REPORT ON THE BALANCE OF PAYMENTS

2025
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

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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. The evolution of the external balance is a key aspect for financial stability, as developments in the balance of payments allow conclusions to be drawn concerning the sustainability of economic growth and the relevant risks. Moreover, 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 (MNB) regularly performs comprehensive analyses of developments in Hungary's external balance, examining a number of indicators to assess macroeconomic imbalances and identifying elements and trends which are of critical importance for Hungary's vulnerability.

Given the lessons from the financial crisis and the period since then, 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 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, Balázs Forgó, Péter Koroknai, Zsuzsa Nagy-Kékesi, Balázs Sisak, Daniella Tóth and Rita Lénárt-Odorán. The Report was approved for publication by Barnabás Virág, Deputy Governor.

This Report is based on information pertaining to the period ending 23 December 2024.

Summary

Hungary's external balance indicators continued to develop favourably in 2024 Q3. The four-quarter values of both the current account surplus and net lending stabilised at high levels of 2.4 percent and 2.9 percent of GDP, respectively. The external position remained unchanged, against the backdrop of a decline in the balance of goods excluding energy and an improvement of the balance of services and income, while the transfer balance was stable. In contrast to developments in Hungary, external balance indicators for the other countries in the region deteriorated slightly during the quarter.

According to the financial account, the economy's four-quarter external balance position decreased somewhat in 2024 Q3, but its structure was favourable. During the quarter, there was an inflow of funds in net direct investments, while at the same time debt-type funds declined. As a result, net external debt fell to 10 percent of GDP by the end of September, primarily due to the drop in the banking and corporate indicators. After remaining unchanged in recent quarters, the gross external debt ratio decreased to 62 percent of GDP. At the end of September, international reserves exceeded the level of short-term external debt – an indicator monitored closely by investors – by EUR 15.4 billion, reaching an unprecedented level of reserve adequacy.

According to sectoral savings trends, net lending decreased as a result of contrasting effects: the overall drop in private sector savings was only partially offset by the lower public deficit. Decreasing net borrowing stemmed primarily from subdued public investment and increasing tax revenues, while the net financial savings of households fell somewhat as precautionary motives unwound. In parallel, profitability decreased from a high level, which was reflected in the companies' mounting financing needs.

The special topic in this issue of the Report focuses on developments in the balance of services in Hungary and in Europe. In 2020, due to restrictive measures introduced to contain the Covid-19 pandemic, tourism suffered a decline in Hungary and across Europe. After the lockdown was lifted in Hungary, tourism started to bounce back, but its balance as a percentage of GDP remains lower than the previous levels, mainly as a result of subdued growth in revenues. This was primarily due to the lower proportion of tourists arriving from other continents and the decline in the proportion of hotel bookings, which are likely to generate higher revenues. In EU countries, tourism balances are still generally below the pre-pandemic levels. The size of Hungary's surplus places the country in the top third of EU countries.

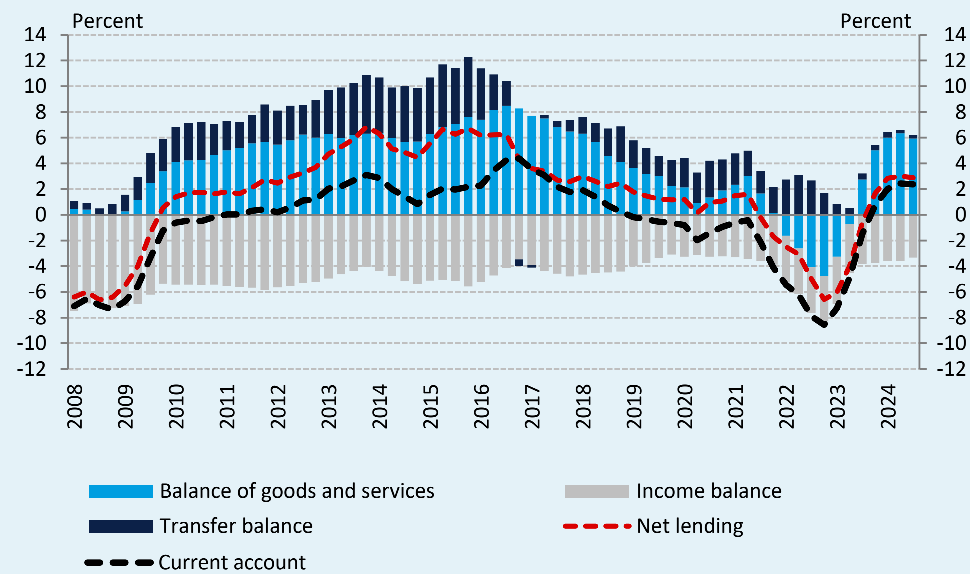
Contents

1 Real economy approach

According to the real economy approach, Hungary's four-quarter net lending amounted to 2.9 percent of GDP in 2024 Q3, with the current account surplus reaching 2.4 percent of GDP and the four-quarter adjusted current account balance showing a surplus of 2.1 percent. The four-quarter external balance indicators stabilised at the high level of the previous quarter, as the decline in the foreign trade balance – primarily in the balance of non-energy goods – was offset by an increase in the income balance, while the transfer balance remained largely unchanged in the context of lower utilisation of net EU transfers. In contrast to developments in Hungary, the external balance indicators of most of the other countries in the region deteriorated slightly during the third quarter.

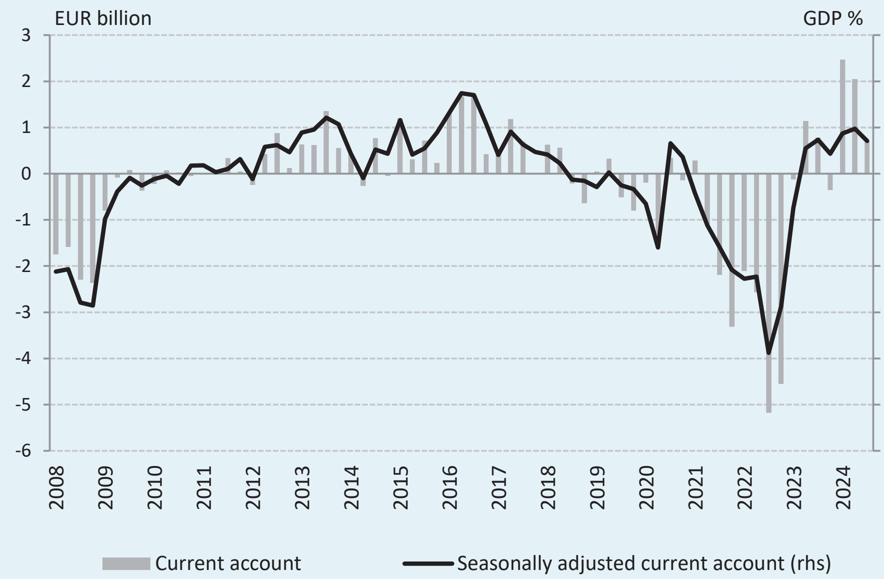
According to the real economy approach, Hungary's four-quarter net lending amounted to 2.9 percent of GDP in 2024 Q3, while the current account surplus was 2.4 percent of GDP (Chart 1). Based on quarterly data, which better reflect short-term developments, the current account surplus stood at 2.1 percent of GDP in 2024 Q3, somewhat exceeding the average of the previous decade (Chart 2). According to unadjusted quarterly data, net lending in the third quarter amounted to EUR 997 million, consisting of a current account surplus of EUR 701 million and a capital account surplus of EUR 296 million. Four-quarter net lending remained close to the level of the previous quarter, as the decline in the trade balance was largely offset by the improvement in the income balance.

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



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

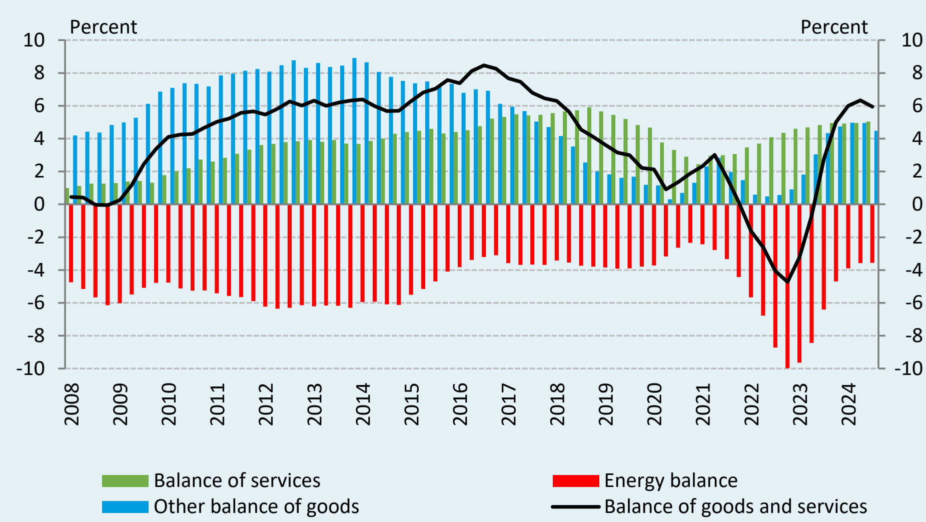
Chart 2: Nominal and seasonally adjusted current account balance as a share of GDP



