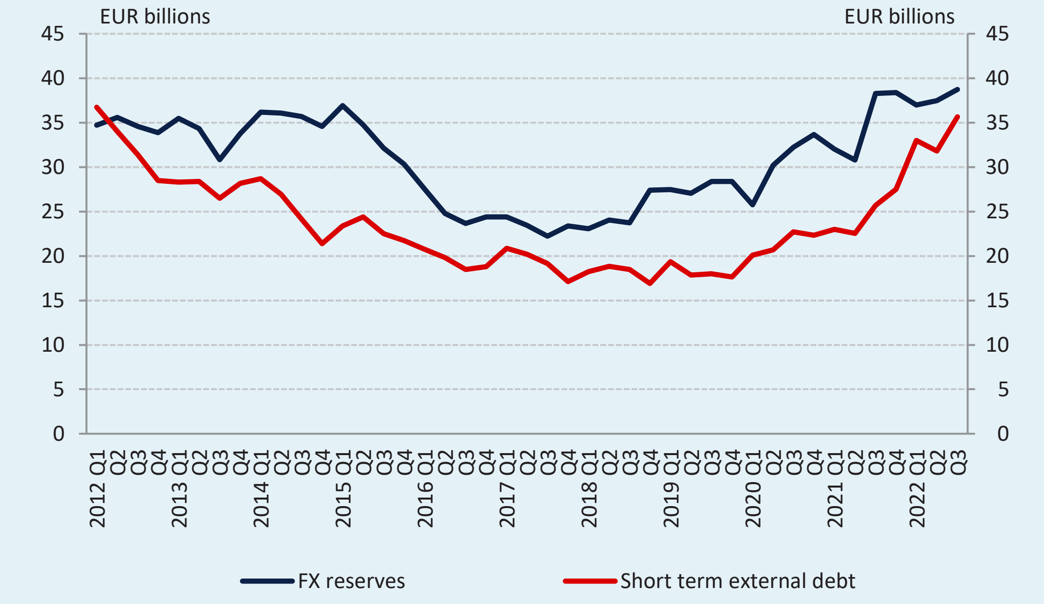
## 3.2 Foreign exchange reserves and reserve adequacy

**At the end of 2022 Q3, international reserves amounted to EUR 38.7 billion, reflecting an increase of EUR 1.2 billion versus the end-June 2022 level. The increase in reserves was primarily the result of the receipt of EU funds.** Following EUR 37.5 billion at end-June 2022, the MNB's international reserves amounted to EUR 38.7 billion at end-September 2022. The development of reserves was affected by various factors, the most important of which were the following:

- The reserve-increasing effect of *EU funds* amounted to EUR 0.8 billion, which was still primarily related to cohesion fund inflows tied to the 2014–2020 budget.
- The *net FX financing operations of the Government Debt Management Agency (GDMA)* boosted reserves by EUR 0.3 billion in total.
- The *revaluation* stemming from other currencies appreciating against the euro and the increase in the price of gold expressed in EUR increased the reserves to a small degree.
- The reserve-reducing effect of the *Hungarian State Treasury's foreign currency* transactions amounted to EUR 0.3 billion.
- In line with its phasing out, the *forint liquidity-providing FX swap instrument* reduced the level of reserves; with the quarterly maturities the stock declined to zero.
- The balance of the euro *liquidity-providing swap instrument* and the international *repo drawdowns* increased reserves compared to the end of June 2022.

**At the end of 2022 Q3, the MNB's international reserves were EUR 3.1 billion higher than the short-term external debt, which is closely watched by investors.** At end-September 2022, international reserves and short-term external debt amounted to EUR 38.7 billion and EUR 35.6 billion, respectively. The increase in the debt indicators for all three sectors contributed to the rise of EUR 3.8 billion in the short-term external debt of the economy. As short-term external debt increased faster than the reserves, compliance with the Guidotti–Greenspan indicator based on short-term external debt according to residual maturity declined in 2022 Q3. The leeway above the Guidotti–Greenspan indicator, which is closely monitored by both the central bank and investors, changed from EUR 5.7 billion at end-June 2022 to EUR 3.1 billion, which corresponds to the expected level (Chart 18).

