REPORT ON THE BALANCE OF PAYMENTS

2025
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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Pursuant to Act CXXXIX of 2013 on the Magyar Nemzeti Bank, the primary objective of Hungary's central bank is to achieve and maintain price stability. 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 developments which are of critical importance for Hungary's vulnerability.

The primary goal of the Report on the Balance of Payments is to inform market participants about developments in the balance of payments by way of this regular analysis, and thus provide deeper insight into the workings of the economy.

The Report is based on information pertaining to the period ending 28 March 2025.

Summary

The external balance of the Hungarian economy continued to improve in 2024, following a significant correction in 2023. The current account balance increased to 2.2 percent of GDP, mainly driven by a rise in the goods balance, while the income deficit also narrowed. With net lending reaching 2.6 percent and net FDI inflows continuing, the economy's external debt ratios declined somewhat.

The improvement in the external trade balance was mainly due to a more favourable energy balance, while the change in the other goods balance was in the opposite direction, reflecting a fall in investment, a pick-up in consumption and a decline in exports. The surplus of services balance as a share of GDP stabilised at a high level during the year. The improvement in the external position was also supported by lower equity and interest income outflows, in line with declining corporate profitability and interest rates. After rising at the beginning of the year, net lending remained stable in 2024, while net EU transfers continued to decline.

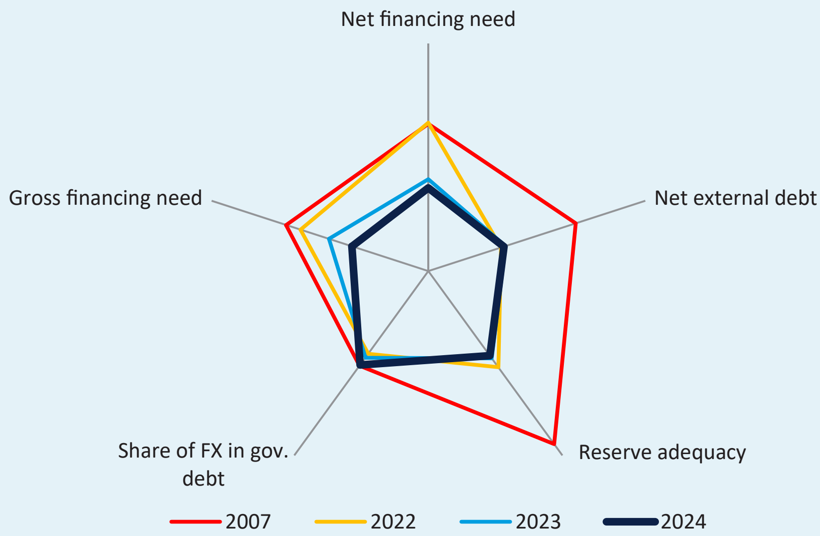
In 2024, the external borrowing of previous years also ceased according to the financing side. The improving current account balance was accompanied by a reduction in debt inflows, while net FDI inflows declined in the context of an expansion in domestic companies' investments abroad and the partial domestic acquisition of the Budapest Airport. In addition to the net lending, the debt indicators, which are a key indicator of external vulnerability, also showed an overall positive picture. On an annual basis, the net external debt ratio moderately declined to close to 10 percent of GDP, mainly driven by general government and the corporate sector, despite inflows of debt-related liabilities, due to revaluation effects and strong nominal GDP growth. Foreign exchange reserves stood at EUR 44.6 billion at the end of 2024, close to EUR 10 billion above the level of short-term external debt, a figure monitored closely by investors.

In 2024, the rise in the economy's net lending was mainly driven by a fall in the budget deficit. Following a significant deficit in previous years, the general government primary balance returned to close to balance for the first time since 2019, while the debt-to-GDP ratio increased marginally compared to the previous year. In contrast, high levels of household financial savings declined somewhat at the end of the year, in line with stronger consumption, while the corporate sector's financing need also increased moderately, reflecting falling profitability.

Hungary's external position therefore improved further even compared to 2023 according to most external vulnerability indicators (Chart 1). With the current account surplus rising, the adjustment of the critically high gross and net borrowing that started in 2022 continued in 2023, so that these indicators point to low risk, in line with low external debt ratios and ample reserve adequacy at the regional level. In contrast, the foreign exchange ratio of government debt continued to rise moderately in 2024.

In the special topic of this report, we compare the development of the Hungarian economy's external imbalances with those of the regional countries. In contrast to the significant and general improvement seen a year earlier, in 2024 the improvement in the external balances of the countries in the region stopped and even deteriorated somewhat in some countries, mainly due to a fall in savings. Following a substantial adjustment in the external trade balances of the region's countries in 2023, energy imports generally continued to decline last year, while imports, slowing as domestic demand moderated, also contributed to an improvement in external balances. This was offset by a deterioration in income balances in the other countries due to rising interest expenditure and a further decline in transfer balances in most of the countries in the region. Overall, in 2024, several countries in the region experienced a decline in net lending, with Romania and Slovakia experiencing an inflow of funds by the end of the year. External debt indicators were mixed across the region, with net external liability declining only in Hungary, while net FDI inflows in the region remain significant.

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



Note: The chart shows the deviation of individual indicators from the long-term average scaled by dispersion. Values closer to the midpoint – in practical terms, the closing of the "net" – signal smaller vulnerability shown by the given indicator. For example, in the case of financing needs, a lower value can also mean net lending, which means less risk.

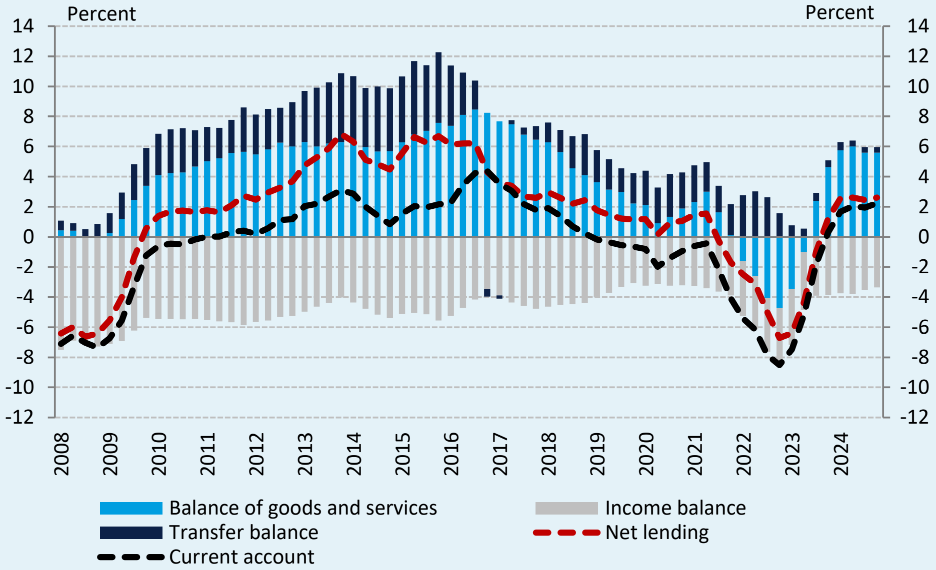
Contents

1 Real economy approach

Hungary's external balance indicators continued to improve in 2024. The annual current account surplus increased, mainly driven by a higher external trade balance linked to the goods balance, which was accompanied by a decline in the income deficit. The increase in the goods balance is due to a more favourable energy balance, while the change in the other goods balance had the opposite effect, with domestic consumption picking up and exports falling. The surplus on the services balance as a share of GDP stabilised at a high level during the year. The improvement in the external position was supported by a narrowing income balance deficit, owing to lower net shareholder and interest income outflows. Net lending remained stable in 2024 after rising at the start of the year, while net EU transfers continued to decline during the year.

According to the real economy approach, following the rapid improvement in 2023, the external balance of the Hungarian economy continued to improve in 2024, with the current account surplus advancing to 2.2 percent of GDP in 2024 as a whole and net lending rising to 2.6 percent of GDP (Chart 2). According to four-quarter data, the improvement in the current account balance was concentrated in the first part of the year, with the balance then remaining at a high level in the latter half of the year, mainly due to developments in the trade balance. The significant increase in the goods balance early in the year was primarily linked to an improvement in the energy balance, which slowed down in the second half of the year and was thus outweighed by a gradual deterioration in the other goods balance. The income balance improved over the year to reach a deficit of 3.4 percent of GDP by the end of 2024, while the transfer balance improved the external position by 0.4 percent of GDP.

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

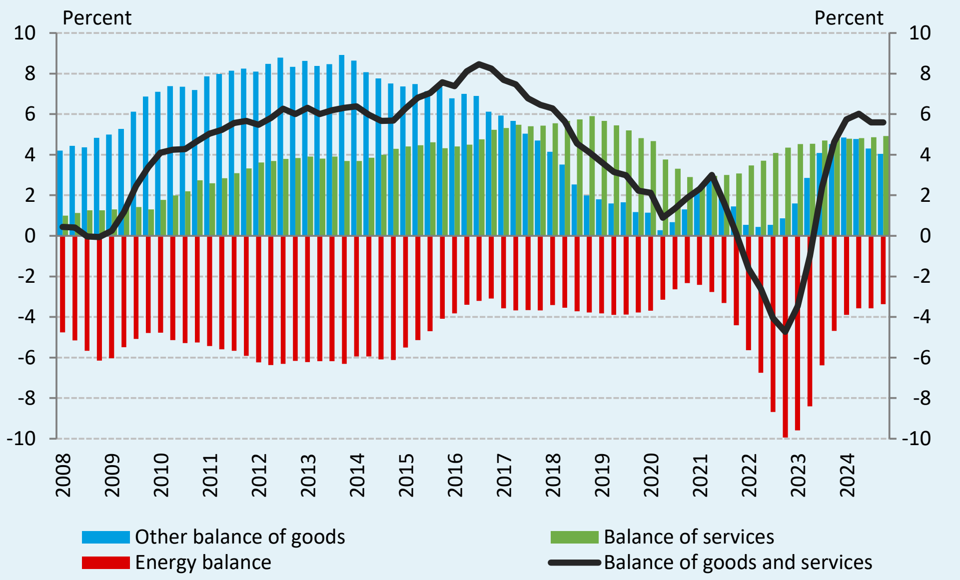


Source: All charts by the MNB unless otherwise indicated

1.1 Trade balance

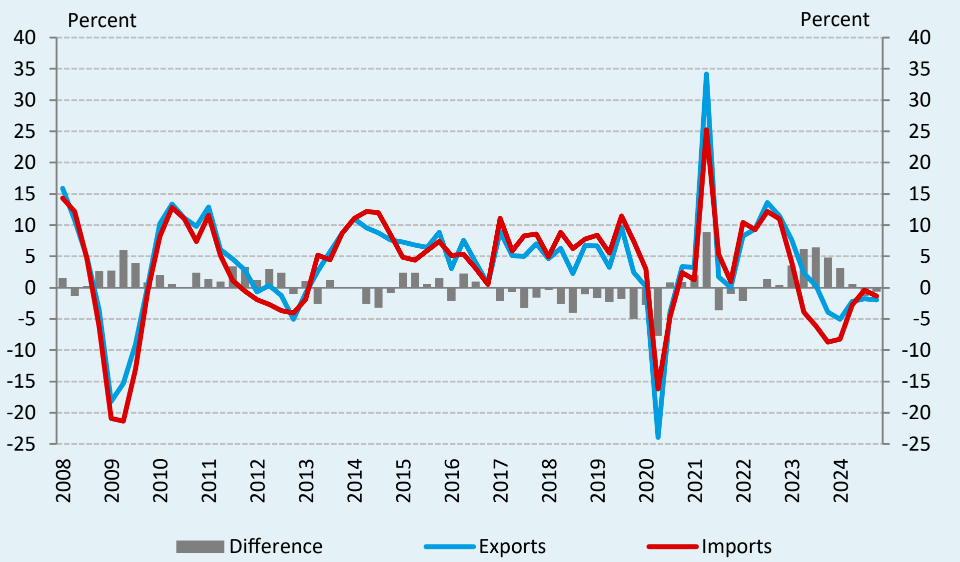
At the end of 2024, the four-quarter surplus in external trade amounted to 5.6 percent of GDP, in conjunction with the goods balance rising at the beginning of the year and the services balance showing a steady surplus (Chart 3). After 2023, the goods balance continued to rise rapidly in 2024 H1, before settling at a somewhat lower level in 2024 H2. The improvement up to mid-2024 was linked to an adjustment in the energy balance following the energy shock of 2022 as well as the import moderating effect of falling domestic demand. By 2024 H2, however, the improvement in the energy balance slowed as energy prices stabilised. With domestic absorption rising as household consumption picked up and exports shrank further amid decreasing industrial production, the significant surplus on the other goods balance started to decline. The steady improvement in the services balance after the Covid-19 pandemic slowed by the end of 2023, leaving a four-quarter surplus at the end of 2024 at a level close to 5 percent for the year as a whole. The dynamic growth in tourism and the recovery in the balance of transport services played an important role in the improvement in the services balance until 2023. Within the services balance, tourism remained the most dominant sector, but its role faded somewhat in 2024.

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



In 2024, the year-on-year decline in both export and import volumes eased, but the decline in exports exceeded that in imports during the second half of the year (Chart 4). With domestic industrial production continuing to fall across most manufacturing sectors, the annual decline in exports of goods persisted throughout the year, but gradually eased, while the pace of growth in exports of services moderated in the latter half of the year. The faster import growth, which nevertheless remained negative due to the smaller import requirements linked to lower exports and the continued contraction in investment, was mainly due to a pick-up in household consumption and changes in inventories. Exports fell by 2 percent year-on-year and imports by 1.3 percent in the fourth quarter, maintaining the unfavourable export-import gap of the previous quarter.