1.1 High surplus on the balance of services, coupled with a lower external trade balance

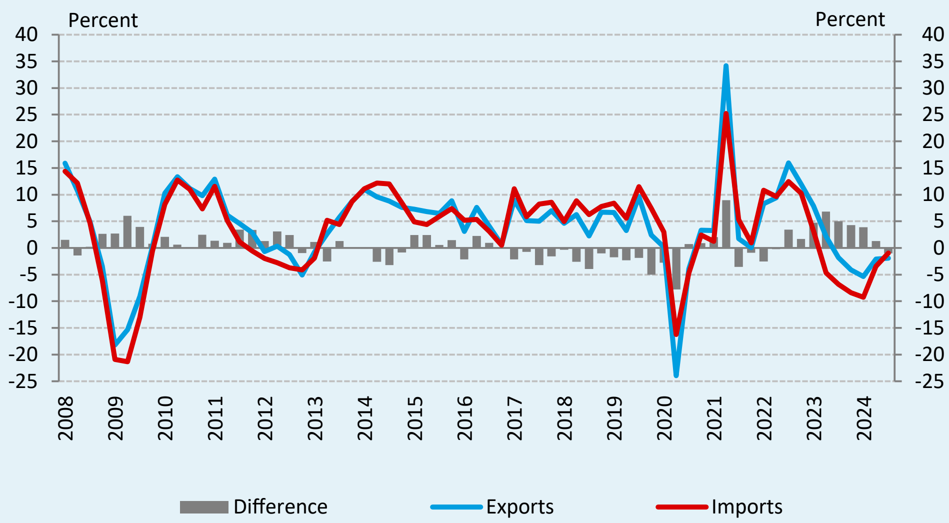
The four-quarter external trade surplus fell to 5.9 percent of GDP in 2024 Q3, as the goods balance narrowed, and the services surplus expanded slightly (Chart 3). The decline in the balance of goods was linked to the balance of other goods, while the balance of energy remained broadly stable, following the correction after the 2022 energy price shock, as observed in previous quarters. While the growth in exports still supported the balance of other goods in 2023 H1, this effect faded by the end of 2023 in the context of weaker external economic activity, and the decline in exports continued into the third quarter of 2024. As a result of this and the upturn in household consumption, the increase in the balance of other goods observed since 2022 slowed down by the end of 2023 and reversed over the past two quarters. However, the import-reducing effect of shrinking gross capital formation continued to have a positive effect on the balance of other goods. The four-quarter surplus on the services balance stabilised in 2023 H2, following a steady improvement after the Covid-19 pandemic, and, after registering some modest growth, once again amounted to around 5 percent of GDP in 2024 Q3. The improvement in the balance of services until the beginning of 2023 was driven by dynamic growth in tourism and a recovery in the balance of transportation services (for more details, see the special topic).

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



In 2024 Q3, import volumes barely decreased on an annual basis, while exports continued to decline by nearly 2 percent (Chart 4). Despite the continued slowdown in domestic industrial production seen in most manufacturing sectors, the annual growth rate of goods exports rose somewhat, while the rate of export growth in services fell somewhat versus the previous quarter. The increase in import growth was primarily due to the recovery in domestic consumption and changes in inventories. The volume of exports fell by 1.9 percent year-on-year in the third quarter, while imports declined by 0.9 percent, signalling an unfavourable shift in the export-import gap compared to previous quarters.

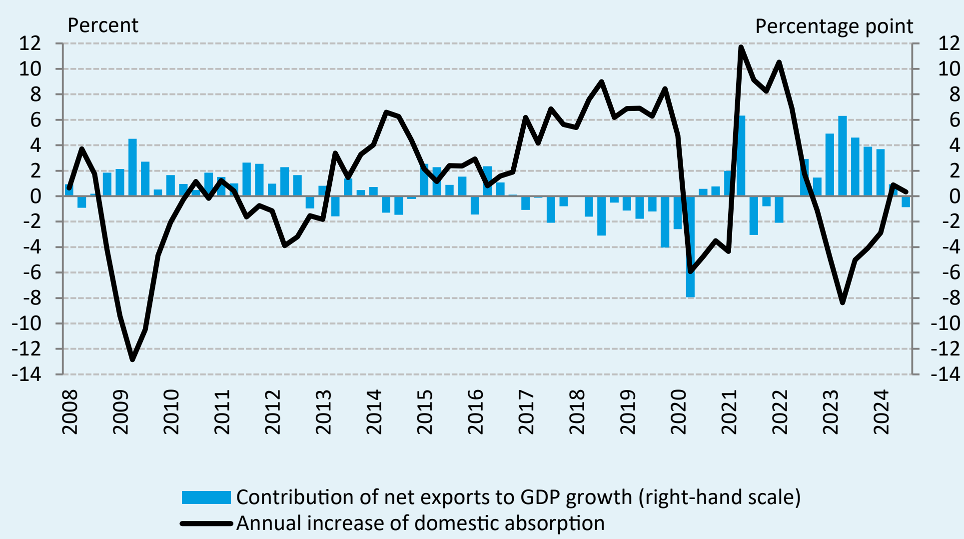
Chart 4: Annual real growth of exports and imports



Source: HCSO, MNB

In this context, the growth contribution of net exports turned negative in the third quarter (Chart 5). The annual growth rate of domestic absorption fell somewhat compared to the previous quarter, but remained slightly positive, due to the recovery in household consumption and the increase in inventories, while public consumption decreased and the two-year decline in investments continued. In addition to the expansion of consumption, the continued subdued performance of exports was also a factor behind the negative growth contribution of net exports.

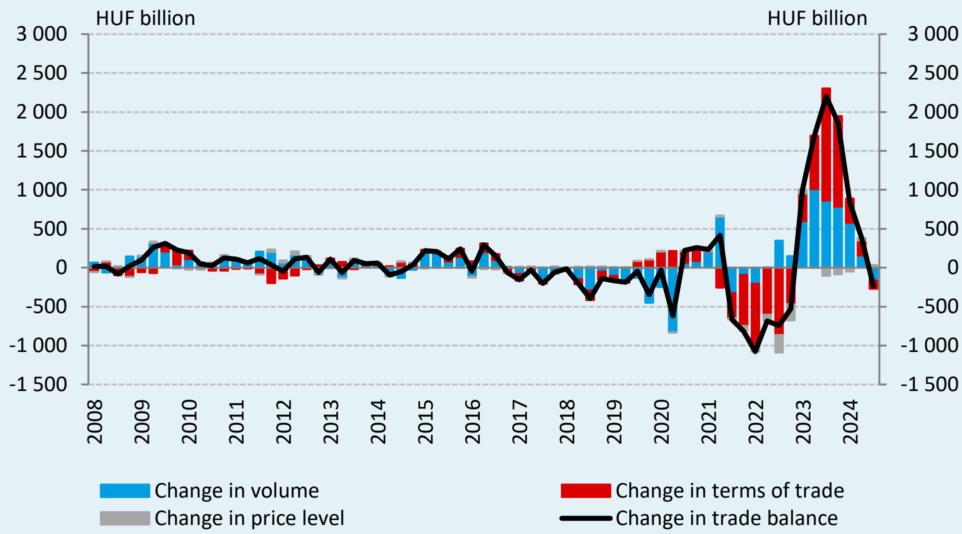
Chart 5: Annual rate of increase in domestic absorption and contribution of net exports to GDP growth



Source: HCSO

In 2024 Q3, both volume and terms of trade effects played a role in the modest annual decline in the trade balance (Chart 6). The trade balance including the balance of goods and services mainly fell as a result of the volume effect, as the latter turned negative against a backdrop of declining exports and expanding domestic absorption. The terms of trade effect also continued to decrease relative to previous quarters and changed direction as well, primarily due to the fact that the annual change in energy prices turned positive again after decreasing in previous quarters.

Chart 6: Changes in external trade balance factors according to GDP (year-on-year)



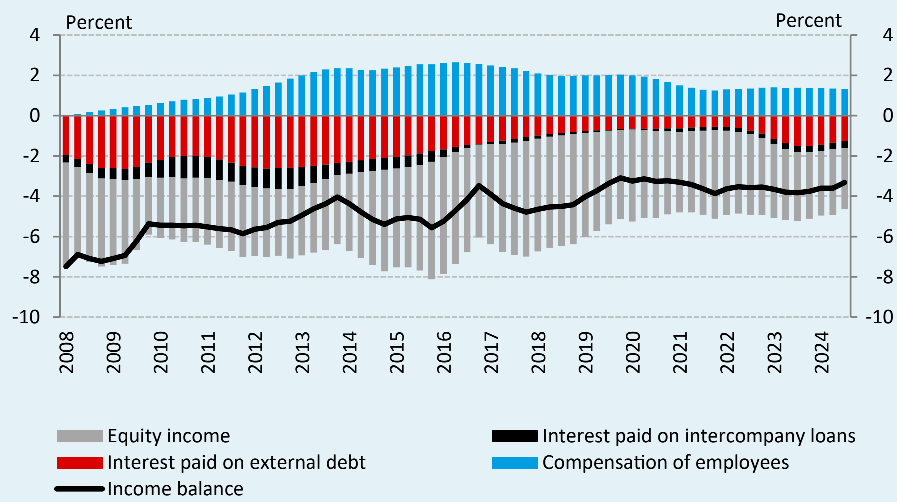
Source: HCSO

1.2 Improving income balance

The income balance deficit as a proportion of GDP fell to 3.3 percent in 2024 Q3, primarily due to the development of equity income (Chart 7). A major part of the income balance is accounted for by the profits of foreign-owned enterprises, which amounted to about 3.3 percent of GDP in 2023, and its four-quarter value fell to 3.1 percent in 2024 Q3.[1] This was primarily triggered by a decrease in expenditures, but an increase in revenues also contributed to the favourable changes. In the third quarter, the net interest deficit on external lending and borrowing as a share of GDP was similar to the 1.3 percent recorded in the previous quarter. The income of Hungarians working abroad on a temporary basis remained at the low level observed after the pandemic and thus continued to significantly contribute to improving the indicator, albeit to a lesser extent than in the past.

[1] Since quarterly data on the 2024 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 2025. For more detail, see the publication 'Methodological Notes to the Balance of Payments and Investment Position Statistics'.