**Chart 18: Short-term external debt of the Hungarian economy and foreign exchange reserves**

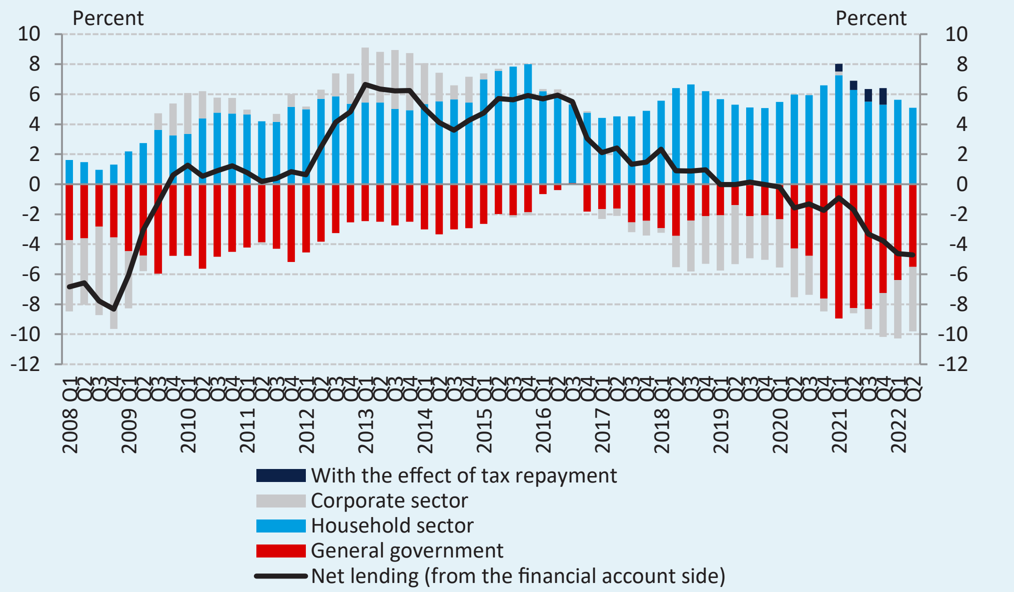


# 4 Sectors’ savings approach

The external balance position according to the economic sectors’ savings declined, owing to the decrease in the private sector’s net financial savings. The decline in the net borrowing of the general government stopped in 2022 Q3, presumably temporarily, due to the high amount of gas purchased in that quarter. Households’ and companies’ net position continued to decline, which was explained by deceleration in consumption and investment as well as by the negative impact of much higher energy and commodity prices on corporate income. Households’ financial savings were also eroded by elevated consumption expenditure due to rising inflation, which resulted in a decline in the indicator as a percentage of GDP in parallel with the strong increase in nominal GDP in 2022 Q3.

**Based on the sectors’ saving approach, the rise in the economy’s net borrowing reflected the private sector’s declining net lending** (Chart 19). The effect of the price rise perceived in the whole economy significantly reduced households’ net financial savings, and thus households’ four-quarter net lending fell to 4.4 percent of GDP, a level seen in early 2017. In parallel with that, a significant increase in net borrowing was observed in companies’ balance position in relation to the still buoyant investment activity as well as the corporate income-reducing effect of higher energy and commodity prices. At the same time, presumably only temporarily, the earlier downward trend in the four-quarter net borrowing of the general government was interrupted as a result of the increase in tax revenues in parallel with the economic upswing and the high amount of gas purchased in 2022 Q3. Accordingly, on the whole, the net borrowing of the whole economy continued to increase in the third quarter as a result of the private sector’s lower net lending as a percentage of GDP.