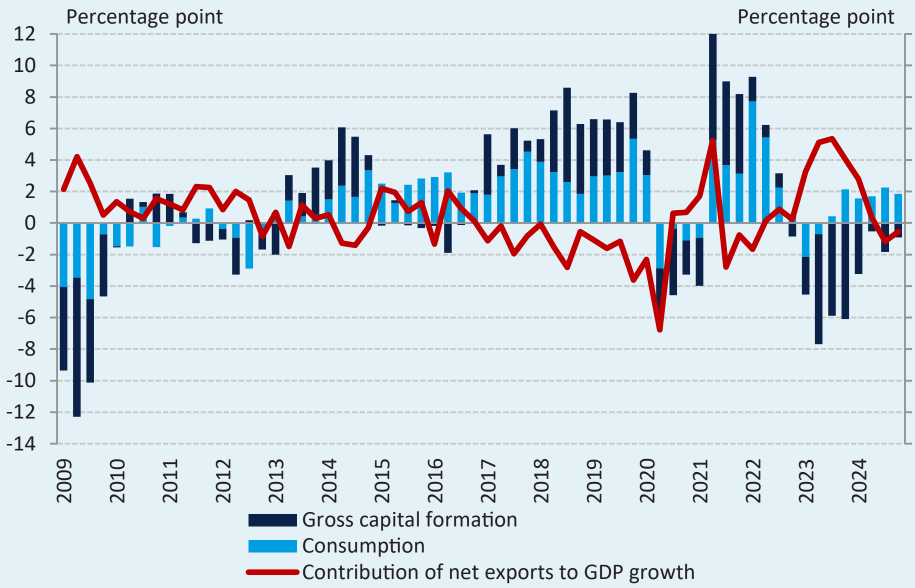
Chart 4: Annual volume growth in exports and imports and the four-quarter goods balance as a percentage of GDP



Source: HCSO, MNB

In this context, the contribution of net exports to growth was positive in the first half of the year and negative in the second half. In 2024, with rising real wages, household consumption gradually picked up, although it was partly offset by shrinking public consumption, but domestic consumption rose, nevertheless. The import needs linked to the expansion in consumption and the subdued performance of exports had a negative impact on the growth contribution of net exports, which was no longer offset by the import-reducing impact of the decline in gross capital formation (including investment and inventory accumulation) in the second half of the year.

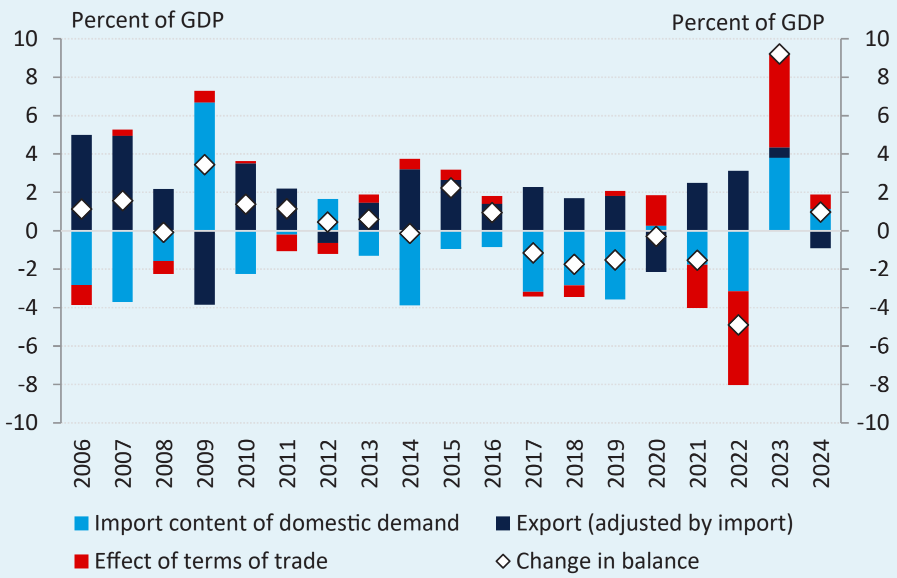
Chart 5: Contribution of main domestic absorption items and net exports to GDP growth



Source: HCSO

In 2024, the increase in the trade balance was supported by roughly similar contributions from an improvement in the terms of trade and a decline in domestic demand, while the change in exports restrained the rise (Chart 6). The improvement in the terms of trade was partly due to another 15-percent drop in natural gas prices after the 2023 adjustment and partly to higher export prices. Domestic demand contributed to the increase in the trade balance mainly through the import-reducing effect of a more than 10-percent drop in investment. By contrast, exports had a negative impact on the trade balance in their own right, falling by almost 3 percent on an annual basis.

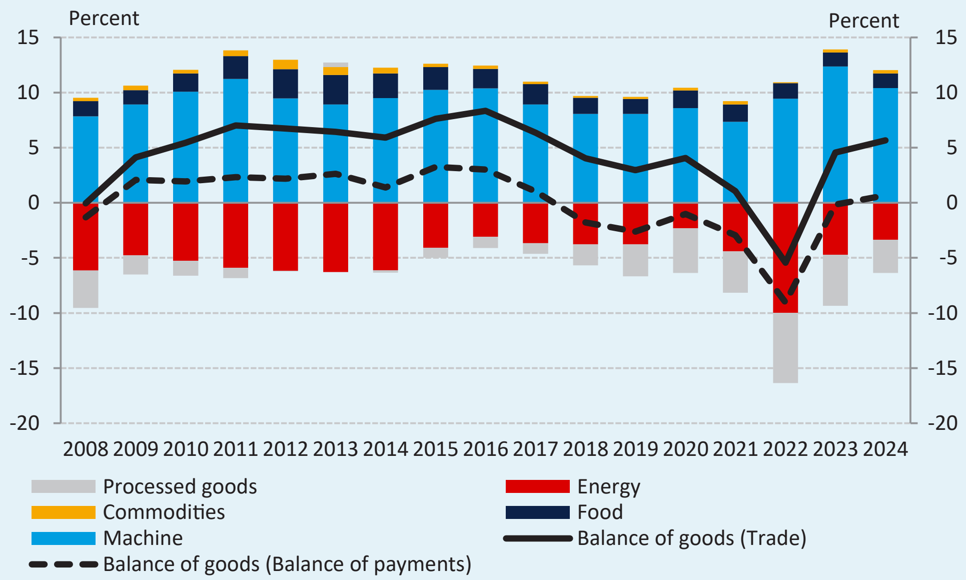
Chart 6: Changes in the trade balance as a percentage of GDP



Source: HCSO

The goods balance increased by about 1 percentage point of GDP in 2024, mainly due to a decline in net imports of energy and processed goods, while the contribution of net machinery exports to the goods balance weakened (Chart 7). Net energy imports contracted by 1.3 percent of GDP over the year, in line with the continued annual average decline in natural gas and electricity prices and the fall in domestic energy use in 2024. The rise in the export volume of processed goods combined with a decline in the volume of imports resulted in a 1.6-percentage point decrease in net imports of processed goods as a share of GDP. In 2024, imports of machinery fell at a similar rate as exports in this category, but the evolution of net exports of machinery had a negative effect of 2 percentage points of GDP on the goods balance, due to the higher weight of exports. The decline in machinery exports may have been related to a slower-than-expected electromobility transition, the war in Ukraine and decreasing industrial production due to still relatively high energy prices in Europe, while the decline in machinery imports may be due to a continued contraction in investment.

Chart 7: Net external trade in goods by main groups (as a percentage of GDP)



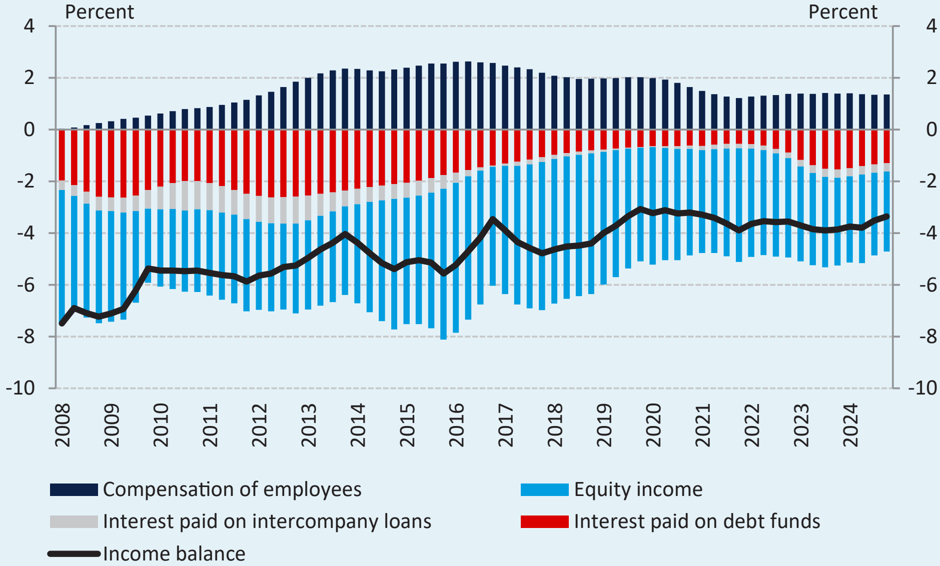
Note: The difference between trade in goods based on external trade and balance of payments statistics depends on the different methodological requirements and the content of data sources. Trade in goods figures in the balance of payments are calculated using adjustment factors derived from data on external trade statistics (for more detail, please see the methodology publication of the balance of payments statistics). At the same time, the two types of data have been similar in recent years, which makes them suitable for trend analysis.
Source: HCSO, MNB

1.2 Income balance

In 2024, the income balance deficit as a share of GDP narrowed to 3.4 percent by the end of the year, reflecting a number of factors (Chart 8). A large part of the income balance is accounted for by the profits of foreign-owned enterprises,[1] whose value as a share of GDP continued to decline over the year, mainly due to the fall in earnings resulting from decreasing exports in the manufacturing sector. Thus, the deficit in equity income – continuing the downward trend from 2022–2023 – fell to 3.1 percent of GDP by the end of 2024, supported by the extra profit tax remaining in place. A similar positive impact on the income balance was generated by net interest payment on loans to and from abroad, which fell to 1.3 percent of GDP at the end of the year, in line with lower domestic and international yields, while net interest expenditure on shareholder loans remained unchanged over the year. The wage income of employees temporarily working abroad remained at the low levels seen after the pandemic, continuing to improve the indicator to a lesser extent than previously, but still making a significant contribution. As a result of these factors, the income balance deficit narrowed from the 2023 level of nearly 4 percent by around 0.5 percent of GDP by the end of 2024.

[1] As quarterly data on the 2024 profitability of foreign-owned enterprises operating in Hungary are limited, information on quarterly profit outflows is based on partial data estimates until the receipt of corporate questionnaires at the end of the summer. For more detail, see the publication 'Methodological notes to the Balance of Payments and Investment Position Statistics'.

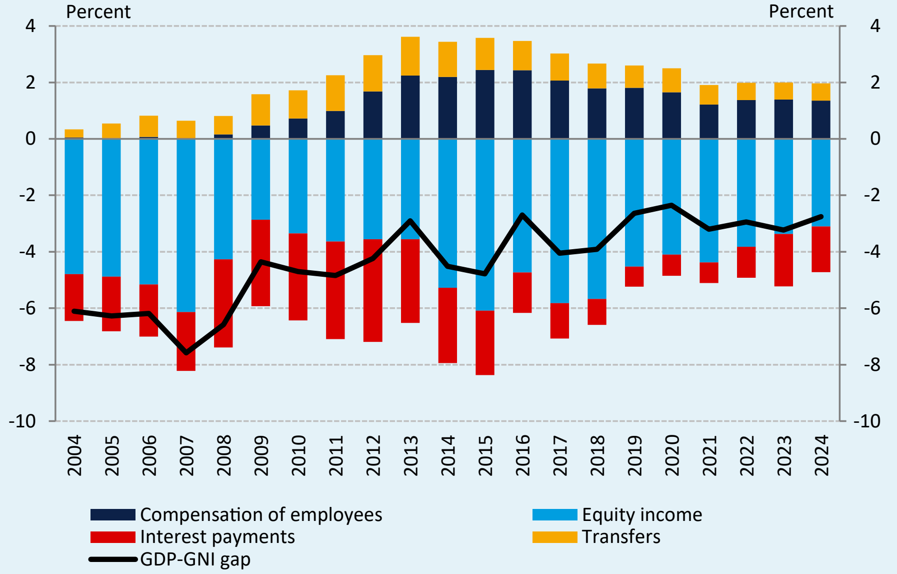
Chart 8: Developments in income balance items (four-quarter values as a percentage of GDP)



Box 1: The gap between GDP and GNI

The gap between GDP and GNI narrowed substantially in 2024, and consequently the disposable income of domestic sectors was 2.8 percent of GDP lower than the income generated in Hungary (Chart 9). The difference between gross domestic product (GDP) and gross national income (GNI) shows the balance of income flows vis-à-vis the rest of the world, which allows analysts to estimate the actual disposable income of domestic agents (excluding secondary income). The significant improvement in this indicator in 2008–2009 was mainly linked to a decline in the profitability of foreign-owned enterprises, which reduced the gap from over 6 per cent of GDP to 4 per cent of GDP, after which it fluctuated around 3–4 per cent, with minor swings. As a result of the Covid-19 pandemic, the decline in the compensation of the employees balance (with a drop in the income of Hungarian workers abroad) caused an increase in the gap between GDP and GNI. In the years after the pandemic, despite the increase in extra profit taxes and slack demand, foreign companies were able to maintain strong profitability in a high inflation environment. At the same time, the high domestic and international yield spreads and the rise in external debt led to a significant increase in the interest expenses of economic sectors. In 2024, lower corporate profitability due to the subdued cyclical environment and lower interest rates narrowed the gap between GDP and GNI by 0.5 percentage point to 2.8 percent of GDP, according to preliminary data.

Chart 9: Evolution of the GDP–GNI gap in Hungary (as a share of GDP)

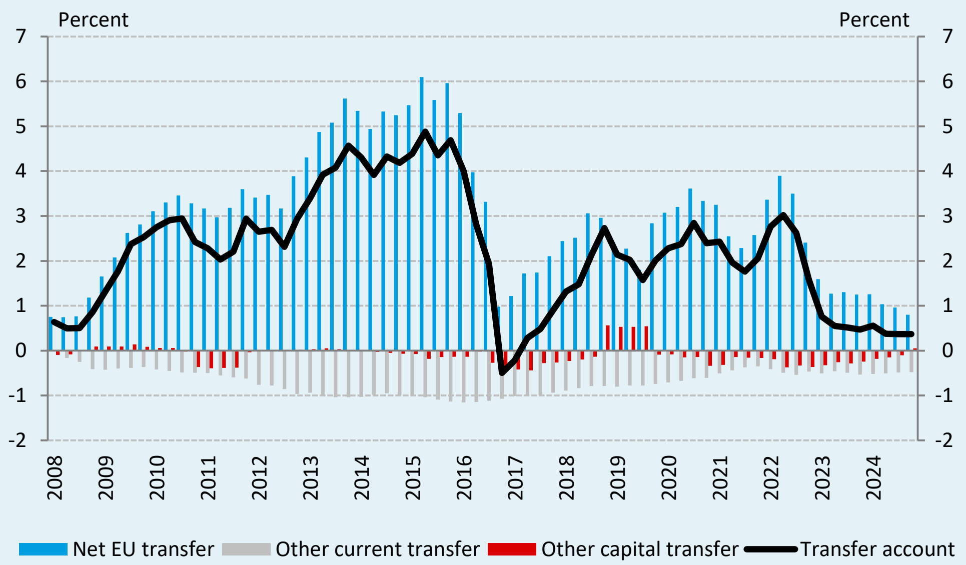


Note: As official GNI data (published by the HCSO) are not currently available for 2024, the balance of payments data release is based on primary income (profits of foreign-owned companies, excluding SPE companies, are estimates for the time being).