Chart 7: Development of income balance* items (four-quarter values as a percentage of GDP)

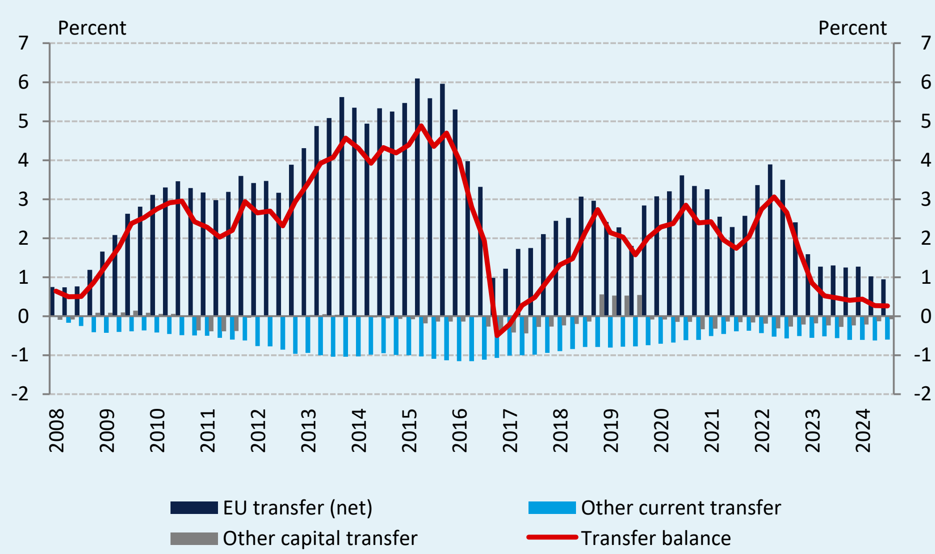


** Income balance: earned income, income on equity and income on debt.*

1.3 Transfer balance stabilises at a low level

Similar to previous quarters, the four-quarter surplus of the transfer balance as a share of GDP stood around 0.3 percent in 2024 Q3, mainly due to the still low level of net EU transfers (Chart 8). The use of net EU transfers typically amounted to around 2.0 to 3.5 percent of GDP in recent years, but the four-quarterly net EU transfer balance fell to 1 percent of GDP in the second quarter, before dropping further to 0.9 percent of GDP in the third quarter. 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. The four-quarter balance of other current transfers and other capital transfers remained broadly unchanged in the third quarter of the year.

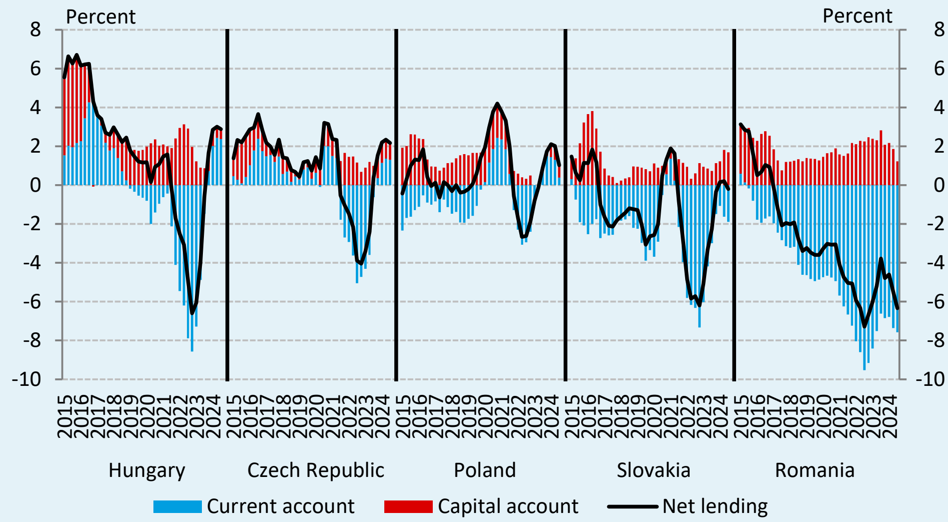
Chart 8: Four-quarter developments in transfer balance items (four-quarter values as a percentage of GDP)



1.4 Regional comparison

With the exception of Hungary and the Czech Republic, external balance indicators deteriorated significantly in the countries of the region in the third quarter (Chart 9). By 2024 Q3, the positive impact of the improvement in the balance of energy that was experienced in previous quarters had faded, while the external market environment remained less favourable for the region. At the same time, final consumption (including both household and government consumption) and domestic absorption increased year-on-year in all of the regional countries. With the exception of Hungary and the Czech Republic, the four-quarter current account balance deteriorated in the region during the third quarter, while the capital account narrowed versus the previous quarter in particular in Romania. Overall, Hungarian four-quarter net lending reached around 3 percent of GDP in the third quarter, while the Czech Republic's figure was around 2 percent of GDP and Poland recorded a figure of around 1 percent of GDP. Slovakia's net lending remained close to balance, while Romania's net borrowing exceeded 6 percent of GDP.

Chart 9: Four-quarter net lending in regional countries (as a percentage of GDP)



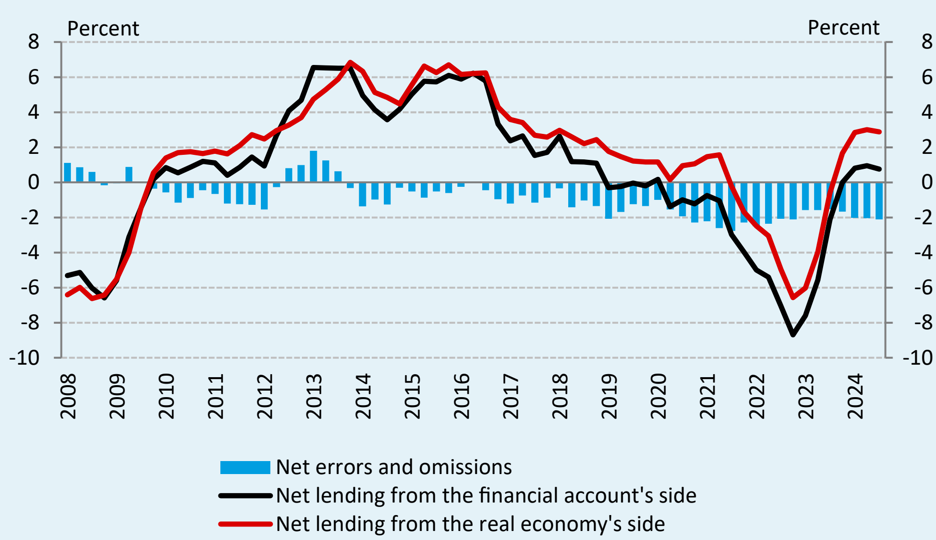
Note: Except for Hungary, the 2024 Q3 figures were calculated from monthly data.
Source: MNB, Eurostat

2 Financing approach and debt ratios

According to the financial account, the economy's four-quarter external balance position decreased somewhat in 2024 Q3, but its structure was favourable. During the quarter, there was an inflow of funds in net direct investments, while at the same time debt-type funds decreased. Net external debt thus fell slightly to 10 percent of GDP at the end of September 2024, according to underlying trends, mainly linked to a decline in the banking system and corporate indicators. After remaining unchanged in recent quarters, the gross external debt ratio fell to 62 percent of GDP. At end-September 2024, the level of international reserves approached an historic high of EUR 46 billion, more than EUR 15 billion higher than the value of short-term external debt, an indicator closely monitored by investors.

As shown by financing data, the external balance position deteriorated moderately in 2024 Q3. Similar to the external position on the real economy side, the economy's net lending also decreased somewhat over the four quarters to 0.8 percent of GDP in the third quarter (Chart 10). The divergence between the external balance indicators calculated on the basis of the two approaches (the 'Balance of net errors and omissions'[2]) stayed around 2 percent of GDP in the third quarter (for more information about the 'Balance of net errors and omissions', see the Box in the 2024 December Inflation Report).

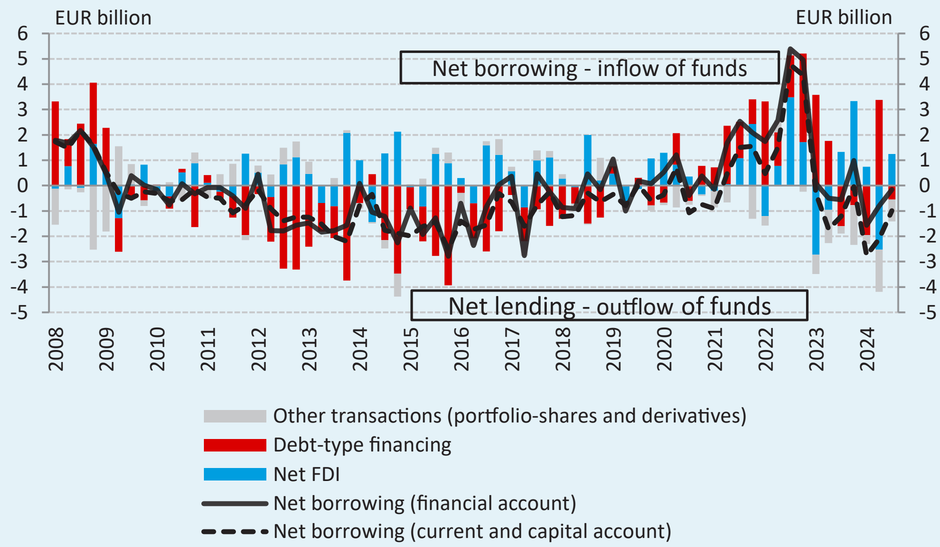
Chart 10: Two types of net lending (four-quarter data as a percentage of GDP)



According to quarterly data, the economy's net position according to the financial account reflected a financing capacity of EUR 0.2 billion in 2024 Q3, which was lower than in the previous quarters, mainly due to an increase in net direct investment, while net external debt fell (Chart 11). After the significant increase in the previous quarter, which was, in part, due to a single item, the decline in net external debt due to transactions amounted to EUR 0.5 billion. The net direct investment of EUR 1.2 billion in 2024 Q3 exceeds the level of recent quarters and is almost identical to the value measured in the same period of the previous year.