**Chart 19: Net lending of specific sectors* (four-quarter values as a percentage of GDP)**

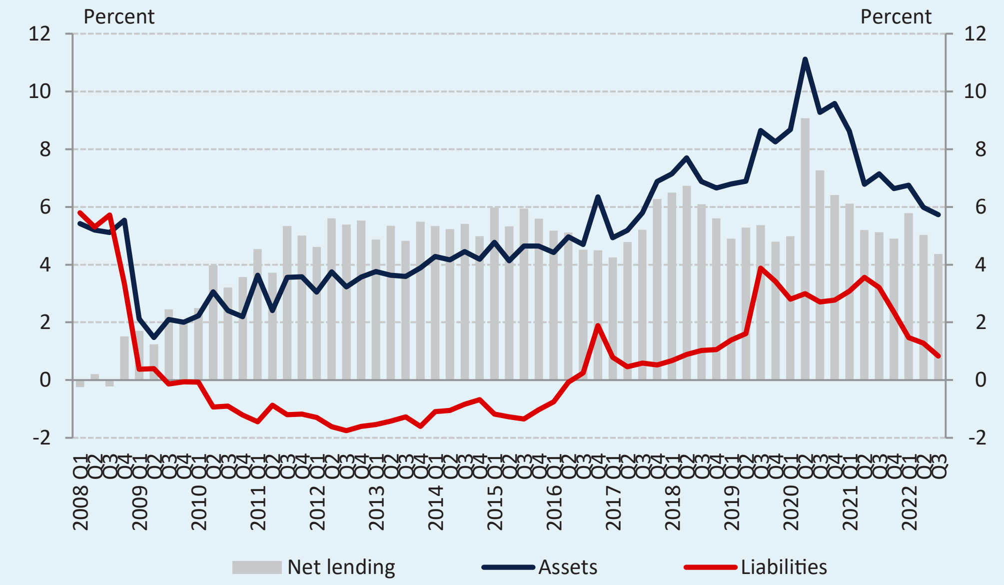



** General government represents net borrowing according to the financial accounts. Corporations based on the residual principle.*

**According to the underlying trends, households’ seasonally adjusted net financial savings contracted in 2022 Q3 versus the previous quarter, in parallel with a decline in financial assets and liabilities** (Chart 20). For economic considerations, the MNB excludes one-off effects (such as pension fund savings, early repayment, real yield disbursement, indemnification of the depositors of liquidated mutual savings banks, forint conversion and settlement) from the indicator based on underlying trends. One-off effects also influence the net indicator via the accumulation of financial assets and the liabilities, and therefore, in addition to presenting the gross legs, we present the underlying trends using seasonally adjusted data.

According to the seasonally adjusted indicator as a proportion of GDP, which captures the underlying developments, households’ financial asset accumulation declined in 2022 Q2 and Q3 after the fading of the temporary effect of one-off government transfers (13th month pension, service benefits for armed forces and police services) in the first quarter. The dynamics of households’ seasonally adjusted net borrowing as a percentage of GDP continued to decelerate in the past quarter, mainly due to lower demand for real estate loans. This was presumably attributable to the decrease in demand due to interest rate hikes and the fall in housing market activity in view of the elevated uncertainty. In addition to the prenatal baby support loan, the new housing subsidies available from 2021 continue to play a prominent role in households' credit demand.

**Chart 20: Households' net lending according to underlying trends (seasonally-adjusted, revised values, as a percentage of GDP*)**

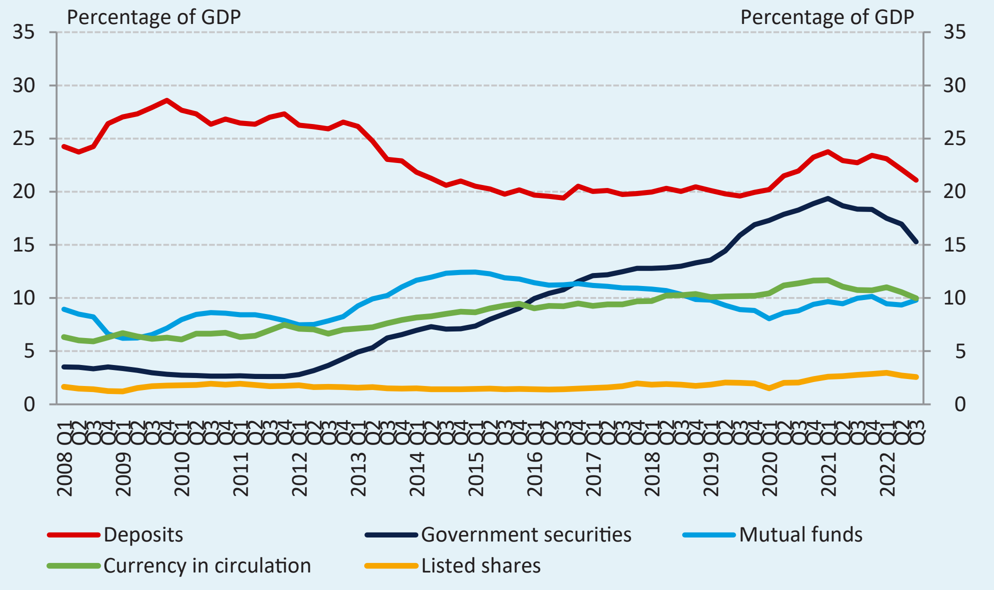



** Figures showing underlying trends, adjusted for pension fund savings, the early repayment scheme and the real yield disbursement, the indemnification of the depositors of liquidated mutual savings banks, the effect of the forint conversion and settlement, and the personal income tax refund. Time series adjusted separately.*

**Realignment across the forms of savings continued in parallel with the stagnation in financial asset accumulation in nominal terms and decline as a percentage of GDP** (Chart 21).