1.3 Transfer balance

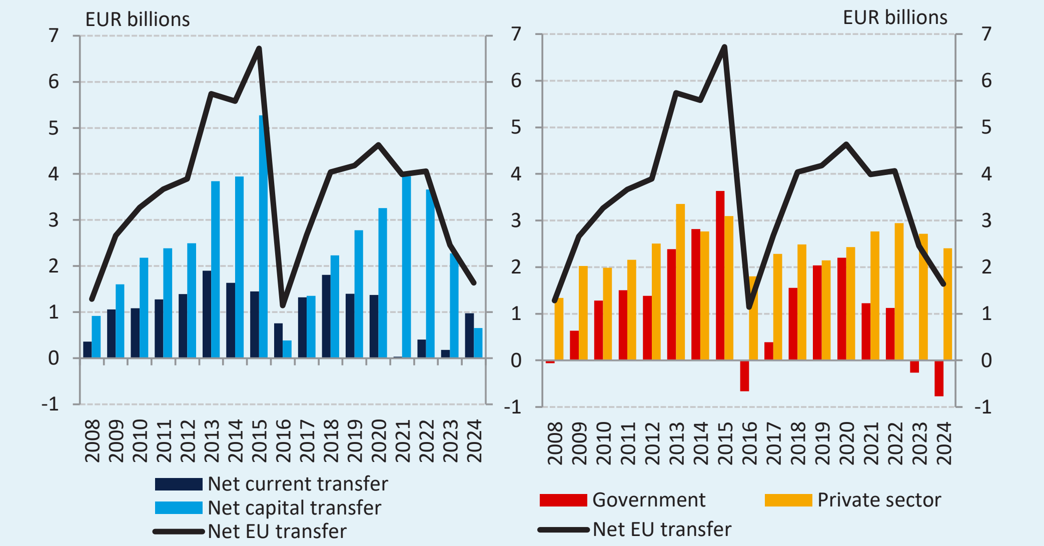
The surplus on the transfer balance dropped to 0.4 per cent of GDP by the end of 2024, mainly due to lower net EU transfers (Chart 10). The annual average use of net EU transfers amounted to around 3 percent of GDP in the period 2008–2023, but during 2024 the four-quarter net EU transfer balance shrank from 1.2 percent of GDP to 0.8 percent. This was due to the end of the 2014–2020 EU budget cycle and the delay in accessing the new seven-year cycle and the Recovery and Resilience Facility (RRF), which was set up to help with recovery from the Covid-19 crisis. In 2024, the balance of other current transfers remained flat, while the four-quarter balance of other capital transfers increased somewhat.

Chart 10: Developments in the transfer balance (four-quarter values as a percentage of GDP)



The net absorption of EU funds in 2024 was EUR 1.6 billion, less than half of what it was in previous years. The general government became a net contributor even more than in the previous year, while the private sector's use of EU funds remained significant (Chart 11). Due to the cyclical nature of the EU budget, the use of EU transfers reached its previous low point in 2016 and peaked again in 2020. However, in 2024 the new budget cycle and the delay in accessing RRF funds further reduced capital inflows, which may have contributed to the decline in domestic investment. By contrast, the current transfers balance increased, mainly due to the implementation of the teachers' pay rise from EU transfers. At the sectoral level, the decrease in the use of funds in 2024 mainly affected the general government sector. The negative general government balance with the EU worsened further in 2024, with a fine on immigration policy by the Court of Justice of the European Union last June contributing by EUR 0.4 billion. However, private sector absorption remained close to the average of the previous 10 years in nominal terms, reaching EUR 2.4 billion.

Chart 11: Developments in net EU current and capital transfers and their sectoral distribution

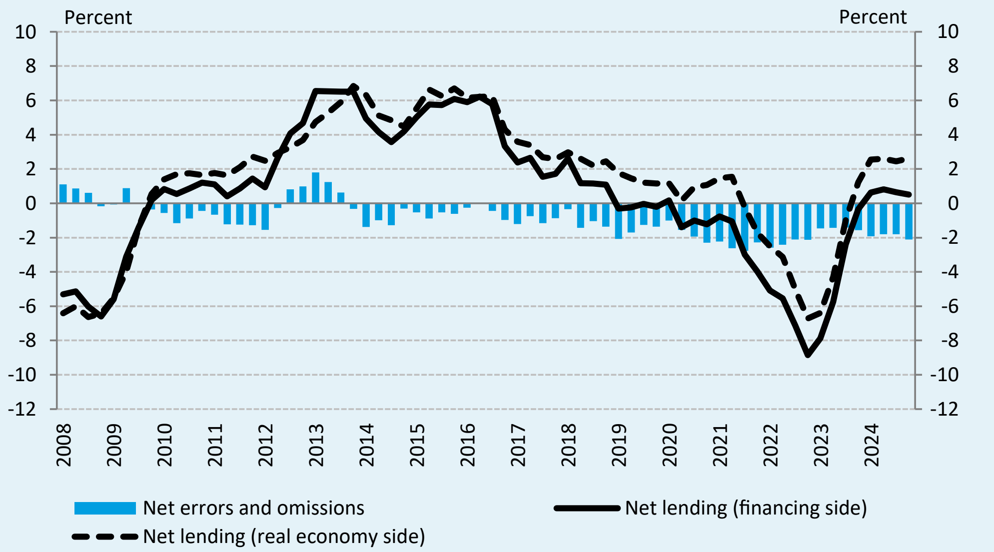


2 Financing approach and debt ratios

In 2024, the external position calculated on the basis of financing items turned into financing capacity. The improving current account was accompanied by a reduction in debt inflows, while net FDI inflows declined in the context of an expansion of domestic companies' investments abroad and the partial domestic acquisition of the Budapest Airport. On an annual basis, net external debt fell moderately, mainly driven by the general government and the corporate sector, despite inflows of debt and as a result of revaluation effects. The net inflow of funds from government transactions consolidated with the MNB was boosted by the net issuance of central bank discount bonds introduced to ease swap market tensions, offset by a decline in foreign holdings of forint bonds and the absorption of EU transfers. With the emergence of a net lending position, the debt indicators for external vulnerability also showed a positive overall picture. Net external debt decreased somewhat to 10.5 percent of GDP. In addition to the debt-increasing impact of transactions, the effects of revaluations (yield increases reducing the market value of debt holdings, exchange rate changes reducing net foreign exchange claims) and the substantial expansion of nominal GDP had a strong impact on the debt ratio. Foreign exchange reserves stood at EUR 44.6 billion at the end of 2024, EUR 9.5 billion above the level of short-term external debt, an indicator which is monitored closely by investors.

The economy's four-quarter net lending according to the financing approach amounted to 0.5 percent of GDP in 2024 Q4. Both the net position according to financing data and the net position calculated from the real economy side showed net lending, although the figures differed (Chart 12). The balance of errors and omissions capturing the divergence, i.e. the difference between the real economic and financing balance ratios, was consequently roughly 2 percent of GDP, around the average of previous years.[2]

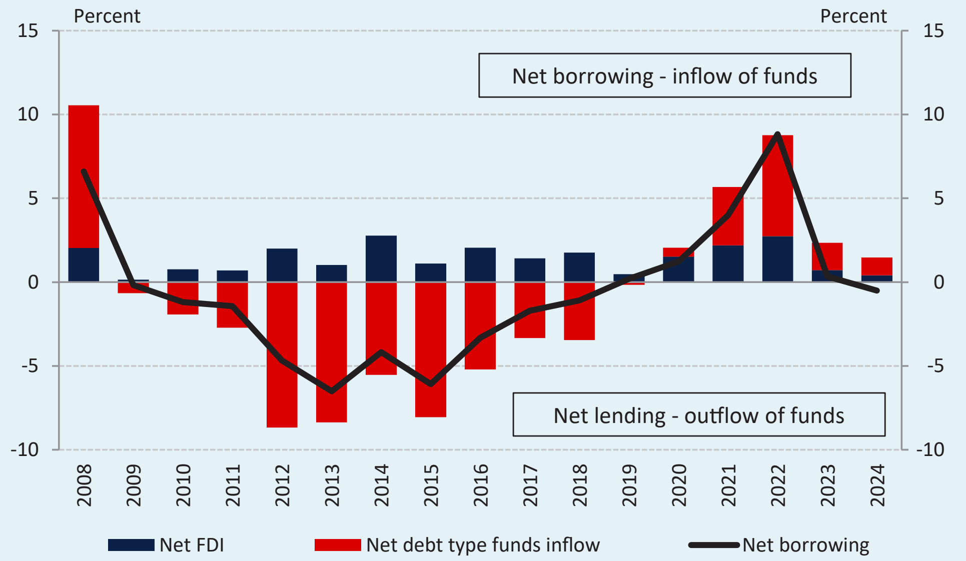
Chart 12: Two types of net lending (four-quarter values as a percentage of GDP)



In 2024, inflows of debt liabilities fell to around 1 percent of GDP, while net FDI inflows by transaction also declined (Chart 13). The economy's net external debt from transactions rose by around 1.1 percent of GDP in 2024, with a simultaneous expansion of foreign debt-generating liabilities of almost EUR 3.9 billion and foreign assets of EUR 1.7 billion. Foreign direct investment by foreign companies was mostly linked to reinvested earnings. The decline in net FDI inflows is mainly explained by acquisitions of foreign companies by domestic agents, while investments of residents in foreign markets continued.

[2] Trends in the balance of payments can also be analysed by examining the financing of real economy transactions. The financial account shows what types of transactions were used by resident economic agents to finance transactions in the real economy that had an effect on net financial worth. The data in the real economy and financing approaches should in theory be consistent, but non-integrated data sources, incomplete monitoring and different treatment of exchange rates can lead to discrepancies, as shown in the 'Balance of errors and omissions'.

Chart 13: Direct investments and debt liabilities transactions (as a percentage of GDP)*

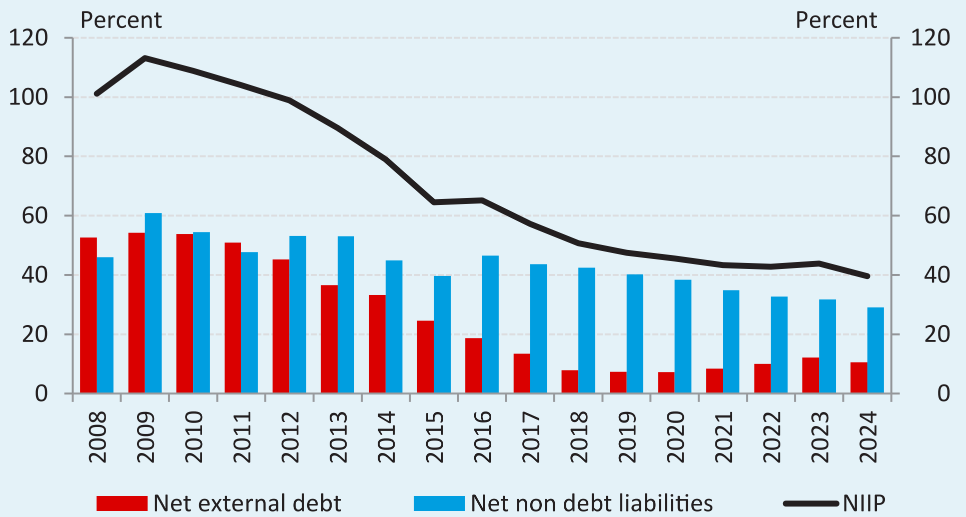


**In addition to the components shown in the chart, net borrowing also includes equity transactions in portfolio investments, transactions in derivatives, other equity in other investments and non-debt claim (bullion, equity securities) transactions in international reserves.*

2.1 Net external debt

In conjunction with the net lending position, Hungary's net external debt to GDP ratio also declined significantly (Chart 14). Net external liabilities, which include external debt and non-debt liabilities (including direct equity investments, portfolio holdings and derivative liabilities), gradually declined after the 2008 crisis. Following a temporary increase in 2023, the indicator then declined again in 2024, falling to below 40 percent of GDP by the end of the year. The annual decline of more than 4 percentage points was driven by changes in both non-debt liabilities and external debt. The drop in net external debt as a share of GDP was linked to the general government and the corporate sector, while the banking sector increased its net external debt. As a result, net external debt in 2024 was close to 10.5 percent of GDP. The stock of non-debt declined, despite net FDI inflows of 0.4 percent of GDP, mainly linked to the rise in nominal GDP and an increase in foreign portfolio equity investments.

Chart 14: Developments in net external debt (end-of-period, as a percentage of GDP)



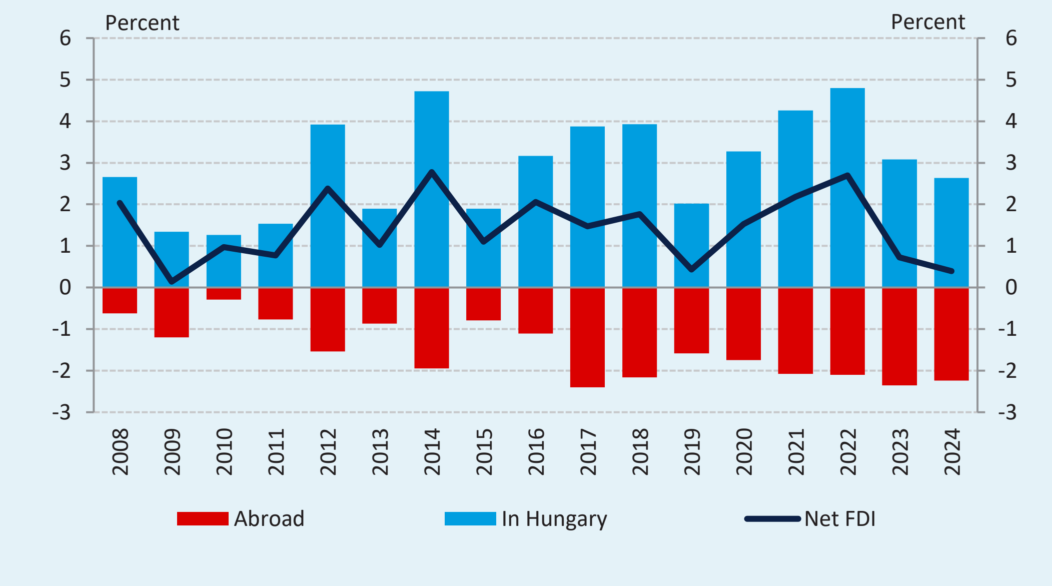
2.2 Non-debt liabilities

FDI inflows in Hungary amounted to nearly EUR 5.4 billion in 2024, while net FDI inflows reached EUR 0.8 billion (Chart 15). Foreign direct investment in Hungary totalled around EUR 5.4 billion last year, down from more than EUR 6 billion in 2023. Foreign investment by domestic agents increased by a total of EUR 4.6 billion over the year, resulting in net FDI inflows of EUR 0.8 billion in 2024 as a whole.