[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. 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 the exchange rate, as indicated by the category 'Net errors and omissions'.

Chart 11: Structure of net lending (unadjusted transactions)

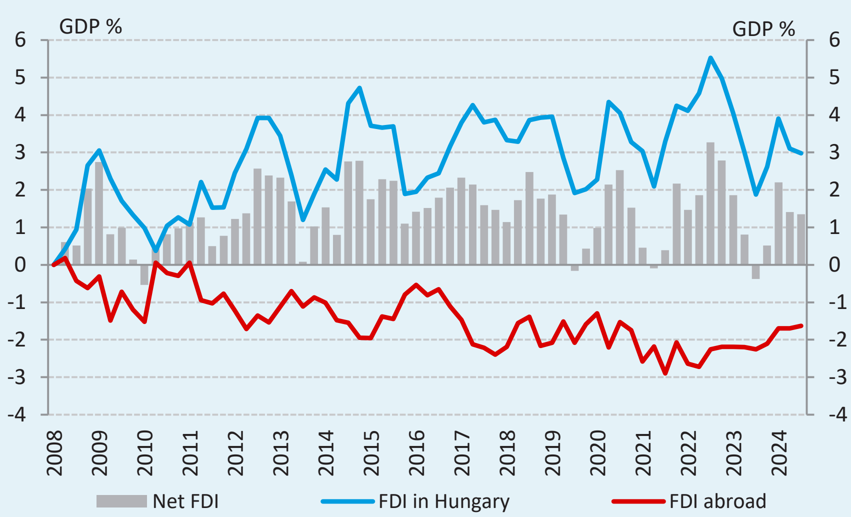


In economic terms, the fundamental development of the debt is not influenced by the conversion between account balance and bullion balances, and thus this technical effect has been eliminated.

2.1 Significant, EUR 2 billion inflow of foreign direct investment

After the previous quarter's declaration of dividends, as a result of transactions, there were inflows of net foreign direct investment in 2024 Q3. Foreign direct investment in Hungary showed an inflow of EUR 2 billion in the third quarter, mainly resulting from reinvestment earnings, which brought the four-quarter value to approximately 3 percent of GDP, similar to the previous quarter (Chart 12). At the same time, domestic actors' investments abroad increased by a total of EUR 0.8 billion during the quarter, which was also close to the value registered one year earlier. As a combined result of the above, net FDI inflow, which excludes capital in transit transactions, amounted to EUR 1.2 billion in 2024 Q3, meaning that the four-quarter value remained at nearly one and a half percent of GDP.

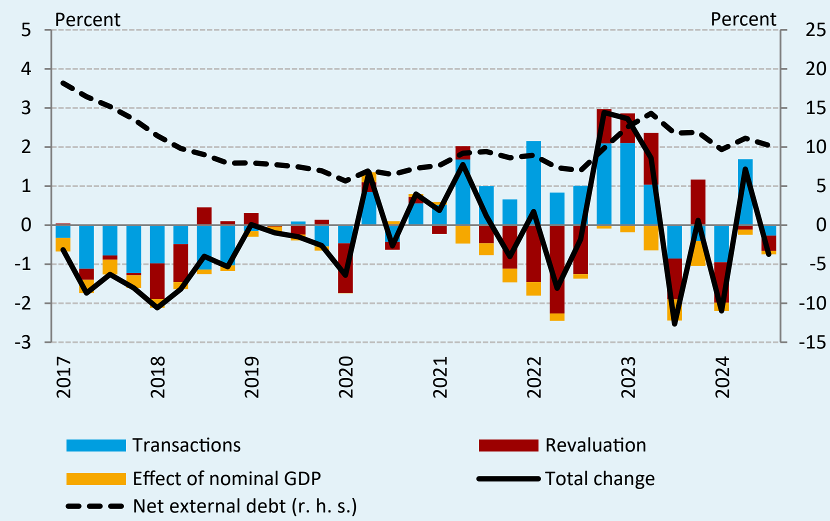
Chart 12: Direct investments excluding capital-in-transit transactions (four-quarter values as a proportion of GDP)



2.2 Falling external debt rates

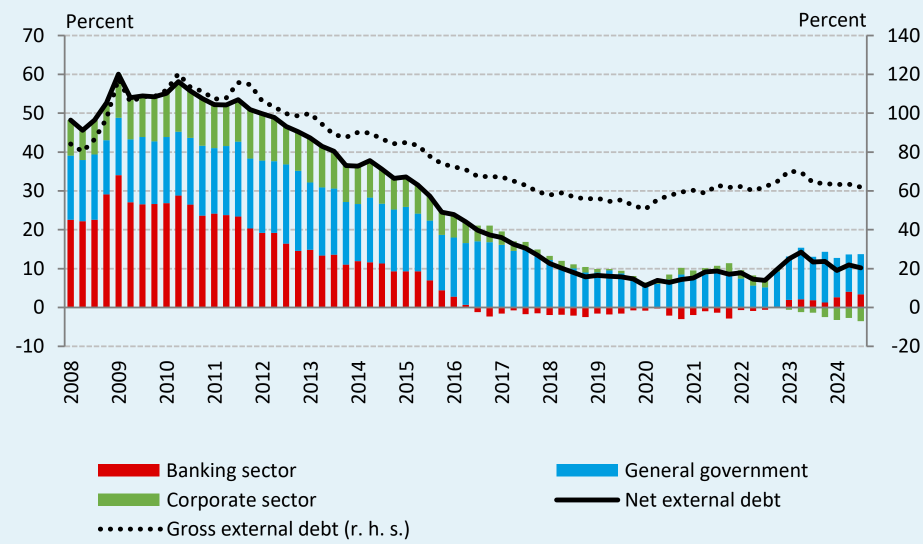
In 2024 Q3, the net external debt of the economy according to underlying trends fell to 10.2 percent of GDP. In addition to the aforementioned moderate drop in debt-type funds of approximately EUR 0.5 billion, revaluation effects and nominal GDP growth also contributed to the decline in this indicator (Chart 13). Outflows of debt liabilities reduced net external debt by 0.3 percentage point. Overall, revaluation reduced the country's net external debt by 0.4 percent of GDP, as a result of contrasting developments: the debt-increasing effect of falling yields was more than offset by the appreciation of the forint against the US dollar. Nominal GDP growth also contributed to the modest reduction in the value of the indicator, by 0.1 percent of GDP.

Chart 13: Components of the change in net external debt (as a percentage of GDP, excluding intercompany loans)



The decrease in the net external debt ratio was mainly linked to corporates and the banking sector (Chart 14). The net external receivables of corporates as a percentage of GDP increased after a temporary decline in the second quarter. The drop of 0.8 percent of GDP is primarily the result of the decline in the stock of trade credits, but other loans in the sector – both short-term and long-term – also decreased. The outflow of funds was somewhat restrained by the fact that foreign assets held by companies also decreased. The corporate net external debt indicator remained negative at the end of the third quarter, meaning that the sector's foreign assets exceeded its external debt stock. Banks' net external debt fell by 0.7 percent of GDP, amidst a modest reduction in foreign assets and a more significant reduction in foreign liabilities. Thus, no change was observed in the situation that has prevailed since the end of 2022: the banking sector's foreign liabilities exceed its foreign receivables, i.e. the sector's net debt indicator remains in positive territory, in contrast to the negative, close-to-zero level seen after 2017. The GDP-proportionate net external debt of the general government including the MNB grew by 0.5 percentage point, mainly reflecting the increase in the MNB's debt-type liabilities. The MNB's net external debt increased, mainly due to the rise in central bank discount bonds held by non-residents, but the modest decrease in foreign exchange reserves also played a role.

Chart 14: Breakdown of net external debt and gross external debt (as a percentage of GDP, excluding intercompany loans)



In 2024 Q2, Hungary's gross external debt as a percentage of GDP fell by about 1.5 percent, reaching 62 percent of GDP. In contrast to the previous quarter, the decrease in the debt ratio was not due to the reduction in the public sector's foreign debt, but rather to the decrease in the external debt of corporates and the banking system, which amounted to approximately 1 percent of GDP each. In the case of the banking system, the reduction in foreign debt was primarily related to longer-term foreign loans and bonds, but banks' short-term external debt based on original maturity also decreased, albeit to a lesser extent. The decrease in the gross external debt of corporates as a percentage of GDP was mainly due to the lower stock of commercial and other short-term loans, as well as to the decrease in longer-term loans. To some extent, these effects were offset by the fact that the indicator of the general government sector including the MNB rose, primarily as a result of the increase in the stock of HUF-denominated MNB discount bonds held by non-residents and revaluation effects due to falling yields.