- Compared to the previous quarter, current account and other deposits increased slightly, by HUF 50 billion, in the third quarter. Of deposits repayable on demand and current account deposits, households' foreign currency deposit holdings increased considerably, while forint deposits declined.
- The rate of cash accumulation, which had risen considerably in 2022 Q1 due to precautionary considerations in view of the conflict between Russia and Ukraine, stagnated in the third quarter and declined as a proportion of GDP.
- In parallel with that, households' demand for government securities dropped, and thus significant net outflows amounting to HUF 480 billion took place in the case of government securities. At the same time, the wait-and-see attitude due to the introduction of new government securities in the end of September may also have played a role. Within government securities, in parallel with higher inflation, redemptions of MÁP+ securities continued, and their holdings declined by HUF 1,210 billion compared to 2022 Q2. Holdings of inflation-indexed PMÁP securities increased dynamically (partly as a result of the outflow from MÁP+) in 2022 H1, but in the third quarter the growth continued at a slowing rate, partly due to a maturity. At the same time, inflows of other government securities were significant, amounting to nearly HUF 670 billion during the period under review, more than half of which was attributable to the increase in treasury bill holdings.
- Over the past two years, with the widening of investment options, households steadily increased their financial assets held in investment funds. Although there were also outflows from the segment of mutual fund shares due to the international turbulence in 2022 Q1, households significantly increased their wealth in this form of savings again in the second quarter and especially in the third quarter.
- In parallel with that, stock holdings of households, which had been rising dynamically in the previous period, continued to increase slightly on a transaction basis in 2022 Q3, but – due to GDP growth – there was a minor decline as a percentage of GDP.

**Chart 21: Development of households' major financial assets**



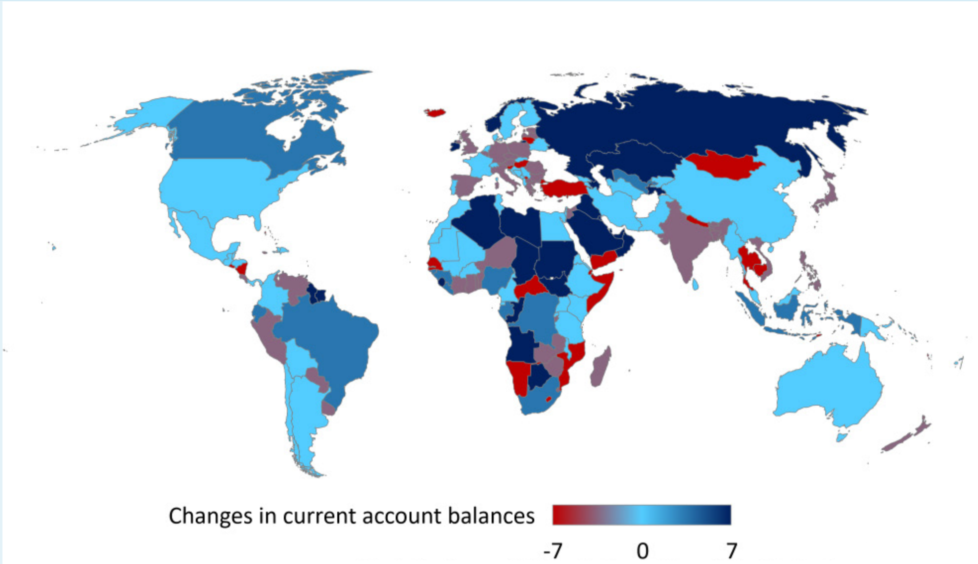
# 5 The Hungarian energy balance

Using the example of EU countries, and particularly on the basis of domestic developments, in our special topic we present the extent to which individual countries' supply of energy and energy imports affect the changes in the current account. In the past period, with the surge in energy prices, external balance developments in countries around the world were strongly determined by their energy dependency. In this context, in most of the EU countries the decline in the energy balance due to drastic price increases was reflected in a deterioration in the current account as well. In view of the high energy intensity of the Hungarian economy and the low share of renewable energy sources, Hungary's energy dependency is relatively high. Accordingly, Hungary's energy imports as a percentage of GDP increased considerably and also rose faster than those of other EU countries in 2022. Major rearrangement took place within the energy balance, which previously was primarily driven by oil imports, but is now increasingly determined by net gas and electricity imports, in conjunction with the rise in gas prices. At the same time, as a consequence the sharp decline in gas prices seen since the summer points to a turnaround in net energy imports and thus in the current account as well. Nevertheless, in addition to improving the energy balance of the Hungarian economy, items of the current account that do not originate from energy also need to be improved, and thus, in addition to the reduction of energy dependency, a turnaround in the competitiveness of the domestic economic structure is also vitally important.