- **Foreign investments by resident companies picked up during the second half of the previous decade and exceeded 2 percent of GDP each year over the last four years.** Outward investment reached 2.2 percent of GDP last year, 60 percent of which was reinvested earnings, with nearly 30 percent accounted for by new equity investment and only just a little more than 10 percent as intercompany loans. The bulk of outward investment flowed into the branches of petroleum refining and pharmaceutical production, alongside the financial sector and trade.
- **Investment of foreign companies in Hungary amounted to 2.6 percent of GDP, with this figure significantly reduced by the repurchase of Budapest Airport.** In the second quarter, the acquisition of the foreign-owned Budapest Airport partly by resident agents resulted in a substantial reduction in foreign equity investment. In addition, ordinary dividend payments approved at the beginning of the year lowered FDI shares (via the fall in reinvested earnings); nevertheless, most of this has not been paid yet, which in turn drove intercompany loans higher. According to announcements, a significant inflow of FDI took place in the electronics industry, including battery and electric motor manufacturing in 2024.

As a result of the above, net FDI inflows amounted to 0.4 percent of GDP in 2024. The trend observed after the financial crisis continued in 2024, with FDI shares and intercompany loans often contrasting in terms of the structure of direct investment (this is one of the reasons why the MNB considers intercompany loans as FDI and does not take them into account in external debt). The aforementioned acquisition led to net FDI outflows in the first half of the year, followed by net FDI inflows in the second half of the year, resulting in a small overall increase in net FDI inflows from transactions.

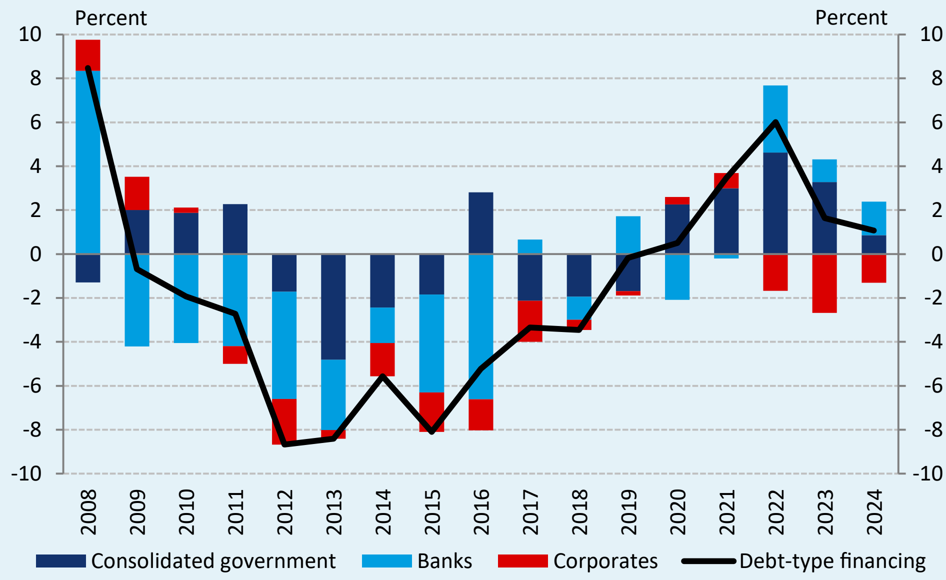
Chart 15: Developments in FDI (excluding capital-in-transit transactions)



2.3 Debt liabilities

In 2024, Hungary's net external debt from transactions increased by about 1.1 percent of GDP, with the general government and banking sectors contributing to the rise, while the corporate sector's ratio continued to decline (Chart 16). In 2024, in line with the consolidation in net borrowing, the economy's external debt inflows were substantially lower than in the previous year: as a result of transactions, the net external debt of the consolidated general government rose by EUR 1.8 billion and that of the banking sector by EUR 3.1 billion, while the corporate sector indicator dropped by around EUR 2.7 billion. The net external debt of the general government was also reduced by a significant decline in the portfolio of HUF government bonds held by foreigners and the absorption of EU transfers. At the same time, the net external debt of the general government increased in a year-on-year comparison, due to the net issuance of central bank discount bonds, which were introduced to ease swap market tensions. The expansion of the portfolio of foreign currency government bonds due to the issuance of bonds in foreign currency increased both gross external debt and foreign exchange reserves, leaving net external debt unaffected. Central bank swap instruments providing euro liquidity lowered foreign exchange reserves; at the level of national economy, this had a neutral impact on net external debt due to the reduction in the net external debt of the banking system, but it increased the net external debt of the consolidated general government. The MNB's swap instruments provided the banking sector with foreign currency liquidity, while reducing foreign exchange reserves, and thus improved the net debt ratio of banks. In the case of the banking sector, the rise in debt was accompanied by a fall in foreign assets, which contributed to the rise in net external debt.

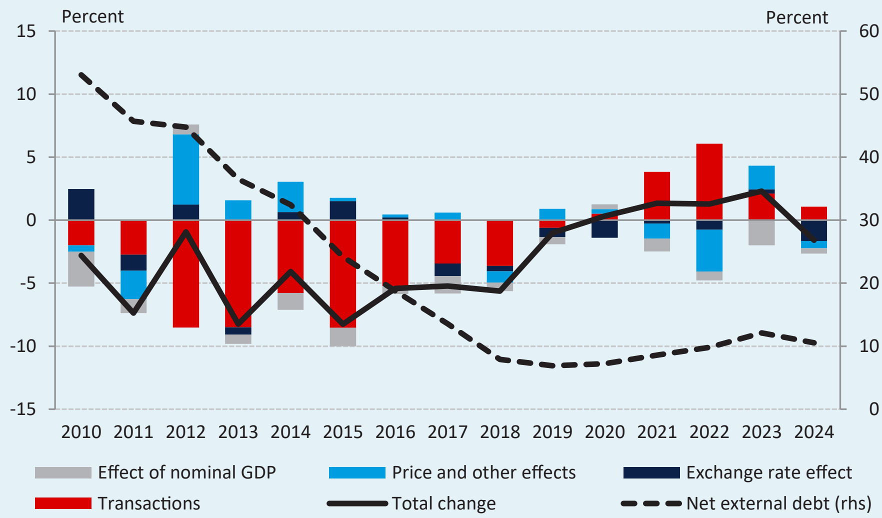
Chart 16: Developments in debt liabilities by sector (as a percentage of GDP)



2.4 Net external debt

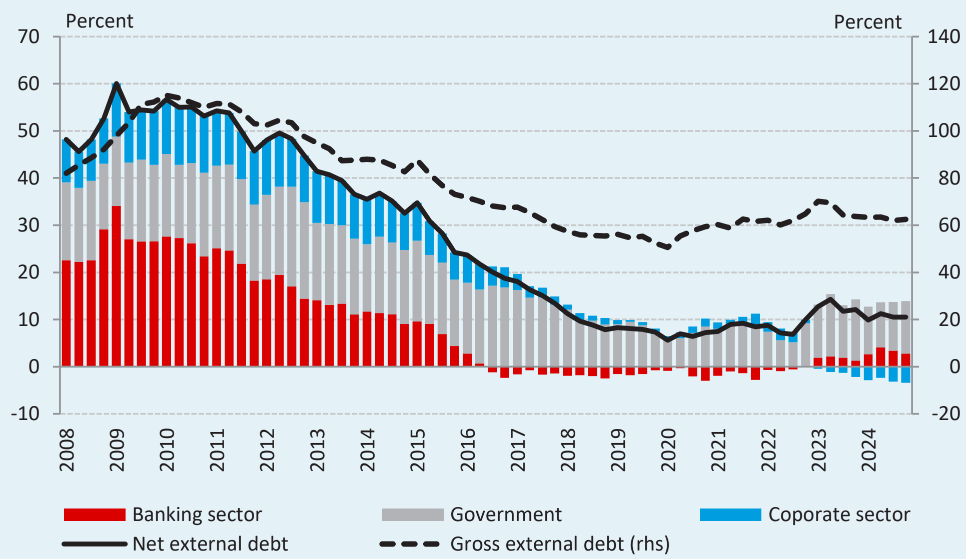
Net external debt rose as a result of the net inflow of debt-type funds, which was counterbalanced by revaluation effects and nominal GDP growth; consequently, the ratio remained at a historically low level, decreasing to nearly 10 percent of GDP. The net external debt accumulated in the years before the 2008 crisis fell by 46 percentage points in the 2010s, mainly related to outflows of debt-type liabilities, while the improvement in the indicator was also supported to a lesser extent by nominal GDP growth. After a significant decline following the 2008–2009 crisis, the debt ratio remained stable at a low level of around 7–8 percent of GDP between 2018 and 2021, before rising in 2022 in line with the increase in the economy's financing needs due to the steep rises in energy prices. In 2024, the debt-increasing impact of net inflows of debt-generating liabilities was more than offset by a substantial increase in nominal GDP and revaluation effects (yield increases reducing the market value of debt and exchange rate changes (Chart 17), reducing net external debt to 10 percent of GDP at the end of 2024.

Chart 17: Decomposition of the change in net external debt by item (as a percentage of GDP, excluding intercompany loans)



The year-on-year decline in net external debt as a share of GDP occurred against a backdrop of a declining ratio of general government and corporate debt consolidated with the MNB (Chart 18). The decline in the general government's net external debt was linked to the first half of the year, before adjusting moderately in the second half of the year to reach 11.2 percent of GDP at the end of December. In addition to the debt inflows described above, the evolution of the general government stock-flow ratio was also significantly influenced by revaluation effects related to changes in the exchange rate and yields. For 2024 as a whole, the debt-increasing effect of debt-type inflows was outweighed by the debt-decreasing effect of revaluations, resulting in a lower government ratio. Foreign currency government bond issues, maturities and repurchases affected both gross debt and claims, and were therefore neutral for the sector's net external debt. Banks' net external debt peaked around mid-year and then partially adjusted in the latter part of the year, mainly in the context of deleveraging. The net external debt of enterprises continued to decline over the year and reached -3.5 percent of GDP at the end of 2024, meaning that the sector's external assets continue to exceed its external debt.

Chart 18: Net external debt by sector (as a percentage of GDP, excluding intercompany loans)



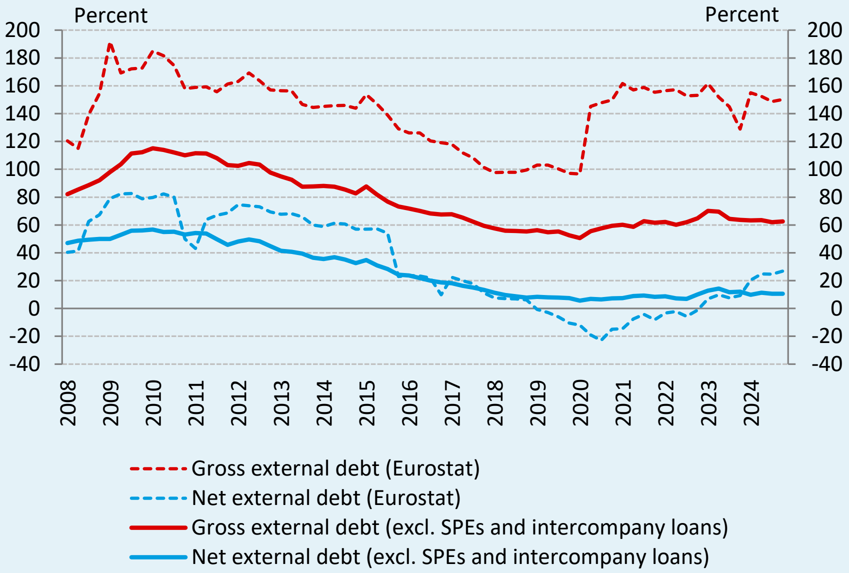
Box 2: Changes in external debt from various perspectives

Net external debt remains at a low level, regardless of the inclusion of SPEs and intercompany loans, but the gross external debt ratio, which includes SPEs and intercompany loans, remains substantially above the underlying debt ratio. For economic reasons, the MNB's analyses and publications analyse debt indicators without SPEs (special purpose entities) and intercompany loans, considering gold reserves as liabilities to non-residents,[3] in order to present the underlying processes. However, the indicators calculated together with these factors are available only in the Eurostat database at the international level. SPEs conduct no real economic activity in the country and usually have fewer than five employees. Their activities generally have no impact on the country's net external debt; since they have external receivables of the same amount as their liabilities, they only have a significant impact on gross debt indicators. Based on their fundamentals, intercompany loans are generally considered non-debt liabilities (see the April 2014 Report on the Balance of Payments for more detail) rather than debt liabilities, and accordingly, balance of payments statistics recognise intercompany loans under FDI investments.

Net external debt including SPEs and intercompany loans was much more volatile, rising much faster than the underlying trend for net external debt in recent years. The net external debt indicator calculated by Eurostat was 27 percent at the end of 2024 – meaning that the two indicators diverged again (Chart 19).

At the same time, the gross indicators show a consistently significant divergence in level between the two methodologies and in 2020 there was a sharp jump in the 'broader' gross external debt indicator, which further increased the divergence between the two. This highlights that the indicator which takes into account SPEs that do not pursue real economic activity in Hungary and the changes therein which reflect individual factors, obscure real economic developments.

Chart 19: Developments in net and gross external debt (as a percentage of GDP)



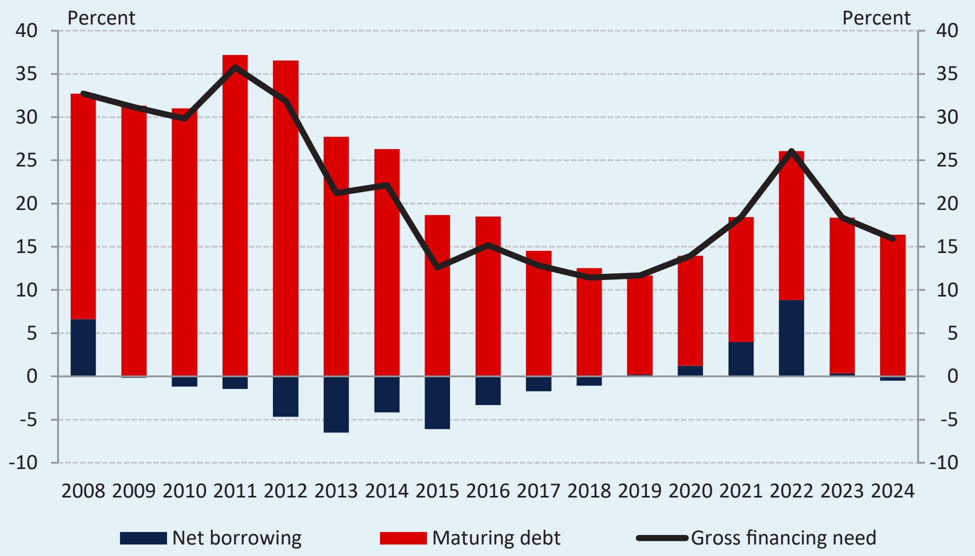
Source: Eurostat, MNB

[3] From an economic point of view, the fundamental evolution of the debt dynamics is not affected by the conversion between accounts receivable and bullion, and its impact is therefore filtered out from the time series of the report.