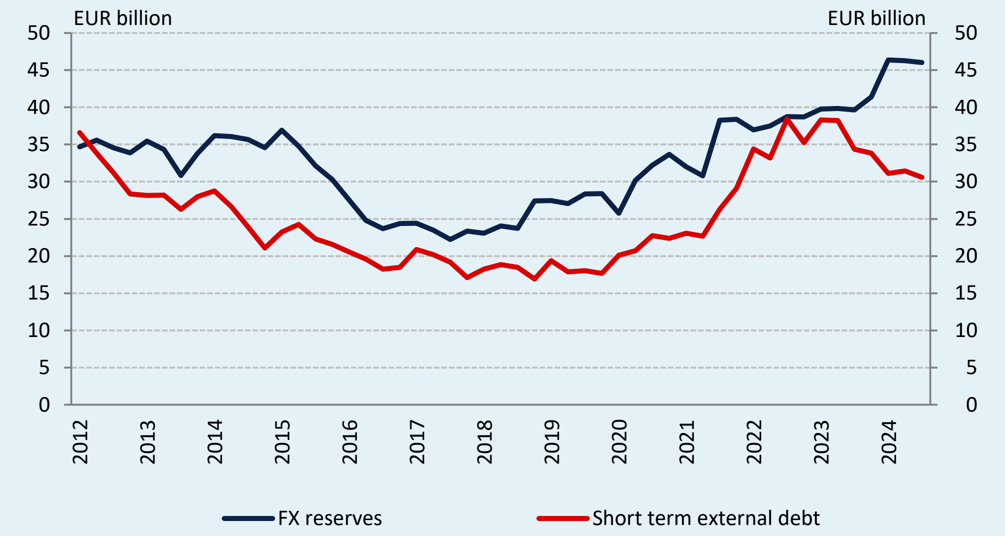
2.3 Already significant reserve adequacy continues to strengthen

International reserves stood at EUR 46.0 billion at the end of 2024 Q3, reflecting a modest decrease versus the end of the previous quarter. Developments in international reserves were influenced by numerous factors, the most important of which were the following:

- The *net FX financing operations of the Government Debt Management Agency* reduced the reserves by a total of EUR 1 billion. During the quarter, the impact of foreign currency repayments and interest paid on foreign currency debt was primarily reflected in the development of foreign exchange reserves, while foreign exchange conversion was lower compared to previous quarters. In September, the Government Debt Management Agency issued Samurai bonds denominated in Japanese yen, with maturities of 3 and 10 years, worth approximately EUR 250 million.
- The reserve-reducing effect of the *Hungarian State Treasury's foreign currency transactions* amounted to another EUR 0.5 billion.
- The reserve-reducing effects were largely offset by the net reserve-increasing effect of *European Union funds, realised returns on portfolios and the revaluation of* reserve items denominated in currencies other than the euro.

At the end of 2024 Q3, the MNB's international reserves exceeded the level of short-term external debt, which is closely monitored by investors, by EUR 15.4 billion. At the end of September 2024, international reserves and short-term external debt amounted to EUR 46.0 billion and EUR 30.6 billion, respectively. The leeway above the Guidotti-Greenspan indicator, which is closely followed by both the central bank and investors, increased by EUR 0.8 million to EUR 15.4 billion by the end of the quarter, representing an unprecedented level of reserve adequacy for Hungary (Chart 15).

Chart 15: Short-term external debt of the Hungarian economy and foreign exchange reserves

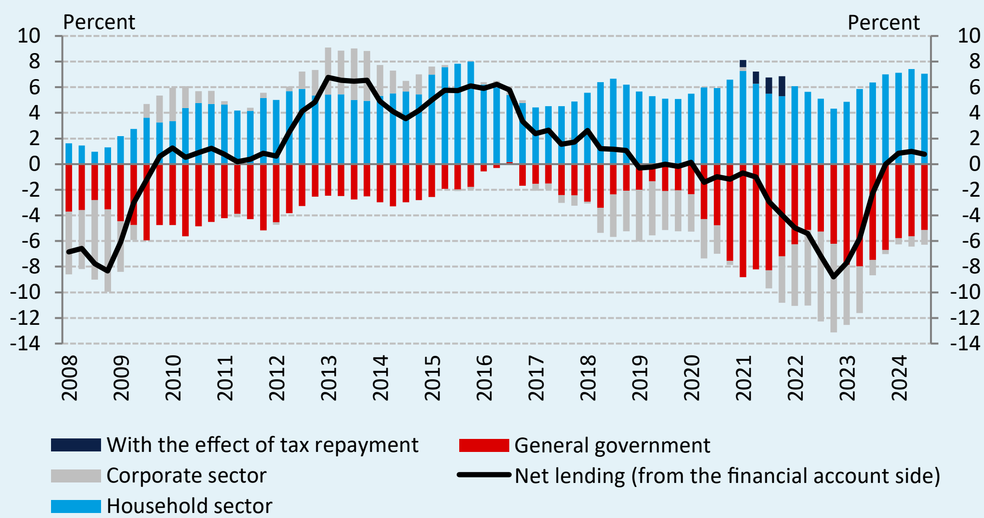


3 Sectoral savings approach

In 2024 Q3, the net savings position of the economic sectors deteriorated somewhat, in parallel with the declining net position of the private sector and the improving net position of the general government. The decrease in the government deficit was primarily due to subdued public investment and rising tax revenues, while households' net financial savings fell slightly as precautionary motives unwound. As part of the decreasing accumulation of financial assets by households, which still remained significant in historical comparison, the stock of investment shares and government securities increased to the largest extent. Profitability declined from a high level, which was reflected in companies' increasing financing needs.

In the third quarter, the financing position of the general government continued to improve, in contrast to the moderate decline in private sector net lending, which resulted in a slight reduction in the net external balance according to the sectoral savings approach. The budget deficit continued to shrink in the third quarter, primarily due to significantly lower public sector investments and higher tax revenues from labour, but the lower annual net borrowing was also supported by the measures announced mid-year and by declines in energy expenses. Net financial savings in the private sector fell to a small degree, but remain high. Household net savings decreased somewhat, dropping by 0.3 percent of GDP, to close to 7 percent, indicating that precautionary motives are unwinding. Over the past year, the net borrowing of companies slowly started to increase, presumably due to the fact that profitability is declining from a high level, and exceeded 1 percent of GDP in the third quarter of the year. As a result, the four-quarter net external position of the economy, based on sectoral saving trends, was somewhat lower (Chart 16).

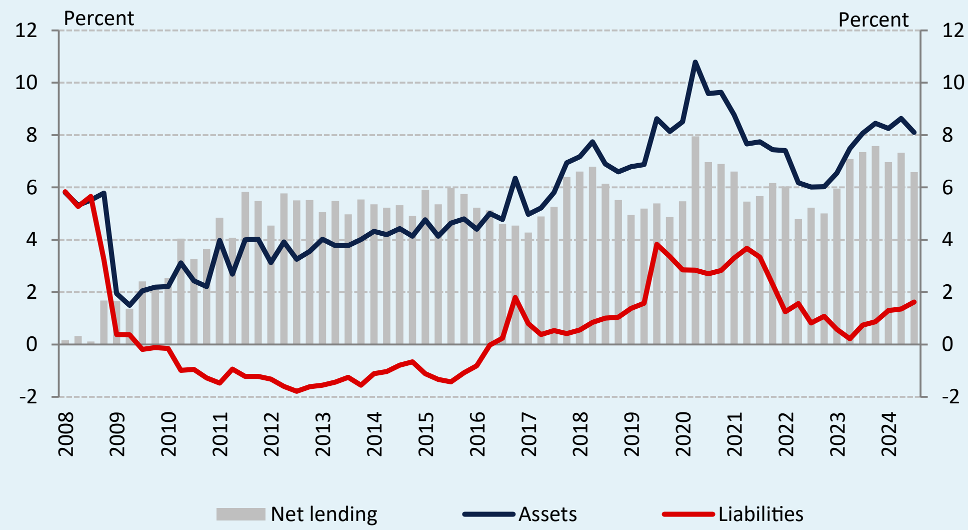
Chart 16: Net lending of specific sectors* (four-quarter values as a percentage of GDP)



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

In 2024 Q3, the seasonally adjusted net financial savings of households declined according to the underlying trends, driven by a fall in financial assets and increasing debts (Chart 17). Due to economic considerations, the MNB excludes one-off effects (such as private pension fund savings, early repayment, real yield disbursement, indemnification of the depositors of liquidated mutual savings banks, FX debt conversion and settlement, personal income tax refunds) from the indicator based on underlying trends. One-off effects also influence the net indicator via the accumulation of financial assets and liabilities. According to the seasonally adjusted indicator, which is expressed as a percentage of GDP and captures the underlying trends, households' financial asset accumulation decreased somewhat, probably due to the unwinding of precautionary motives. In parallel, favourable interest rates led to an increase in net real estate loans taken out by households, while growth in consumer loans remained subdued.

Chart 17: Households' net lending according to underlying trends (seasonally adjusted* quarterly data, as a percentage of GDP)

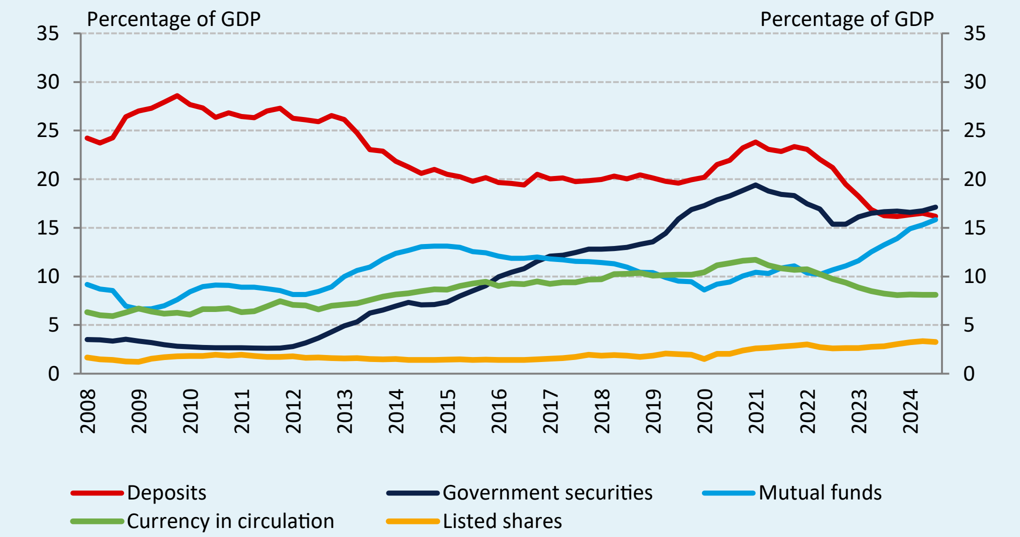


** Figures showing underlying trends, adjusted for pension fund savings, the early repayment scheme and the real yield disbursement, the indemnification of the depositors of liquidated mutual savings banks, the effect of forint conversion and settlement, and the PIT refund. Time series adjusted separately.*

Within the decreasing accumulation of financial assets, which still remained high in historical terms, the stock of investment shares and government securities increased moderately (Chart 18).