## 5.1 Current account and energy supply

**In the past period, in relation to the skyrocketing energy prices, external balance developments in countries around the world were strongly determined by their energy dependency** (Chart 22). The rapid rise in gas and electricity prices observed starting from 2021 H2 was further exacerbated by the outbreak of the Russia–Ukraine war in February 2022. This highlighted a segment of the external balance that had been less focused on before. Recent current account developments are strongly driven by the energy dependency of the individual countries. In terms of the changes in current account balances as a percentage of GDP between 2019 and 2022, the energy supply situation clearly appears to be the main factor (with regard to energy consumption, 2019 can be considered the last 'normal' year, as the energy consumption of the individual countries dropped considerably in 2020, due to lockdown measures to prevent the spread of the coronavirus pandemic as well as to factory closures, and external balance developments were distorted because of households' higher – forced – financial savings as well). Chart 22 clearly illustrates that the current account balances of countries that are rich in mineral resources (such as Russia, Norway, the oil-producing countries around the Persian Gulf) improved considerably, by more than 5 percent of GDP in the past three years, while the external balance for countries that are poorer in sources of energy (Japan and most EU countries) deteriorated significantly.

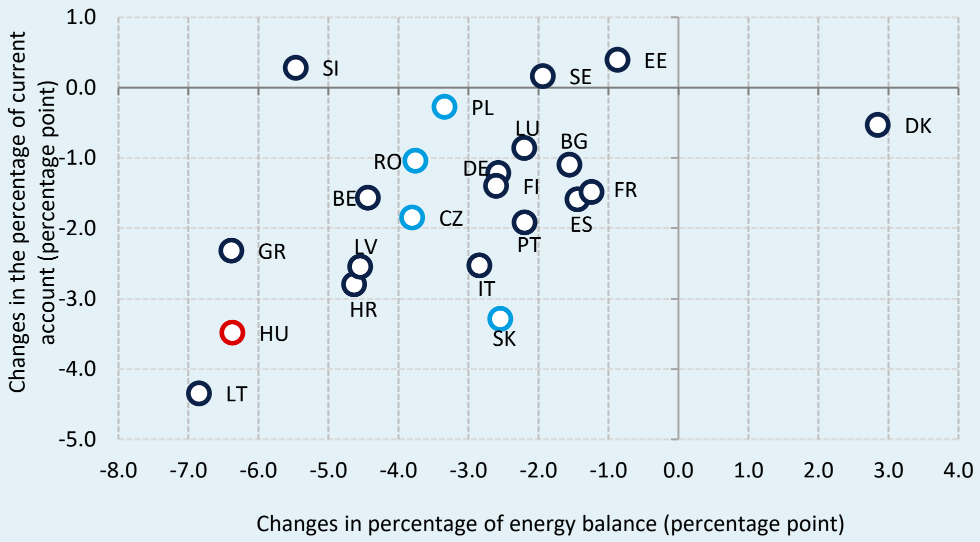
**Chart 22: Changes in current account balances as a percentage of GDP between 2019 and 2022**




*Source: WEO.*

**In most EU countries, the fall in the energy balance due to drastic price increases is reflected in the worsening of the current account as well, but in the case of both balances the decline seen in Hungary is among the largest** (Chart 23). As a result of global commodity and energy price increases, energy balances deteriorated in most EU countries, also causing increases in current account deficits in almost all European countries (again, as compared to 2019). At the same time, it is worth calling attention to the fact that current account balances typically declined to a larger degree than energy balances, indicating that there was deterioration in non-energy items as well, with possible contributions from various factors. Firstly, in addition to high energy and commodity prices, the gas shortage and the still existing frictions in supply chains weaken the supply side, and secondly, geopolitical uncertainties and households' lower income due to accelerating inflation restrain external demand. In terms of the current account balance and the energy balance, one of the largest downturns was observed in Hungary, whereas in the other countries of the region the current account balance declined to a lesser degree, while the energy balance in Slovakia deteriorated similarly as in Hungary.