2.5 Gross borrowing need

Overall, the improvement in the external balance and the reduction in maturing debt led to a reduction in Hungary's gross borrowing need in 2024 (Chart 20). After a gradual decline since 2011, gross borrowing need increased between 2020 and 2022 as the external position turned into net borrowing. Subsequently, it declined again and dropped to 2021 levels in 2023 as the external position improved. The country's net lending position, calculated from the financial account items, amounted to 0.5 percent of GDP in 2024. At end-December 2023, short-term external debt– i.e. debt maturing in 2024 – amounted to 16.4 percent of GDP, reflecting a small decrease versus the previous year. Thus, on the whole, the gross financing need of the Hungarian economy in the year – as the sum of the two – fell to less than 16 percent of GDP.

Chart 20: Developments in the gross borrowing requirement



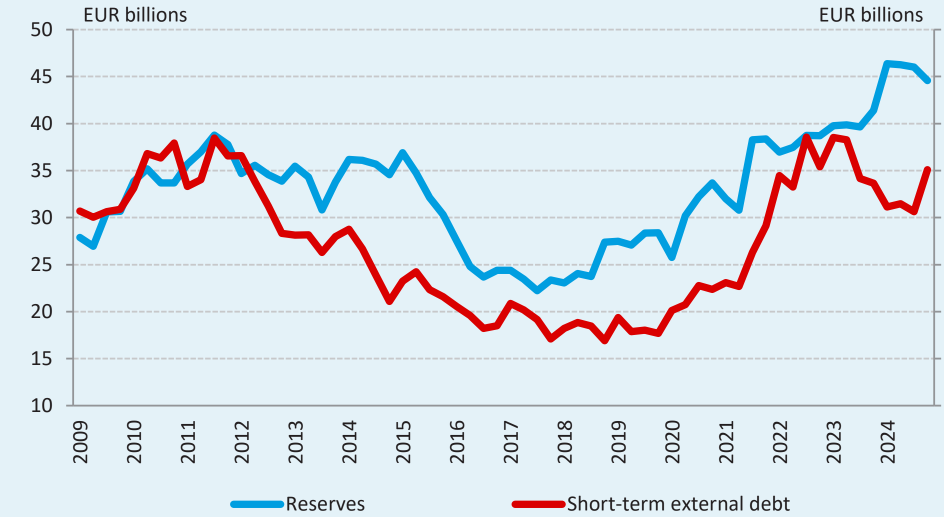
2.6 Reserve adequacy

At the end of 2024 Q4, the MNB's international reserves exceeded the level of short-term external debt, which is closely monitored by investors, by EUR 9.5 billion. At end-December 2024, international reserves totalled EUR 44.6 billion, with short-term external debt at EUR 35.1 billion. The leeway above the Guidotti-Greenspan indicator, which is closely followed by both the central bank and investors, amounted to EUR 9.5 billion at the end of June 2024 (Chart 21).

For 2024 as a whole, the MNB's international reserves increased by EUR 3.2 billion. At the end of 2024, foreign exchange reserves rose to EUR 44.6 billion from EUR 41.4 billion at the end of December 2023, mainly due to the following factors:

- *EU funds from the European Commission* and annual netted *payments* affecting the foreign exchange reserve exceeded EUR 2 billion.
- The increase in reserves was driven by the net foreign currency financing (including interest payments) *of the Government Debt Management Agency (GDMA)* in the amount of EUR 2.1 billion. Foreign currency funding was raised through the issuance of foreign currency bonds and foreign currency borrowing.
- The appreciation of the exchange rate of reserve items other than the euro increased the reserve by more than EUR 2 billion over the year as a whole, which was partly offset by the change in the *present value of hedges of non-euro reserve assets.*
- The above items were slightly offset by negative balances on *foreign exchange expenditure of the Hungarian State* Treasury amounting to EUR 3 billion, which includes expenditure related to the purchase of the airport.

Chart 21: Short-term external debt and international reserves of the Hungarian economy

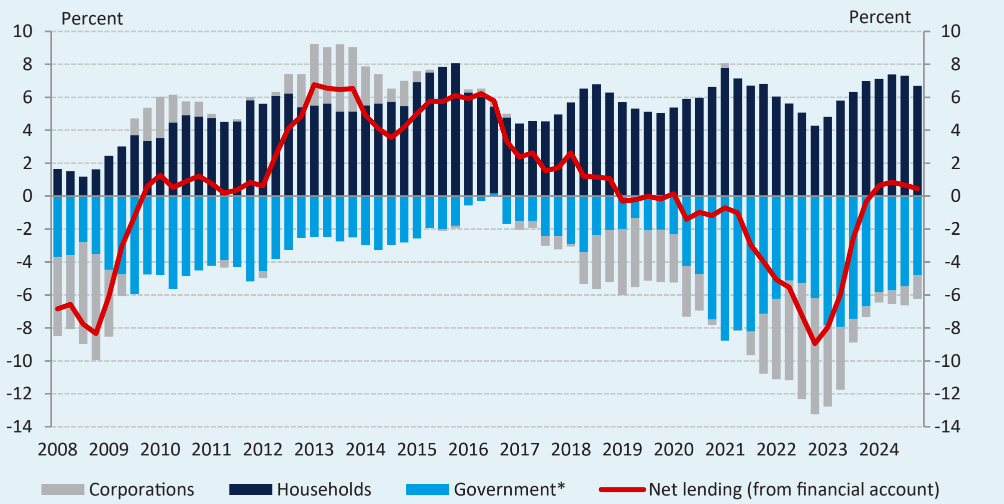


3 Savings approach

In 2024, the rise in Hungary's net lending was mainly driven by a decline in the budget deficit: after a large deficit in previous years, the general government primary balance was close to a balanced position again for the first time since 2019. By contrast, household financial savings fell slightly at the end of the year, in line with stronger consumption, while the corporate sector's financing needs also increased moderately, reflecting weaker profitability. Despite the declining deficit, the public debt-to-GDP ratio rose marginally versus the previous year, while foreign currency issuance pushed the foreign currency ratio of the central government debt to nearly 30 percent.

For 2024 as a whole, the external net lending of the sectors in terms of savings increased somewhat, mainly due to a reduction in the fiscal deficit, while the private sector financing position declined (Chart 22). The change in the financial savings of individual sectors is ultimately reflected in their external financing, and thus changes in the external balance can also be captured as the sum of the sectors' savings, which also corresponds to developments on the financing side. Based on the preliminary data, consolidated government net borrowing declined steadily over the four quarters, as a result of lower energy expenditures, rising tax revenues driven by a rebound in consumption and falling investment. With real wages rising due to lower inflation and inflation uncertainty easing, household consumption expenditure increased significantly, which was also reflected in the moderate decline in household net financial savings. The net borrowing of the corporate sector increased somewhat over the year, mainly due to lower profitability in the sector.

Chart 22: Net lending of specific sectors* (four-quarter values as a percentage of GDP)



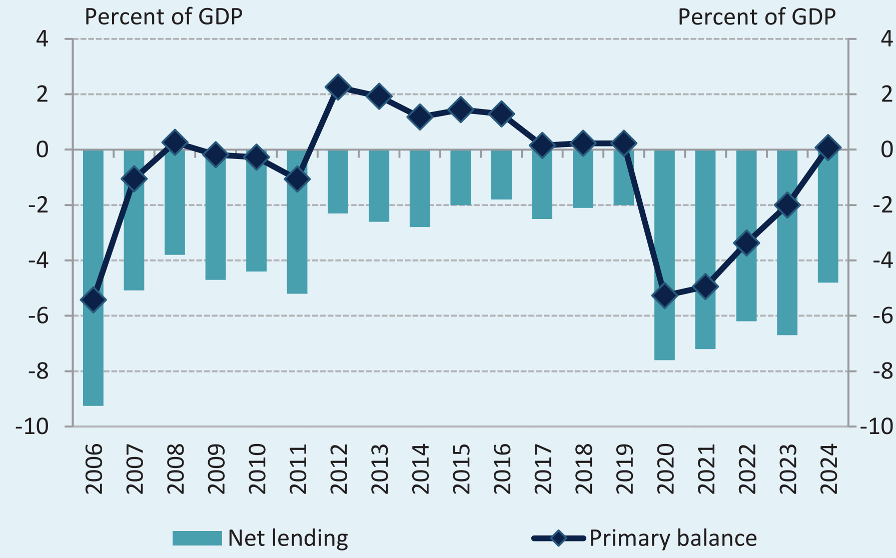
** General government represents net borrowing according to the financial accounts. Corporates based on the residual principle.*

3.1 General government

The 2024 net borrowing of the general government was lower compared to 2023. Based on preliminary fiscal accounts data, the net borrowing of the general government in 2024 amounted to 4.8 percent of gross domestic product[4] (Chart 23). The 2024 deficit is 1.9 percentage points lower than the 2023 figure of 6.7 percent. Hungary is the third best performer among EU Member States in terms of the projected improvement in the budget balance relative to the previous year. Government interest expenditure as a share of GDP rose from 4.7 percent in 2023 to 4.9 percent in 2024, meaning that interest payments were essentially the cause of the budget deficit, with the primary balance close to balance.

[4] For 2024, no data on the ESA budget balance are available yet, but the net lending capacity according to the preliminary financial account data tends to differ only moderately from the ESA balance.

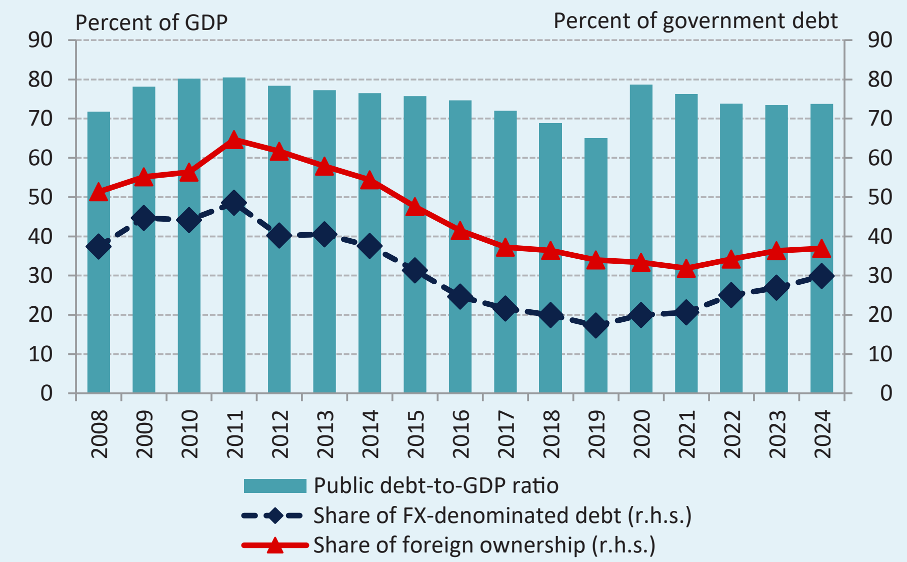
Chart 23: Evolution of the net lending capacity of the general government (as a share of GDP)



Note: 2024 values based on preliminary financial account data published by the MNB.
Source: MNB, Eurostat

Government gross debt as a share of GDP stood at 73.8 percent of GDP at the end of 2024, up 0.4 percentage point compared to one year earlier. In 2024, the GDMA issued more than HUF 1,800 billion worth of forints in domestic currency; the largest share of this was in the form of retail government securities, amounting to nearly HUF 1,200 billion. The increase in the portfolio of discount Treasury bills was around HUF 570 billion, while the net issuance of forint bonds amounted to HUF 50 billion, with a small increase in the portfolio of forint loans. The debt manager made net foreign currency issues of nearly HUF 1,800 billion, of which net wholesale foreign currency bond issuance amounted to around HUF 1,170 billion, while net foreign currency drawdowns were close to HUF 550 billion. As a result of foreign currency issuance, the foreign currency ratio of central government debt rose to 29.8 percent from 26.9 percent in 2023 (Chart 24).

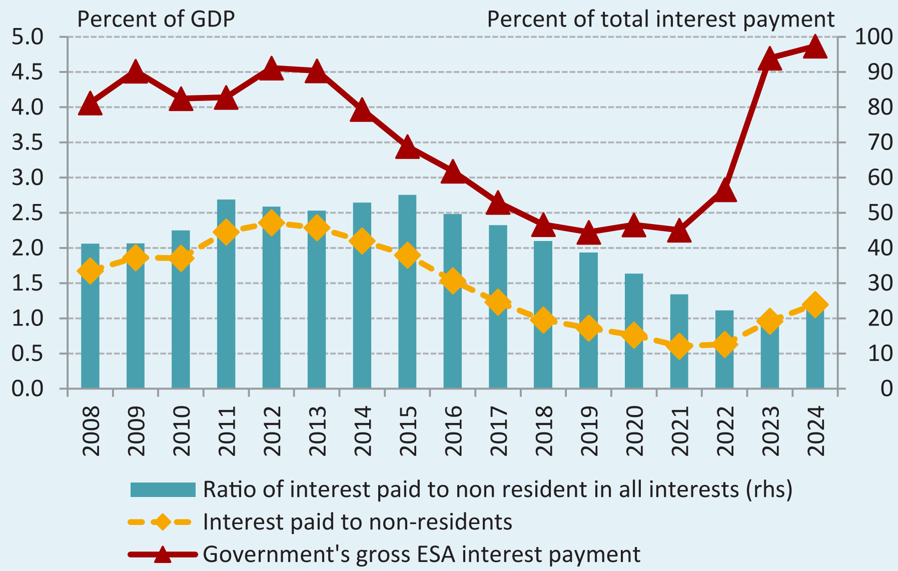
Chart 24: Developments in gross government debt, including changes in the share of non-residents and the share of foreign currencies in budget debt



Note: The share of foreign ownership is calculated on the basis of nominal value; MNB estimate for 2024.
Source: GDMA, MNB

Government interest expenditure in 2024 amounted to 4.9 percent of GDP, based on preliminary data, of which one quarter is interest paid to non-residents (Chart 25). Government gross ESA interest expenditure rose to 4.7 percent of GDP in 2023 and may come in at around 4.9 percent of GDP in 2024. Three quarters of government interest expenditure went to the domestic market, with households receiving a significant share of this. In 2024, government interest paid to non-residents rose to around one quarter of total interest expenditure, or 1.2 percent of GDP. As a result of the declining foreign ownership of government debt, interest payments to non-residents have almost halved since 2012, improving the current account balance.