- As a result of the decline in current account deposits, total household assets in deposits fell by nearly HUF 50 billion, as also reflected by the decrease in the indicator as a percentage of GDP.
- In the third quarter, households' government bond holdings grew faster than registered in the previous quarter, rising by about HUF 500 billion due to transactions. In the case of variable interest rate securities, the stock of PMÁP securities increased by HUF 181 billion, mainly due to accumulated interest, while the stock of BMÁP securities increased by nearly HUF 90 billion as a result of transactions. Strong demand for FixMÁP, which was issued in January this year and pays fixed interest on a quarterly basis, resulted in its stock increasing by approximately HUF 280 billion to nearly HUF 800 billion by the end of the quarter. The portfolio of short-term fixed-interest 1MÁP securities, which are being phased out, decreased further, while the portfolio of DKJ securities expanded again after a decrease in the previous quarter. In the third quarter, in parallel with the lower stock, redemptions of MÁP+ government securities slowed down. As a result of these developments, the stock of government securities held by households has risen to over 17 percent of GDP and now clearly exceeds the population's deposit holdings.
- During the third quarter, the stock of banknotes and coins held by households increased by nearly HUF 80 billion, leaving total household cash holdings at around 8 percent of GDP.
- Demand for mutual fund shares remained strong. Considering revaluation effects, the stock increased by approximately HUF 600 billion, at the same rate as the previous quarter, thus increasing the stock of investment funds to nearly 16 percent of GDP. Without revaluations, the stock increased by approximately HUF 430 billion solely from transactions.

Chart 18: Developments in households' key financial assets



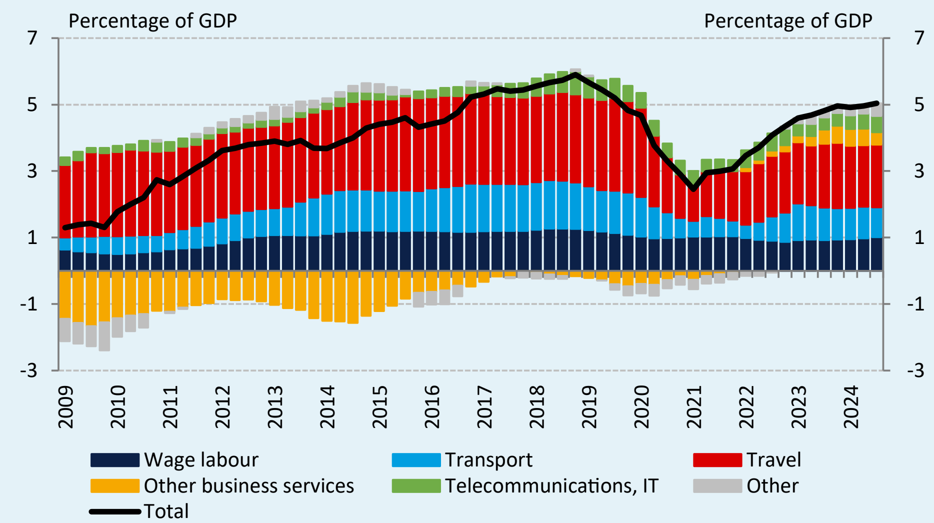
4 Focus: Developments in the balance of services

The special topic in this issue of the Report on the Balance of Payments focuses on developments in the balance of services in Hungary and in Europe. In 2020, due to the appearance of the coronavirus epidemic and the ensuing restrictive measures, tourism[3] declined in Hungary and across Europe. After the lockdown was lifted, tourism started to bounce back, but its four-quarter balance as a percentage of GDP still lags behind past levels, which is mainly attributable to subdued growth in revenues. According to detailed data, this was primarily due to the lower proportion of tourists arriving from other continents and the decline in the proportion of hotel bookings that are likely to generate higher revenue. In the countries of Europe, the balances of tourism as a share of GDP are still generally below pre-pandemic levels. While the balance of travel is high primarily in the Mediterranean countries of Europe, Hungary continues to be in the top third of European countries in this respect. Among the countries in the region, the balance of Hungarian services was affected the most by the pandemic. In Poland, after a moderate decrease, the balance reached new peaks, while in the Czech Republic and Slovakia, the declining trend of the balance continued.

Hungary closed an economically successful decade in 2019, which was also reflected in the significant improvement in the balance of services vis-à-vis the rest of the world. However, the favourable trend was interrupted in 2020 by the outbreak of the coronavirus pandemic and the subsequent restrictive measures (Chart 19). The lockdowns during the pandemic primarily affected tourism through the loss of export revenues, which also caused a decline in the balance of services until 2021. In addition, the surge in global prices of energy and raw materials in 2021 and 2022, as well as the friction in production chains resulting from the war between Russia and Ukraine, which broke out in 2022, further slowed the recovery of foreign trade in services. In addition to travel, the balance of transportation and other business services changed significantly within the balance of services. In the case of the transportation sector, the decline in 2020 and 2021 was due to the coronavirus pandemic and the global shortage of semiconductors (and the resulting spike in transportation prices), while in 2022, it was the consequence of disruptions in supply chains caused by the Russian-Ukrainian war. Since the end of 2022, as a result of changing factors, the balance of deliveries has begun to increase again. However, the surplus stabilised at a lower level compared to the previous period, possibly due, in part, to Wizz Air's sale of aircraft to an international group member. Among other business services, primarily (accounting) services provided abroad – largely related to operations within a company group – increased in parallel with a decrease in the use of similar services from abroad by Hungarians, turning the earlier deficit into a moderate surplus in 2022, which has remained in place ever since. Other items in the balance of services also changed, but these roughly balanced each other out. Since the end of 2023, the improvement in the balance of services as a percentage of GDP has stalled, which is primarily due to the unchanging level of tourism. The balance of tourism is the largest share within the balance of services, but its proportion and level still lag behind the pre-pandemic period. Since the development of tourism has been influenced by numerous factors in recent years, our special topic presents domestic and international processes in detail.

[3] For the sake of clarity, the category of "travel" in the official statistical classification is also referred to in this chapter as "tourism".

Chart 19: Hungary's balance of services and its items (as a percentage of GDP)

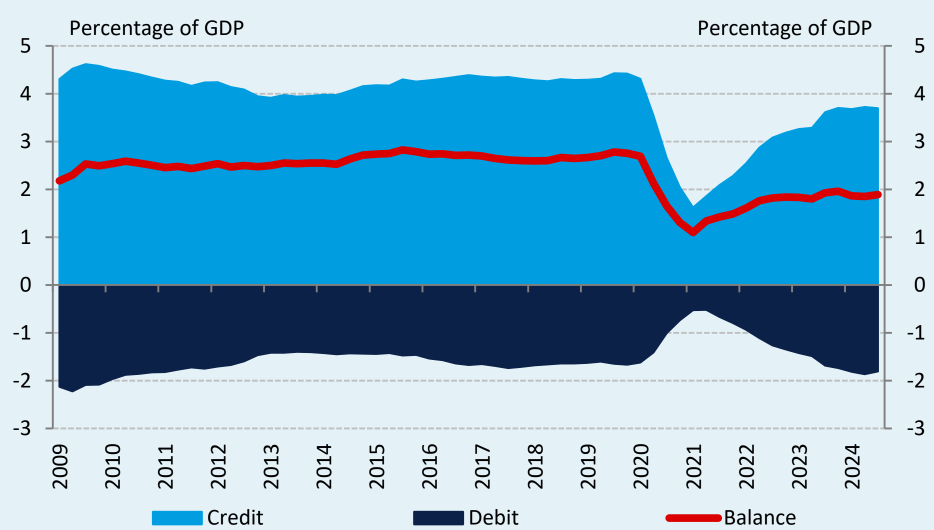


Note: Four-quarter data as a proportion of GDP. Among others, financial services, maintenance and repair services, construction and installation services, and fees for the use of intellectual property not elsewhere classified are all classified as "other".
Source: Eurostat, MNB

4.1 Tourism balance lower than before the pandemic as a result of falling revenues

In 2023, foreign visitors arriving in Hungary spent two times as much as Hungarians traveling abroad, meaning that revenues from tourism to Hungary are of paramount importance to the Hungarian economy. Similar to many countries around the world, domestic tourism suffered a significant decline during the pandemic. Even though revenues from tourism have started to bounce back since then, they have not yet reached the pre-crisis levels in terms of the indicator as a percentage of GDP, which is important for external balance (Chart 20). In 2019, gross tourism revenues from non-residents amounted to nearly 4.5 percent of GDP, but then fell to only 2.0–2.5 percent of GDP in 2020 and 2021 during the pandemic. Even though tourism revenues gradually increased as the effects of the pandemic subsided, they still did not reach 4 percent of GDP this year, while expenditures already slightly exceeded the prepandemic level.