**Chart 23: Changes in energy balances and current account balances**



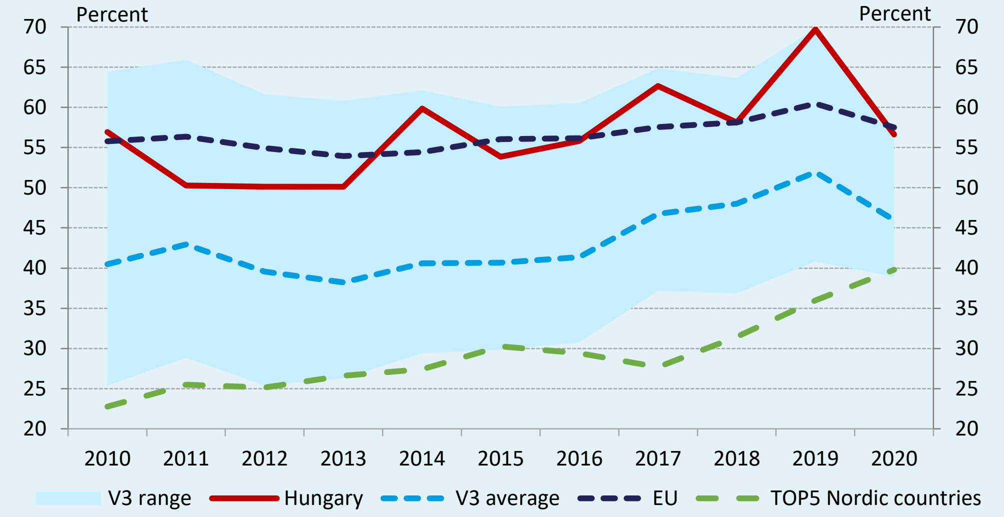

*Note: Changes between 2019 and 12-month data until July 2022.*
*Source: Eurostat, MNB*

## 5.2 Factors determining energy imports

**Hungary's energy dependency of around 60 percent is the highest among the Visegrád countries.** Energy dependency can be approximated with the ratio of net energy imports to total energy consumption. The MNB's Competitiveness Report also noted that – similarly to the other EU country groups – Hungary's energy dependency has increased slightly since 2010 and averaged about 60 percent in the period 2015–2020 (Chart 24). This roughly corresponded to the average value for EU countries, but significantly exceeded the averages of not only the most developed Nordic countries but of the Visegrád competitors as well. Of the latter, Slovakia used to be the first, but Hungary's energy dependency became the highest in the region by 2020 as a result of the upward trend in Hungary's figure.

**Hungary's relatively high energy dependency is the result of various factors: firstly, the energy intensity of the domestic economy is high compared to the regional level as well, and secondly, the share of renewable energy sources is low.** Energy intensity is the indicator of how much energy needs to be used for one unit of economic output. In spite of the fact that Hungary's energy intensity declined by more than 20 percent between 2010 and 2020, it is still around 1.8 times higher than the EU average. In addition, it also contributes to Hungary's high energy dependency that the share of renewable energy sources within total energy consumption is much lower in Hungary than the averages of the EU or the Visegrád countries. One reason for that may also be that Hungary's objective (of 21 percent) for 2030 is the fourth lowest commitment in the EU and is also much lower than the EU's target (minimum 32 percent).

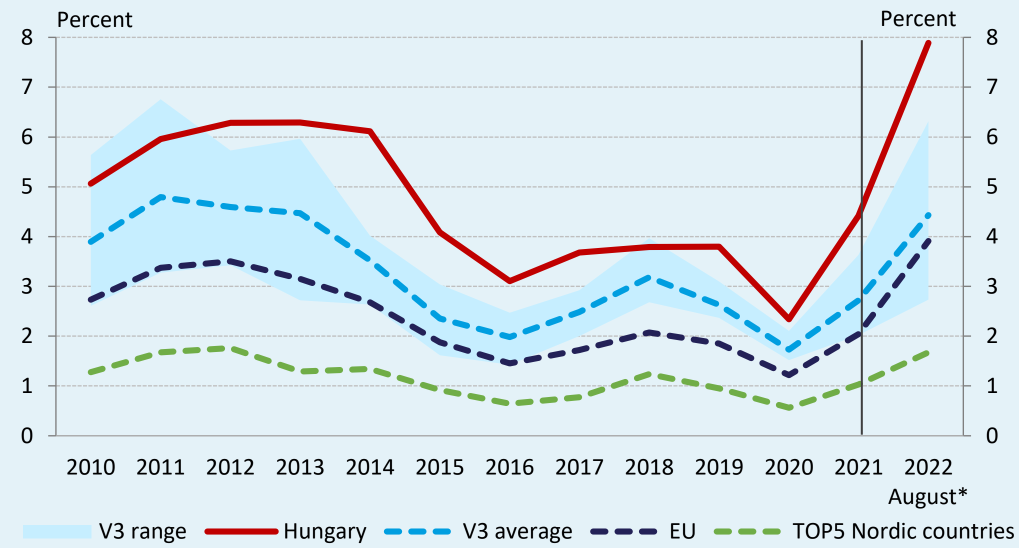
**Chart 24: Energy dependency of country groups, i.e. the ratio of net energy imports to total energy consumption**