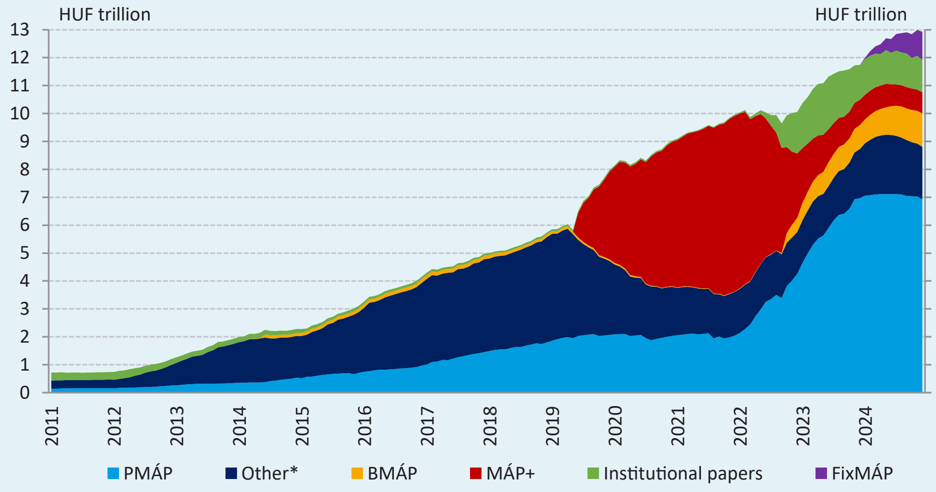
Chart 25: Developments in the interest expenses of the general government



Note: MNB estimates for 2024.
Source: Eurostat, MNB

As inflation eased, the fixed-rate Fix Hungarian Government Bonds became the most sought-after product in 2024, with household holdings of government securities increasing by around HUF 1,200 billion in nominal terms (Chart 26). From the beginning of 2024, the new Fix Hungarian Government Bond (FixMÁP) took over the role of the most popular instrument in a declining inflation environment. The product, which was launched in January 2024, offered an annual interest rate of 7 percent for a 3-year term, which gradually decreased over the year to 6.75 percent and then to 6.5 percent. By the end of the year, the FixMÁP portfolio (which started in the beginning of the year) had increased to HUF 1,025 billion, accounting for 8 percent of the household government bond portfolio, while the PMÁP portfolio contracted by HUF 30 billion. However, this substantial rebalancing may accelerate in 2025, after the PMÁP's 17.6 percent inflation-linked interest rate for 2023 is paid. Holdings of retail discount Treasury bills fell by HUF 100 billion, while HUF 300 billion flowed into the DKJ yield-linked BMÁP, which offers a premium above the DKJ yield. The Hungarian Government Security Plus scheme was renewed with the June maturity of the first series issued in 2019: it still guarantees investors a fixed interest rate band and high liquidity (no-fee redemption after interest payment), but the interest rate was changed to 6.25–7.25 percent. Thus, the portfolio of the instrument fell by almost HUF 100 billion, much less than the previous year's outflow (HUF 1,400 billion), despite the maturities of the 2019 series. The 1MÁP portfolio decreased by HUF 200 billion, mainly due to maturities, as this instrument was phased out in parallel with the renewal of the Hungarian Government Security Plus. The Baby Bond, KTJ I-II and EMÁP increased by around HUF 300 billion during the year. Overall, the significant increase in household savings continued in 2024, with the increase in the portfolio of government securities of households contributing nearly HUF 1,200 billion, providing stable domestic financing for the state.

Chart 26: Stock of government securities held by households

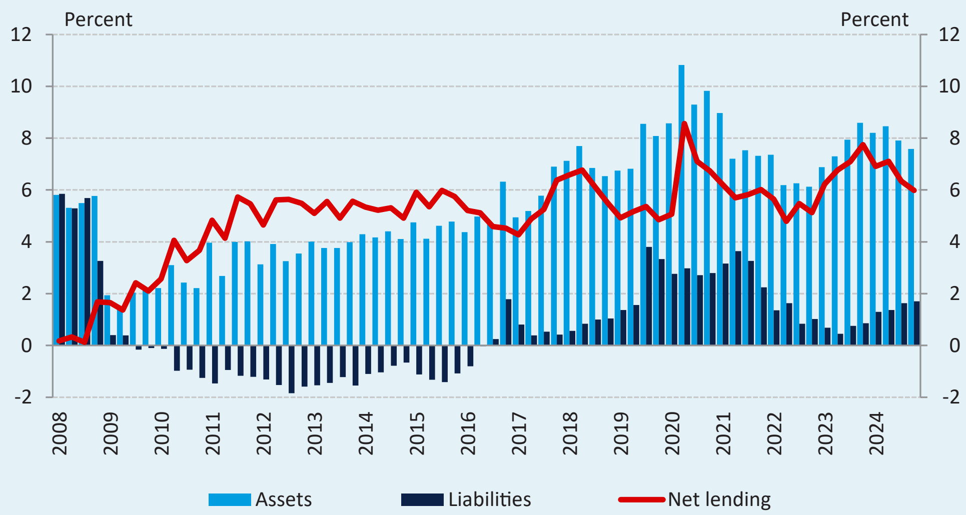


** 1MÁP, Baby Bond, FMÁP, 2MÁP, P€MÁP, EMÁP, KTJI-II.*
Source: MNB

3.2 Households

In underlying terms, household net lending moderated in 2024, but the seasonally adjusted figure of 6 percent at the end of the year is still high in a historical comparison (Chart 27). At the time of the lockdowns during the pandemic, households accumulated significant forced savings in 2020, which they used to increase their consumption in 2022 when the lockdowns were lifted. Since 2022 H2, with inflation soaring due to the surge in energy prices and mounting uncertainty due to the war in the vicinity, households have adopted a more cautious consumption behaviour, leading to a significant increase in household financial savings. In 2024, this process reversed again: as inflation eased, uncertainty declined and real wages rose, and households' net lending gradually declined. The decline was also reflected in a moderate drop in the accumulation of financial assets and an increase in net household borrowing, mainly related to mortgages.

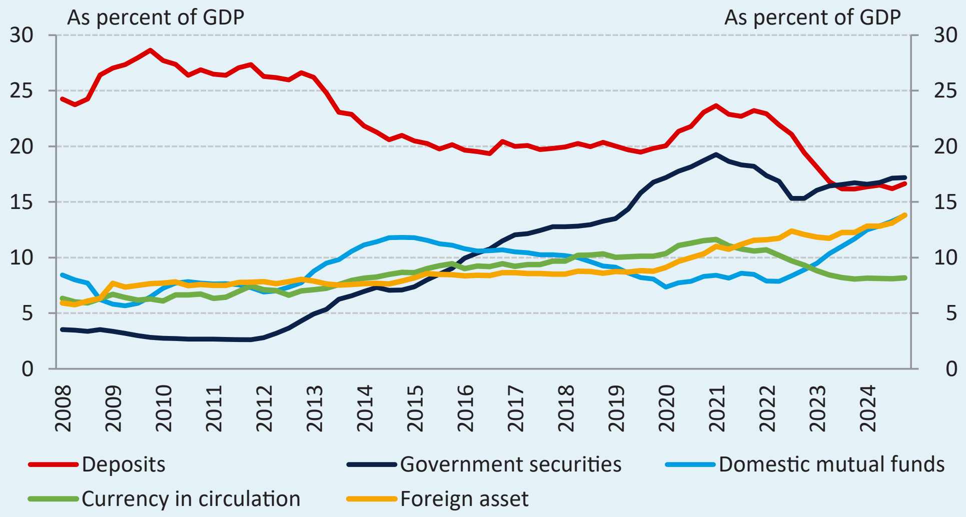
Chart 27: Net lending of households (seasonally adjusted revised* values as a percentage of GDP)



** 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 forint conversion and settlement, and the PIT refund.*

In 2024, the main household financial assets continued to grow as a share of GDP, mainly with regard to mutual funds and foreign assets, but also to a lesser extent in respect of government securities and deposit savings (Chart 28). Following a decline in the cash-to-GDP ratio in 2022–2023 due to the temporary spike in inflation, cash holdings stabilised in 2024 at a low level compared to previous years. The portfolio of government bonds held directly by households expanded significantly last year (by around HUF 1,400 billion also taking into account interest payments, along with the HUF 1,200 billion of purchases), implying a moderate increase in the portfolio as a share of GDP (for more details on the evolution of the portfolio of individual government bonds held by households, see Chapter 3.1). That said, the portfolio-increasing effect of the significant interest payments on inflation-linked government bonds also contributed to this development. The portfolio of domestic mutual fund shares grew strongly, rising by more than HUF 2,400 billion in 2024, similar to a year earlier, with savings mainly flowing into bond funds, mixed funds and equity funds. After a sharp drop in 2023, household deposits increased significantly, advancing by nearly HUF 1,400 billion in 2024, in line with lower inflation and stronger income and consumption, but this was only enough to slightly increase the portfolio as a share of GDP.

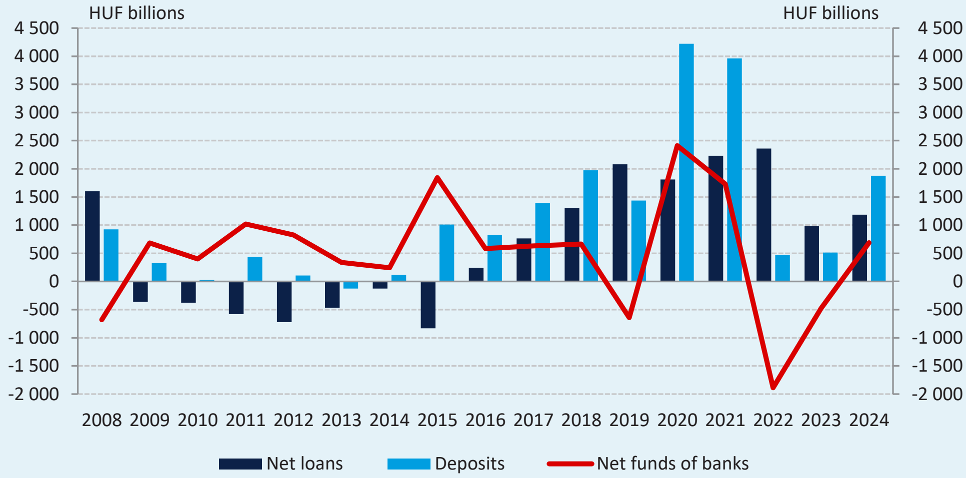
Chart 28: Households' holdings of key financial assets



Box 3: Changes in private sector bank loans and deposits

In 2024, the private sector placed deposits in the banking system at an annual rate well above previous years, and thus – despite the recovery in lending – the private sector once again provided banks with additional funds after two years (Chart 29). Between 2009 and 2015, the private sector, defined here as both households and businesses, reduced its bank loans because the amounts of repayments exceeded new borrowing. While it typically increased its bank deposits, the private sector increased the overall resources available to banks, helping them to adjust and repay their foreign loans. From 2016 onwards, private sector net borrowing expanded steadily, but this was accompanied by a rise in deposits from households and businesses and accordingly banks' liabilities from households and businesses typically continued to grow until 2021. This process reversed in 2022 and 2023, as deposits of funds declined, driven by portfolio shifts into higher-yielding assets than deposits due to rising inflation. Thus, the withdrawal of funds from the private sector contributed greatly to the rising external borrowing observed in banks' balance of payments. By contrast, in 2024, when lending picked up after the previous year's decline, the amount of deposits placed by the private sector increased sharply, mainly due to the change in the behaviour of households: while deposits of funds by enterprises remained significant, households boosted their bank deposits by nearly HUF 1,200 billion in 2024, following a withdrawal of deposits amounting to HUF 600 billion one year earlier.

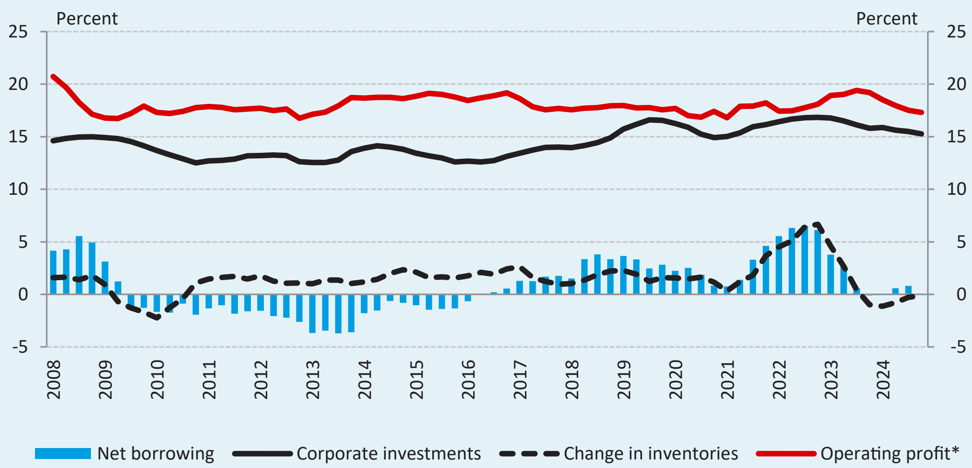
Chart 29: Private sector bank loans and deposits



3.3 Corporate sector

Non-financial corporations' net borrowing increased moderately, in the context of lower profitability and slowly rising inventory accumulation. Due to unfavourable export market opportunities and dynamic domestic wage growth, the four-quarter operating profit of the corporate sector as a share of GDP gradually declined in 2024, but nevertheless remained relatively high. In conjunction with weaker external demand, business investment expenditure as a share of GDP continued to fall, dropping below 15 percent. By contrast, inventory accumulation, which had turned negative at the end of 2023, rose slightly in 2024, but also declined overall last year. As a result of the above, the four-quarter net borrowing of non-financial corporations as a share of GDP rose somewhat over the past year, but remains significantly lower than the levels seen in previous years (Chart 30).[5]

Chart 30: Net borrowing of non-financial corporations and its main factors (four-quarter GDP-proportionate values)



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

[5] Financial accounts for 2024 Q4 will only be published after the editorial deadline for this report.