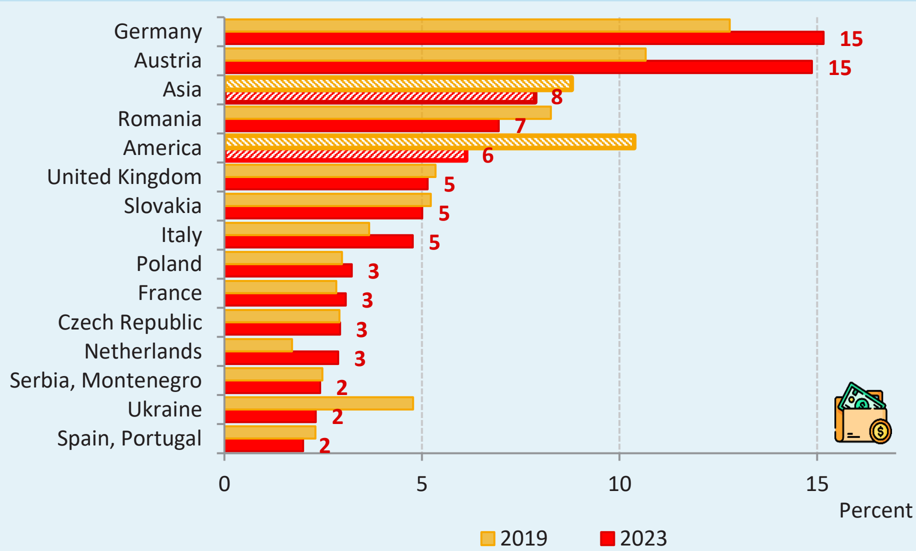
Chart 20: Development of tourism-related spending by foreigners (four-quarter values)



Note: Revenue represents the spending of foreign tourists in Hungary, while expenditure represents the spending of Hungarian tourists abroad.
Source: HCSO

After the pandemic, the proportion of European tourists, primarily from Germany and Austria, increased. While, in 2019, 79 percent of domestic tourism revenues from abroad came from European guests, this value increased to 85 percent by 2023, meaning that, since the crisis ended, (European) tourists have presumably increasingly preferred nearby travel destinations, i.e. those within the continent, while the proportion of American spending has decreased (Chart 21). Similar to 2019, tourists from Germany and Austria spent the most in Hungary in 2023, but this spending as part of tourism revenues from international visitors continued to increase compared to previous years, rising to 15 percent for both groups. In other words, these two countries account for nearly one third of Hungary's revenue from tourism. In addition to neighbouring regional countries (Romania, Slovakia, Poland and Czech Republic), which are also significant in terms of revenue, and which accounted for 18 percent of revenues in 2023, developed countries, or countries and regions that have large populations, such as Asia, the United Kingdom or the US, are also very significant. According to statistical data, 8 percent of domestic tourism revenues in 2023 were linked to visitors from Asia, while 6 percent came from the American continent (including 4 percent from the USA). Since visitors from the United Kingdom accounted for 5 percent of revenues last year, it should be noted that these developed regions constitute another significant source of revenue for domestic tourism.

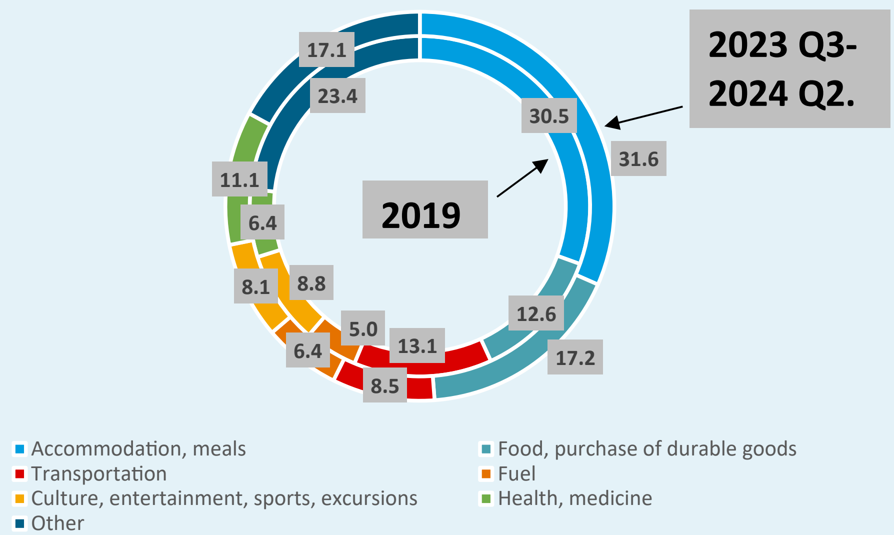
Chart 21: Proportion of foreign travel expenses to Hungary by country



Source: HCSO

In the composition of consumption by foreign guests in Hungary, the proportion of amounts spent on durable goods, food and health care increased compared to 2019 (Chart 22). During their stay, foreign visitors still dedicated nearly one third of their overall spending to accommodation and catering, which is only slightly different from the 2019 values. At the same time, spending on food and durable goods increased by about 5 percentage points, to 17 percent of total spending. The proportion of money spent on health care and medical activities also increased significantly, rising from 6 to 11 percent. As part of this, actual medical spending (e.g. dentistry, same-day surgery, etc.) and spending on spas may have increased. This is confirmed by the fact that, according to statistics on the number of visitors in bathing resorts, the sales revenues of Hungarian baths had increased by 30 percent by 2023 compared to 2019, buoyed by both domestic and, most significantly, international tourists. By contrast, the share of the category of "other" spending (shopping for gifts, insurance, education, etc.) decreased to 17 percent from 23 percent in 2019. The share of expenditure on transport decreased by approximately 4.5 percentage points, while the share of fuel expenditure increased by 1.5 percentage points during the period under review. Expenditures on "culture, entertainment and sports" also increased nominally by 2024, but this only amounted to a modest decrease within total spending.

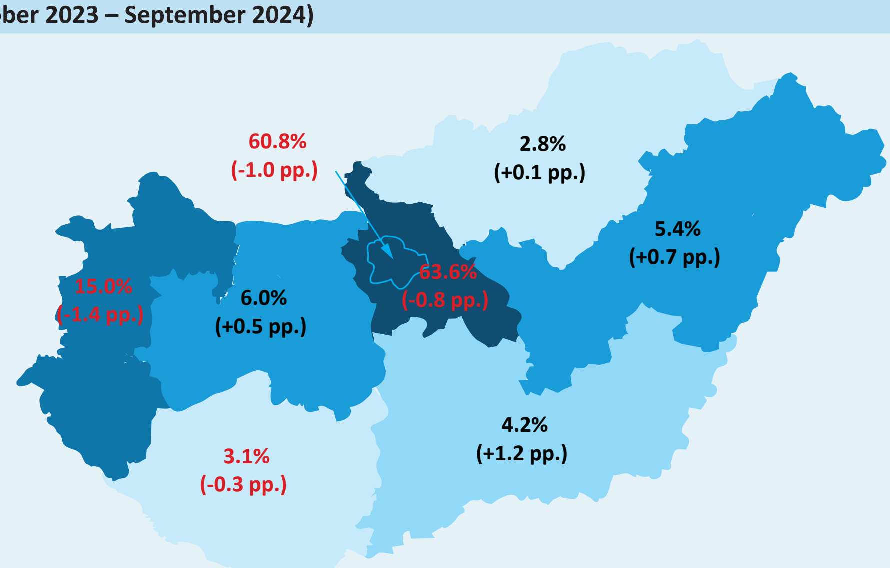
Chart 22: Consumption patterns of trips by non-resident tourists (percentage distribution)



Source: HCSO

The regional concentration of overnight stays by non-residents has somewhat decreased, but remains significant. Similar to 2019, in 2024, nearly two thirds of overnight stays in Hungary were booked by guests in the region of Central Hungary, which includes Budapest, but the Balaton region and Western Transdanubia also had an important share (Chart 23). In March 2020, following the outbreak of the coronavirus pandemic in Hungary and the imposition of restrictive measures and border closures, there was a significant decline in the number of guest nights and revenues in Hungary related to international tourism, which affected accommodation establishments in the capital and Western Transdanubia the most. With the gradual lifting of restrictions imposed to curb the pandemic, tourism began to bounce back. By 2024, the proportion of guest nights spent by non-residents exceeded the pre-pandemic values in the Southern Great Plain (by 1.2 percentage points), the Northern Great Plain (by 0.7 percentage point) and Central Transdanubia (by 0.5 percentage point). It should be noted that these regions represent a lower share compared to the central areas. At the same time, Western Transdanubia (-1.4 percentage points), Central Hungary, including Budapest (-0.8 percentage point), and Southern Transdanubia (-0.3 percentage point) still lag behind the respective 2019 levels.[4]

Chart 23: Proportion of overnight stays by foreigners in commercial accommodation by region (October 2023 – September 2024)

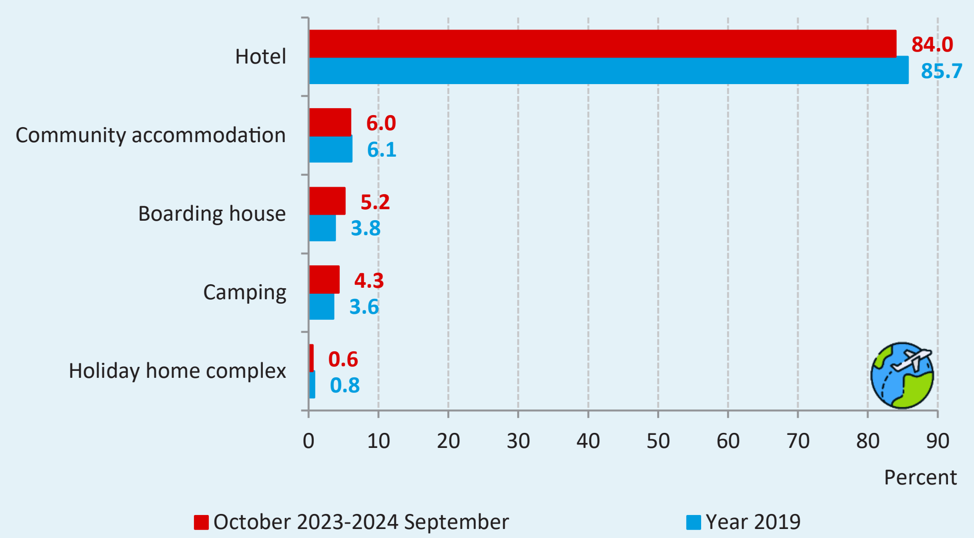


Note: The value in brackets indicates the indicator's change since 2019 in percentage point.
Source: HCSO, MTU, MNB

[4] Regarding the data, the HCSO notes that data comparability is limited due to incomplete data provision as a result of the coronavirus pandemic and the changing data source.