*Source: Eurostat*

**As a consequence of the above, Hungary's energy imports as a percentage of GDP rose significantly in 2022, exceeding the figures for other EU countries.** The high energy dependency, the higher-than-average energy intensity and the quite low share of renewable energy sources all contributed to the fact that in parallel with the surge in energy prices the amount paid for Hungary's net energy imports as a percentage of GDP rose considerably, increasing to a much larger degree than in other EU countries (Chart 25). The extremely high increase was presumably due to the structure of Hungary's energy consumption as well: for example, as opposed to the relatively high use of gas in Hungary, in Poland the ratio of coal consumption, where the price rise was more moderate, is significant. On the whole, the energy balance of the 12 months until August 2022 was close to 8 percent of GDP in Hungary, while the average for EU countries reached only 4 percent of GDP, and the energy balance of the countries of the region was also in the band of 3–6 percent.

**Chart 25: Net energy imports as a percentage of GDP**

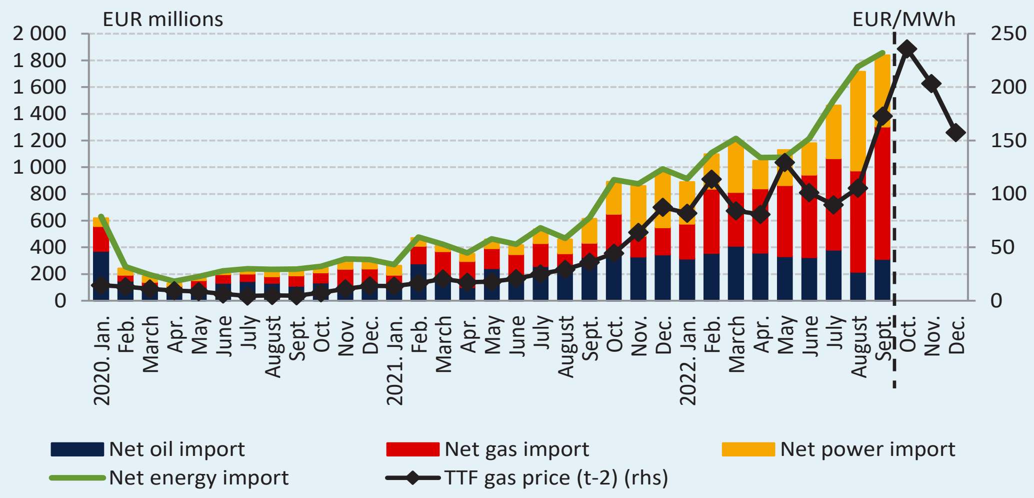



**Estimate for 12 months until August 2022.*
*Source: Eurostat*

## 5.3 Changes in the components of Hungary's energy imports

**The energy balance, which was previously driven mainly by oil imports, is increasingly determined by net gas and electricity imports, as gas prices have risen.** Prior to the coronavirus pandemic, oil imports accounted for more than one half of net energy imports. Following the outbreak of the pandemic, the share of oil imports within the total energy balance started to decline, in parallel with lower supply volumes and falling oil prices due to the lockdowns. The increase in the gas price (and the price of electricity, which is linked to changes in the former), which started in 2021, was followed by a surge after the outbreak of the war, significantly exacerbating this trend, as a result of which the share of oil imports fell to below 20 percent by September 2022, and, instead of oil, gas imports already accounted for about one half of total energy imports, also as a result of high imports to ensure security of energy supply and fill gas storage facilities (Chart 26). In addition to the price trends, it also contributed to the rise in electricity imports that in the summer the amount of imported electricity also rose significantly due to maintenance works at the Paks Nuclear Power Plant.