4 Comparison by region

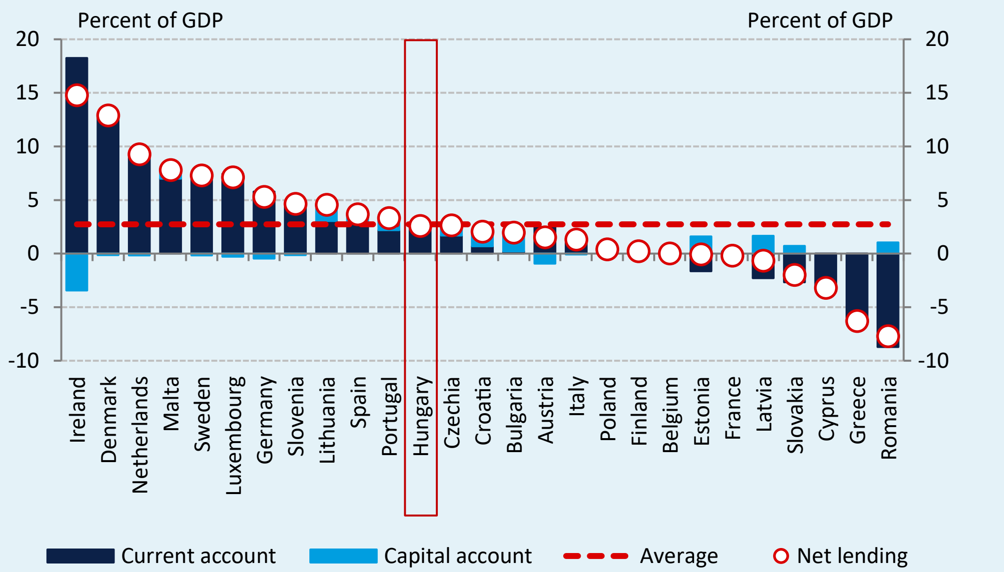
In 2024, the significant improvement in the external balances of the countries in the region that was seen last year came to a halt, as some countries recorded moderate deterioration, mainly due to falling savings. Declines in energy imports and a slowdown in imports as internal demand moderated tended to improve external balances. The surplus on the services balance was roughly on par the previous level in most countries, but a decline was registered in Romania. The deficit on the income balance was driven by rising interest expenses in parallel with the profit balance, which continues to weigh heavily on external positions across the region. The transfer balance declined in most of the regional countries. Overall, in 2024, the net lending of the countries typically declined, with Romania and Slovakia experiencing inflows by the end of the year. However, net FDI inflows in the region remained significant. External debt indicators were mixed across the countries, with net external debt falling only in Hungary.

In our special topic focusing on international comparison, the developments in Hungary's external balance are presented relative to the countries in the region. The Hungarian balance of payments data are best compared with countries at similar levels of development which face broadly similar challenges. Taking this into account, the most relevant group of countries are the regional countries that joined the European Union at the same time, as well as Romania, which joined the EU later but has been catching up rapidly in recent years.

4.1 A snapshot of Europe

The external balance of the Hungarian economy is around the EU average, while economic growth was somewhat below the EU average in 2024 (Chart 31). After a substantial drop last year, current account balances in European countries improved in 2024, supported by the sharp decline in energy prices as well as by a rise in services exports and subdued imports of goods. In 2024, the net position of the Hungarian external balance ranged in the middle of the field for EU countries, but is favourable by regional standards, as it is substantially higher than in Poland, Slovakia and Romania, and at about the same level as in the Czech Republic.

Chart 31: Current account balance and external financing position in EU countries in 2024*

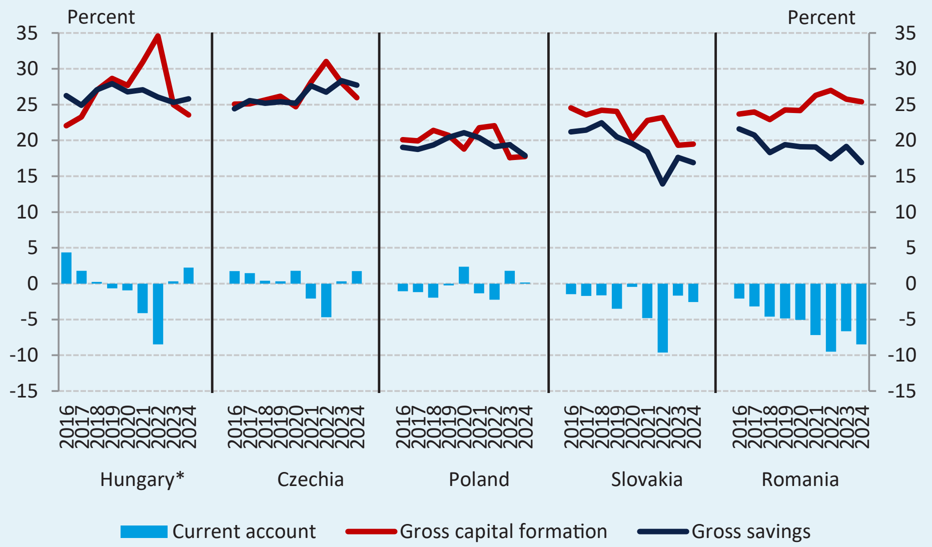


** Outside Hungary, the 2024 Q4 figures are calculated on the basis of monthly data.*
Source: Eurostat

4.2 Gross savings and investment

In 2024, an improvement in the current account balance was only seen in the countries in the region where gross capital formation fell, while the balance in the other countries deteriorated as savings fell (Chart 32). From the middle of the previous decade until the outbreak of the Covid-19 crisis, current account balances in the region's countries typically deteriorated. Although the current account balance temporarily improved due to falling domestic demand after the introduction of the pandemic restrictions, it returned to a downward path in 2021 after reopening. In 2022, the further decline in the external balance indicators of these countries was mainly due to a surge in energy prices and an increase in gross fixed asset formation, but also to a moderate drop in saving. With the exception of Romania, weaker investment activity was mirrored by improvement in the external balance in 2023 and this was also reflected in slower inventory accumulation. In 2024, the decline in gross accumulation slowed in most of the countries and even turned into a moderate increase in Poland and Slovakia. The evolution of gross accumulation was substantially affected by the build-up of inventories before 2022 H2, possibly due to the disruption of economic relations caused by the pandemic, the shortage of chips and the significantly higher cost of natural gas procurement. From 2023 onwards, inventory accumulation decelerated significantly in these countries and even started to decline in most of them. The declining trend in savings rates in Slovakia, Romania and, since 2020, Poland, which, together with high accumulation expenditure in Romania, has induced significant external net borrowing. In Slovakia and Poland, the investment rate of less than 20 percent meant that only a small amount of financing was necessary. The evolution of the external balance in 2024 was ultimately determined by changes in saving rates: in most of the countries in the region, the decline in saving rates was reflected in a deterioration in the external balance. However, the significant fall in investment in Hungary and the Czech Republic led to an overall improvement in the external balance, with savings remaining roughly flat.

Chart 32: Evolution of gross saving and accumulation rates (investment and stocks) (as a share of GDP)*

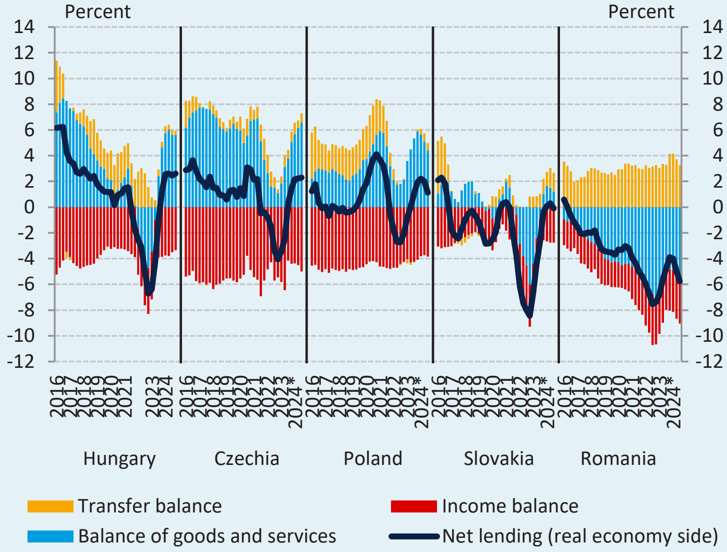


** For 2024, the gross savings ratio is derived from accumulation and current account data. For the rest of the region, the balance of payments in 2024 is estimated on the basis of monthly data.*
Source: MNB, HCSO, WEO

4.3 Net lending and its real economic factors

In 2024, the mixed development of external balances in the region's countries was mainly linked to changes in the external trade balance (Chart 33). The four-quarter net lending calculated on the basis of real economic data rose in Hungary and Czechia and was above the regional average. Romania's net borrowing increased again and was significant, following an improvement in 2023. Consequently, as in the previous year, Romania continued to require significant external borrowing. In 2024, Slovakia's external financing position was close to balance, after a significant improvement in the previous year, with a current account deficit. In Poland, however, after the external position bottomed out in 2022, net borrowing turned into a net lending position of close to 2 percent of GDP in 2023, which subsequently narrowed somewhat last year.

Chart 33: Developments in the external position of countries in the region (four-quarter values as a percentage of GDP)



Source: Eurostat, national central banks

Developments in the external balance indicators were driven by the following factors:

- The surplus on the **goods and services balance** as a share of GDP was volatile. Imports improved in Hungary, the Czech Republic and Slovakia as energy imports adjusted on the back of falling energy prices while imports slowed in line with more subdued domestic demand. The Romanian and Polish economies were less affected by energy price fluctuations, due to significant domestic energy production. The services balance deteriorated significantly only in Romania, while it remained around the previous levels in the other countries.

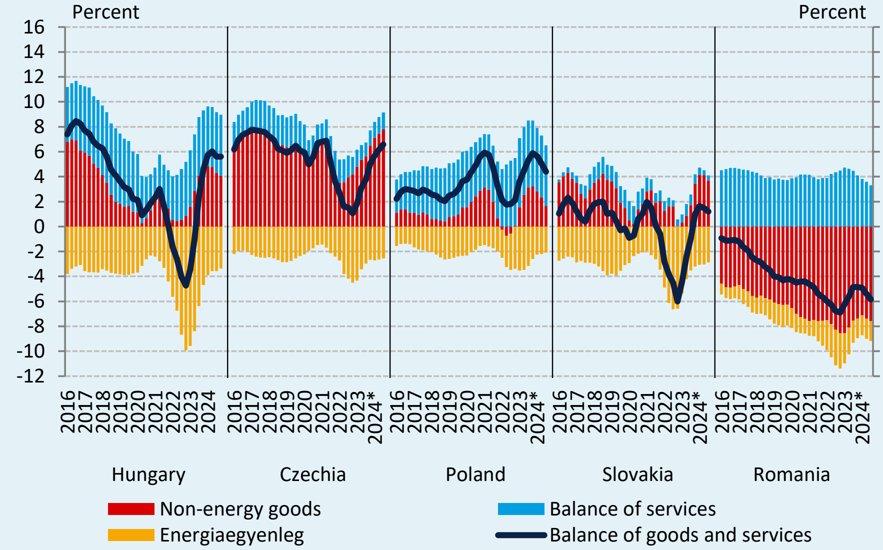
- **Income imbalances** in the region's countries generally undermine the external position of their economies. In most countries, widening corporate profit balances and rising interest expenditure increased the income balance deficit in 2024.

- The positive effect of the **transfer balance** on the external balance declined in most of the countries. As in the previous year, Romania had the highest transfer balance as a share of GDP in 2024, followed by Slovakia and the Czech Republic. Compared to the previous year, the value of the transfer balance decreased in Hungary, Romania and the Czech Republic, and increased in Slovakia and Poland. All countries except Slovakia are experiencing a slowdown in inflows of EU transfers.

4.4 Trade balance

In 2024, all of the countries in the region except the Czech Republic saw a decline in their goods and services balances (Chart 34). After returning to normal from the historic low seen in 2022, energy balances improved moderately in 2024 in almost all countries in the region. At the same time, the balance of goods related to non-energy items evolved differently in these countries, worsening in Hungary, Poland and Romania, but improving in the Czech Republic and Slovakia. In 2024, the services balances of the countries, with the exception of Romania, stabilised at the previous, typically high level. Overall, the external trade balance in Hungary was around 6 percent of GDP, similar to last year, and it rose to the same level in the Czech Republic – while in Poland, Slovakia and Romania the goods and services balance fell by 1–2 percent of GDP versus the previous year. Despite the declines seen in most of the countries, the goods and services balance remained negative only in Romania.

Chart 34: Distribution of the balance of goods and services (four-quarter values as a percentage of GDP)



** The 2024 value is a four-quarter figure up to the third quarter.*
Source: Eurostat

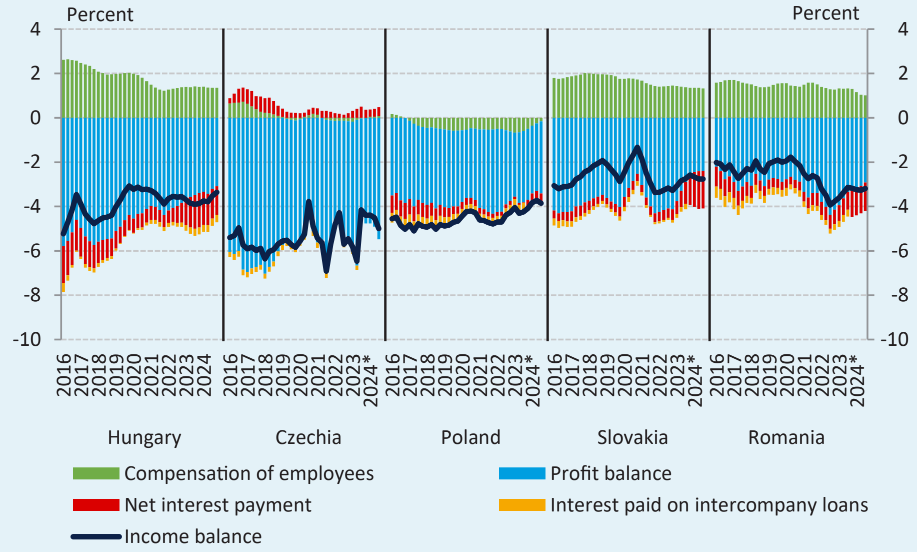
4.5 Income balance and transfer balance

In the countries of the region, the profit balance was the main reason for the large income deficit (Chart 35)**.** On the basis of the four quarters, calculated quarter on quarter to the third quarter, Hungary's deficit fell the most.