In Hungary, non-residents typically stayed in hotels in 2024 as well, even though this proportion somewhat decreased, while the popularity of other types of accommodation – which, presumably, generate less revenue – increased (Chart 24). In 2019, 86 percent of non-residents stayed in hotels, and 4–6 percent in community accommodation, guest-houses or campsites. The 2020 pandemic, the geopolitical risks caused by the Russian-Ukrainian war and the rising inflation that has plagued the international community in recent years have somewhat changed the accommodation choices of international visitors. By 2024, 84 percent of foreign visitors – which is 2 percentage points lower than in 2019 – chose hotels, while 6 percent opted for community accommodation. During the same period, the proportion of people choosing guesthouses increased to 5 percent and the proportion of people choosing campsites rose to nearly 4.5 percent.

Chart 24: Proportion of foreign guests in commercial accommodation by accommodation type[5]



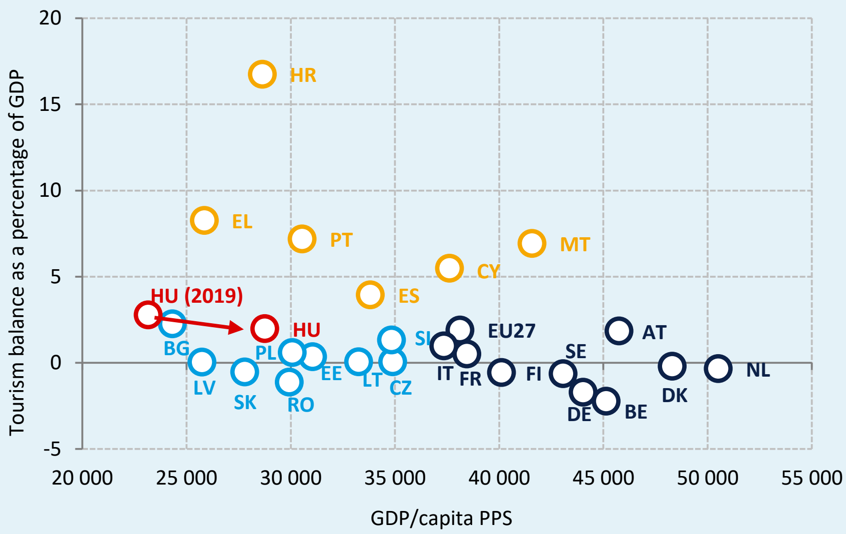
Source: HCSO

4.2 Hungary's tourism balance exceeds regional values

While the tourism balance as a percentage of GDP is high primarily in the Mediterranean countries of Europe, Hungary continues to be in the top third of European countries in this respect. In 2019, Hungary's tourism balance was on par with Austria and Slovenia. The restrictions introduced during the 2020 coronavirus pandemic caused a long-lasting decline in tourism across Europe; however, the sector has since shown signs of rebounding. Revenue from tourism in the European Union is most significant primarily in coastal and island countries (e.g. Croatia, Greece, Malta, Portugal, Cyprus, Iceland). In these countries, gross income accounts to about 10 to 20 percent of GDP, and the tourism balance – that is, net exports resulting from the difference between income and expenditure – is the most significant in these countries. Hungary's tourism balance ranks in the top third of the EU, ahead of, among others, Italy, France and the countries in the region. In Hungary, the balance of tourism stayed at the Austrian level in 2023, accounting for nearly 2 percent of GDP, while the balance in other regional countries remained below 1 percent – except for Romania, where the value was negative at -1 percent of GDP (Chart 25). Typically, the balance of tourism in developed Western and Northern states has been negative, which is probably due to the fact that the higher standard of living in these countries allows more people to travel abroad, and take more trips, which likely requires spending more money in the host country on each trip compared to residents of other countries.

[5] The figure does not include Airbnb, which is listed by the HCSO as private or other accommodation. Airbnb data is only available since January 2021.

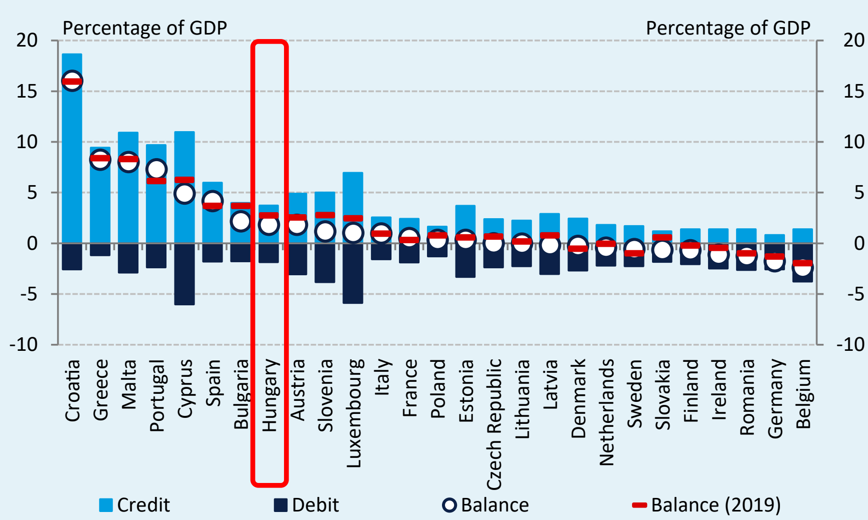
Chart 25: Tourism balance of EU member states and GDP per capita measured in purchasing power parity



Source: Eurostat

In Europe, tourism balances in 2024 still typically fall short of pre-pandemic levels (Chart 26). Europe as a whole was seriously affected by the shutdown of tourism during the 2020 Covid-19 pandemic, but to a different extent in each country. In most EU countries, the tourism balance still falls short – in the Hungarian case, by nearly 1 percentage point – of the level measured in the peaceful year of 2019, before the pandemic; however, the tourism balance already exceeds pre-pandemic levels in Portugal, Spain, Sweden, Denmark, France and Croatia. In the remaining countries, the reason for the lag is that tourism expenditures recovered faster than revenues. The decline in tourism and the slower recovery of some countries were also influenced by global economic events, such as the surge in the global prices of raw material and energy in 2021 and 2022, and the rising inflation and general economic uncertainty that characterised 2022 and 2023.

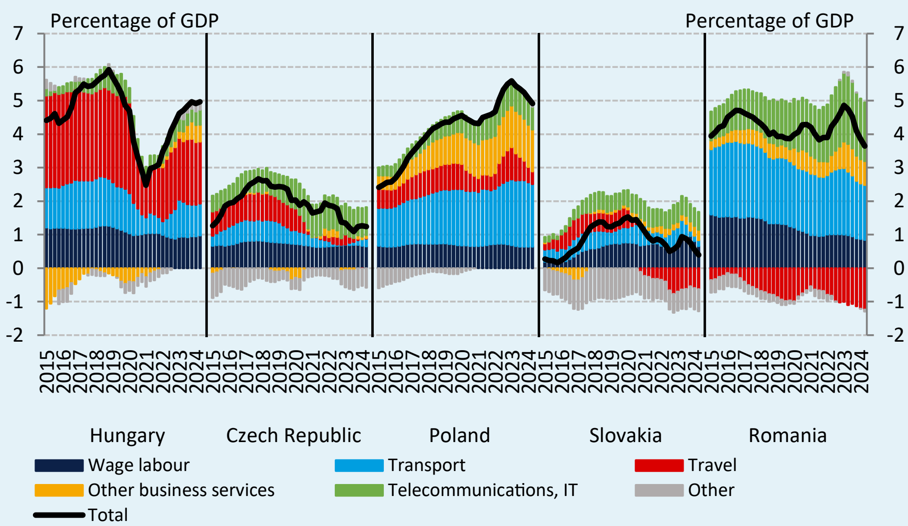
Chart 26: Gross and net export revenues from tourism as a percentage of GDP (in 2024 Q2)



Source: Eurostat

Among the countries in the region, the balance of Hungarian services registered the sharpest decrease as a consequence of the pandemic. In Poland, after a moderate decrease, the balance reached new peaks, while in the Czech Republic and Slovakia, the declining trend of the balance continued (Chart 27). In connection with the effects of the pandemic, the balance of services deteriorated in the countries of the region during in 2020 and 2021, mainly due to the decline in tourism. The subdued economic activity, as an effect of the restrictions, was reflected in the improvement of the trade balance, the effect of which was dampened by the negative effect of declining tourism on the balance. Among the Visegrád countries, the decrease in the balance of services (due to the lack of foreign tourists) was the largest in Hungary. In Romania, due to the decline in the balance of tourism, the balance of services started to deteriorate significantly only in 2021, and the balance has remained significantly below its 2019 value (2.4 percent of GDP) ever since (similar to the Czech Republic and Slovakia). By contrast, in Poland, the balance modestly exceeded the pre-pandemic level (4.5 percent of GDP) as early as 2021, as an effect of the further growth of the surplus in other business services and the rapid recovery of the tourism sector. The Polish balance of services has been growing continuously on an annual basis since 2021 and is now above 5 percent of GDP.

Chart 27: Four-quarter balance of services in regional countries and its decomposition



Source: Eurostat, MNB

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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