**Chart 26: Components of Hungary's net energy imports and changes in the price of gas**




*Source: Eurostat.*

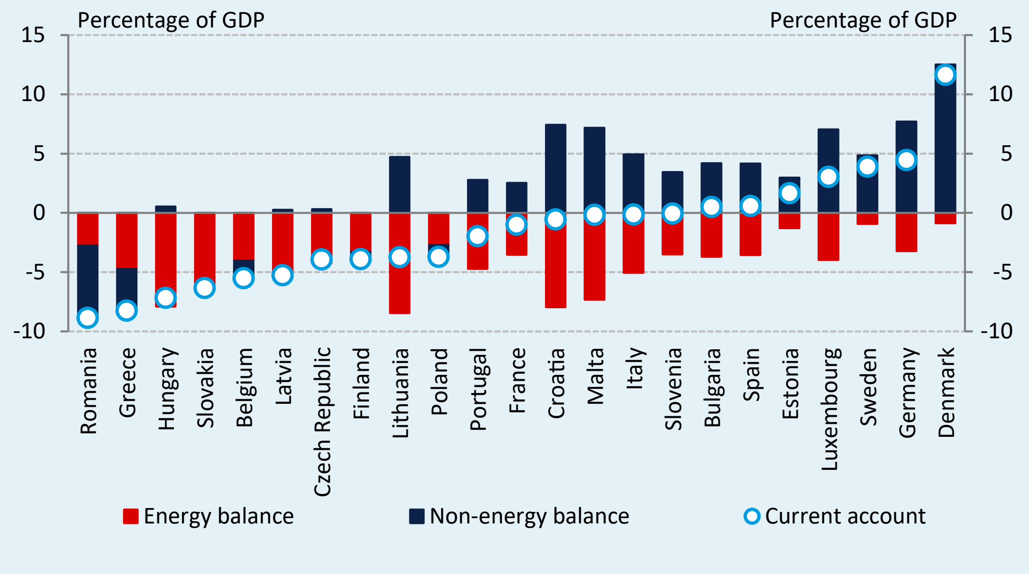
**The significant decline in gas prices observed since the end of the summer foreshadows a rise in net energy imports and thus in the current account as well.** Until now, developments in the energy balance, which drives changes in the current account, have shown significant co-movement with the gas price trend, which also affects the size of gas and electricity imports (Chart 26). Nevertheless, the rising trend of energy imports may reverse in the last months of the year:

- Firstly, as the most important factor, following the surge in the summer, gas and electricity prices eased in the autumn months, which suggests that the amount to be paid for gas and electricity imports may decline significantly.
- Secondly, following the restructuring of the utility cost reduction announced in the summer, quantitative adjustment started: according to weekly data, gas consumption in the autumn months is around 25 percent below the past three years' average gas consumption.
- Finally, it may also contribute to the improvement in the energy balance that in the autumn the part of the Paks Nuclear Power Plant that was under repair also started to produce electricity, reducing electricity imports, while the filling of gas storage facilities, which had significantly raised energy imports, was also completed (to the extent that major gas exports already took place in November).

## 5.4 Role of the non-energy balance

**In addition to improving the energy balance of the Hungarian economy, the items of the current account that do not originate from energy also need to be improved.** With a decline in net energy imports, a country's energy dependency also declines, resulting in an improvement in the given country's economic independence and competitiveness. Although the decline in energy prices that started in the past months significantly reduces the value of energy imports, due to the volatility of prices, quantitative adjustment is needed for a permanent solution. This means that greater emphasis should be put on the reduction of energy intensity as well as on stronger reliance on renewable energy. At the same time, in addition to the reduction of energy dependency, a turnaround in terms of the competitiveness of the structure of the Hungarian economy is also of the utmost importance. Despite the fact that Hungary's current account deficit is clearly caused by the energy balance, the non-energy component of the current account is also low in a European comparison (Chart 27). While in previous years this was mostly explained by higher imports due to investment projects that served as basis for later economic growth, in 2021 H2 the more subdued export performance and in 2022 H1 the expansion in household consumption, which exceeded GDP growth, were also contributors. Therefore, a rise in households' savings is vital for improving the external balance, while boosting exports requires further reinforcement of the competitiveness of the Hungarian economy.

**Chart 27: Energy and non-energy components of selected countries' current accounts as a percentage of GDP**




**Estimate for 12 months until August 2022.*
*Source: Eurostat*

# List of Charts and tables

# Gábor Bethlen

(15 November 1580 – 15 November 1629)

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

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

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

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

**REPORT ON THE BALANCE OF PAYMENTS**

**January 2023**

Print: Prospektus Kft.

H-8200 Veszprém, Tartu u. 6.

mnb.hu



H-1013 BUDAPEST, KRISZTINA KÖRÚT 55.