- The balance of compensation of employees temporarily working abroad usually reduces the income deficit. The only exception among the regional countries is Poland, where even before the war in Ukraine there were a significant number of Ukrainian workers[6], whose income in Poland exceeds that of Polish workers temporarily working abroad. The evolution of compensation of employees in 2024 reduced the deficit in Poland as well as in the Czech Republic, while the resulting surplus decreased in Romania.
- As a result of net foreign liabilities, the interest rate balance increased the level of the income deficit in most of the countries, but in the Czech Republic (thanks to its net foreign assets) it improved the indicator substantially.
- Foreign companies have built up significant production capacities in all of countries in the region; accordingly, the profit balance of foreign companies accounts for the largest part of the region's income balance deficit.[7] In 2024, the Czech Republic had the highest and Slovakia the lowest profit balance deficit as a share of GDP, while Hungary and Romania are in the middle of the field for the region.

[6] https://www.nbp.pl/en/publikacje/raport_inflacja/iraport_november2019.pdf
[7] Since quarterly data on the 2023 profitability of foreign-owned enterprises operating in Hungary are limited, information on quarterly profit outflows is based on estimates until the receipt of corporate questionnaires in September 2024. For more detail, see the publication 'Methodological notes to the Balance of Payments and Investment Position Statistics'.

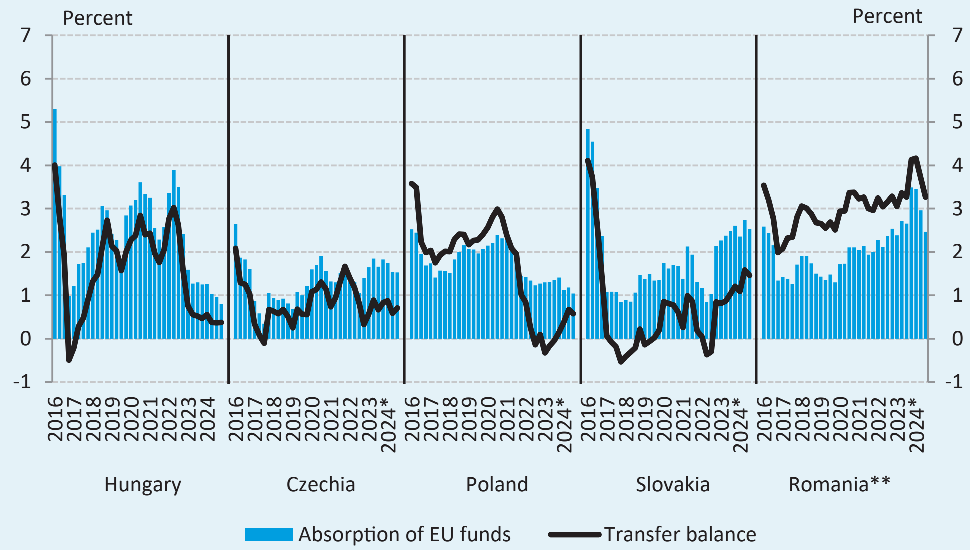
Chart 35: Developments in the components of the income balance* (four-quarter values as a percentage of GDP)



** The value stated for 2024 is the four-quarter value calculated up to 2024 Q3.*
Source: Eurostat

Net inflows of EU transfers slowed in 2024 in most of the countries, with only Slovakia showing a significant acceleration last year (Chart 36). The absorption of EU funds in Hungary and Poland fell below 1 percent of GDP in 2024, mainly due to the end of the 2014–2020 budget cycle and the different timing of drawdowns. Last year's higher absorption of EU transfers in Romania and Slovakia was mainly due to the end-of-cycle ramp-up of expiring cohesion funds, while the other countries had already absorbed funds earlier in the cycle. In recent years, the Czech Republic, Romania and Slovakia, as well as Poland, have started to draw down funds from the Recovery and Resilience Facility (RRF), while Hungary has only used advances from REPowerEU, which are mostly loan-related and therefore do not affect transfer receipts. In Romania, as a unique case among the countries under review, in addition to EU transfers, remittances from long-term expatriates (who are no longer residents) also significantly improved the transfer balance.

Chart 36: Absorption of the transfer balance and EU transfers in the countries of the region (as a percentage of GDP)

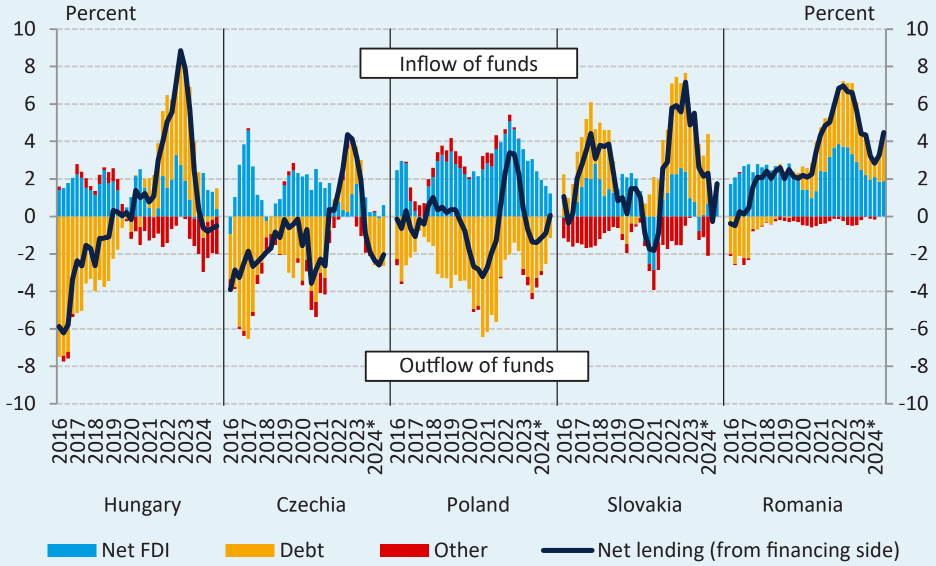


** The 2024 value is a four-quarter figure up to the third quarter.*
*** Secondary income data are incomplete for 2018–2019.*
Source: Eurosta

4.6 Financing side developments

According to financial balance sheet data, FDI flows in 2024 were stable and significant only for Romania and Poland (Chart 37). The financing position improved in Hungary, the Czech Republic and Slovakia until mid-year, after which all of the countries except Hungary saw an increase in financing needs. Poland was close to balance in terms of external financing, while Slovakia and, even more so, Romania attracted significant external financing during the year. In terms of types of funds, Hungary and Slovakia continued to show a significant reduction in external borrowing, while the Czech Republic and Poland saw a decrease in net external debt, and in Romania the increase in financing needs was reflected in a significant increase in debt inflows. The outflow of funds through other items in the region was limited to Hungary, mainly related to portfolio-level investments abroad.

Chart 37: Net borrowing and the form of financing (four-quarter values as a percentage of GDP)

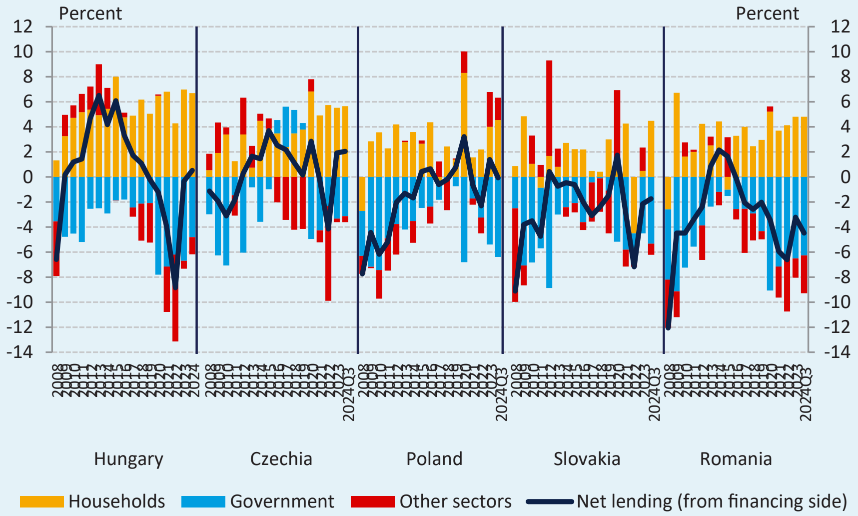


**For the countries in the region, data were available until 2024 Q3.*
Source: MNB, Eurostat

4.7 Financial savings by sector

In the region, household net financial savings stabilised at a high level, while the still high fiscal deficits narrowed somewhat in several of the countries (Chart 38). The external financing position of the countries in terms of savings in 2024 varied, with Hungary, the Czech Republic and Slovakia improving and Poland and Romania deteriorating. In Poland, in addition to lower net financial savings of the private sector, the widening budget deficit also contributed to the rise in financing needs, while in Romania, it was only the increase in the financing needs of the corporate sector that contributed to the deterioration in the external balance. In 2024, the decline in consumption stopped in the countries of the region and even turned into growth in Hungary. Accordingly, household net financial savings stabilised at a high level in most of the countries, and declined only moderately in Hungary, which thus remained the highest among the countries surveyed. In 2024, public financing needs declined in most of the countries (with the exception of Poland and Slovakia), reflecting gradually declining energy expenditure and falling public investment, while subdued domestic demand reduced tax revenues.

Chart 38: Changes in the net lending of the economy by sector (as a percentage of GDP)

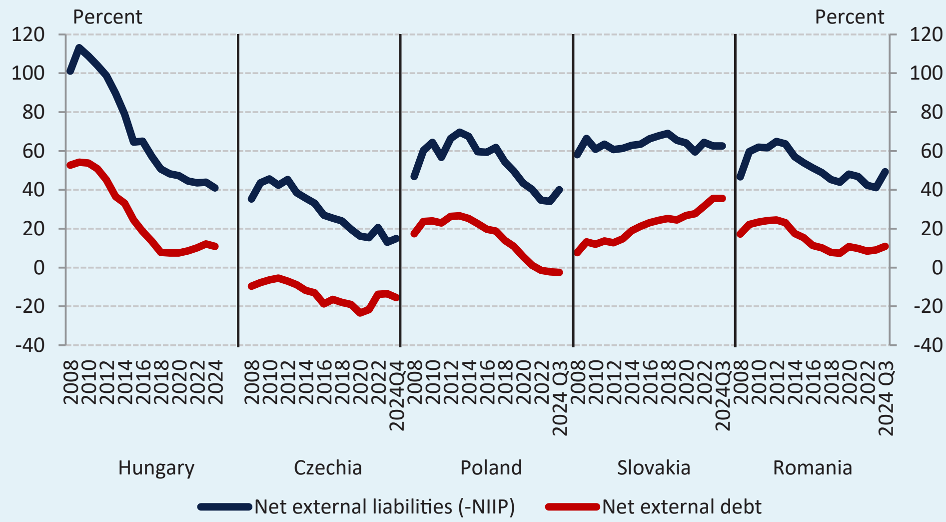


In Romania, other household claims (vis-á-vis employers and insurers) according to the underlying trend without outliers in 2013, 2016 and 2017.
Source: MNB, Eurostat

4.8 External debt indicators

In 2024, the net external debt and debt ratios of the countries in the region developed differently, while the Hungarian ratios were in line with the regional average (Chart 39). External resource outflows had a positive impact on the Hungarian and Czech net external debt ratios, supported by the impact of economic growth. The improving trend in Poland since 2017 has flattened out for net external debt, while net external debt has risen. Romania's net external liabilities and net external debt increased in 2024, while Slovakia's debt ratios stopped increasing, despite net inflows. As a share of the GDP figure, the Czech Republic remained the best performer in the region for both indicators, while Slovakia had the highest indicators (which may be related to its membership of the euro area). Looking at the longer-term trends, Hungary's external debt indicators have improved the most over the past decade, but all of the countries in the region except Slovakia recorded significant declines in both indicators.

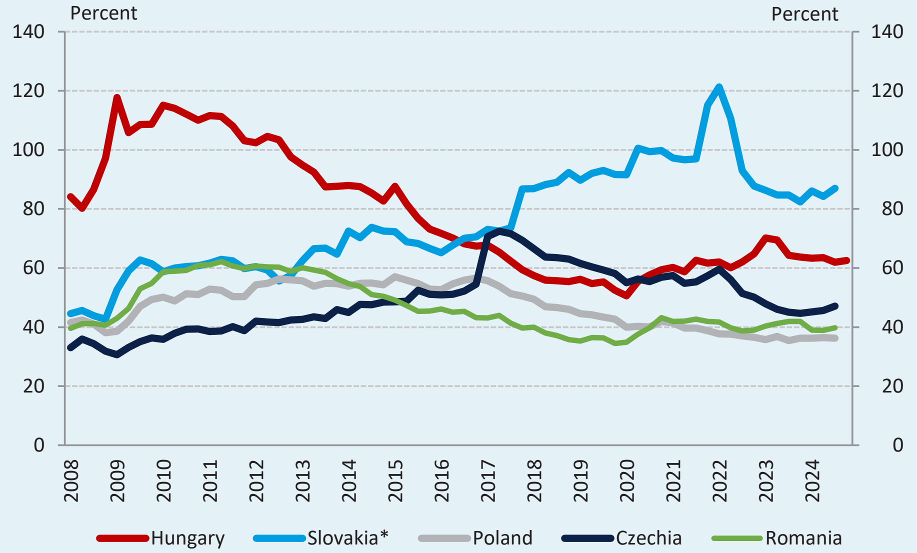
Chart 39: Developments in net external debt and liabilities (GDP-proportionate values, debt without intercompany loans)*



**For the countries in the region, data series until 2023 Q3.*
Source: MNB, Eurostat (data without SPEs for Hungary)

In line with rising interest expenditure, gross external debt as a share of GDP excluding shareholder loans increased moderately or remained flat in most of the countries in the region (Chart 40). While at the onset of the financial crisis, Hungary's gross external debt was very high by regional standards, by 2016 the post-crisis adjustment lowered the debt ratio to below the Czech and Slovak levels, bringing it to the middle of the regional range. The Hungarian and Czech ratios were similar until 2021, but after that there has been a gap between the two countries' gross external debt levels, which narrowed slightly last year – but the domestic level is again relatively high by regional standards. In Slovakia, gross external debt developments were also influenced by TARGET-2 stock changes related to the country's participation in the euro area and the ECB's liquidity expansion.

Chart 40: Developments in gross external debt in the countries of the region (as a percentage of GDP, without intercompany loans)



*Note: *Changes in Slovakia's gross external debt were also influenced by changes in the euro area payments system. For the countries in the region, data series until 2023 Q3.*
Source: MNB, 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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