



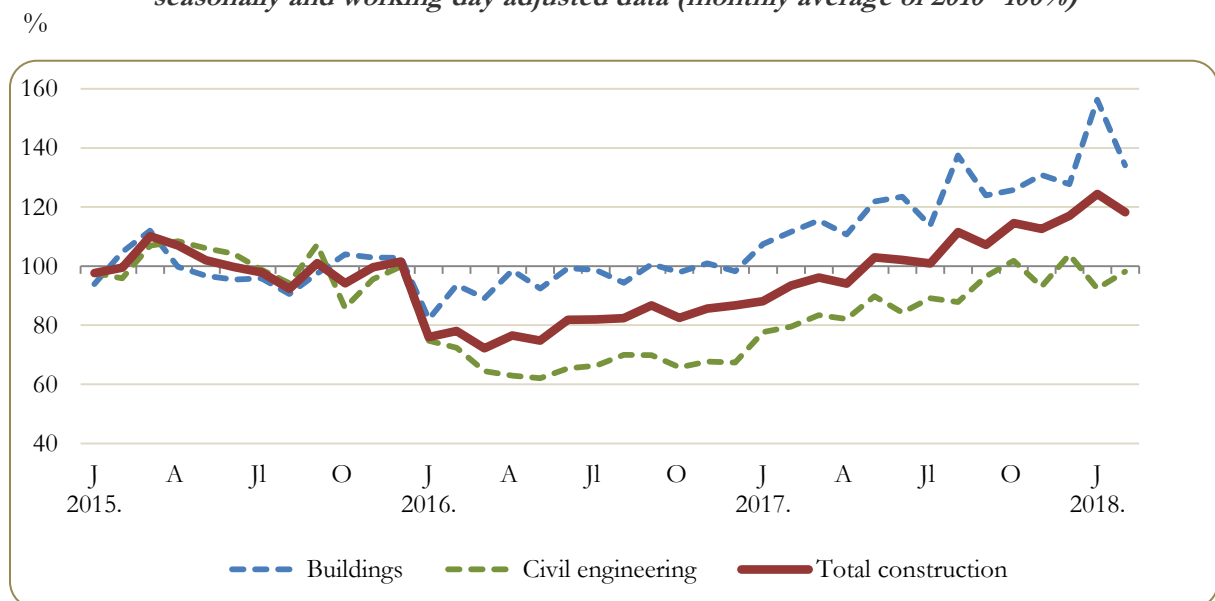
Construction sector to remain a growth engine of the Hungarian economy

Dynamic growth within the construction sector, which began at the end of 2016, is set to continue in 2018. According to the latest data compiled by the Hungarian Central Statistical Office (KSH), in February 2018 output volume in the construction sector rose by 26.0 percent year-on-year. In the period January-February 2018, output was up by 33.5 percent, while data adjusted for seasonal and working day effects show an increase of 21.3 percent year-on-year. In the first two months of the year, the volume of output was some one-fifth higher than the monthly average of the year 2010.

Last year, gross value added in the construction sector – following the slump in 2016 – increased by 31.6 percent at comparable prices. The construction sector was one of the growth engines of the Hungarian economy last year, constituting 1.0 percentage point of total GDP growth. The share of the sector within the national economy rose from 3.7 percent of GDP in 2016 to 4.1 percent last year.

A recently published KSH report provides an in-depth picture of production and the state of affairs in the sector. According to the analysis, the value produced by the construction sector in 2017 totalled HUF 2494.8bn (EUR 8.04bn) at current prices, up by 29.6 percent year-on-year.

*Fig.1. Change in the volume of construction output,
seasonally and working day adjusted data (monthly average of 2010=100%)*



Source: Hungarian Central Statistical Office (KSH)



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The volume of output was higher in the construction of both buildings and civil engineering works. The 30 percent volume growth registered in the construction of buildings was partly the result of the fact that the number of newly built dwellings completed in 2017 was up by 44 percent year-on-year, while within the non-residential category the building and refurbishment of industrial and educational facilities and sports centres were the main drivers of growth. Increase in the output in the category construction of civil engineering works was even higher, 40 percent, due to a large extent to the implementation of EU-funded projects. Output in two sub sectors of great weight, the construction of roads and railroads and the construction of public utilities was up by 38 percent and 50 percent, respectively, compared to the low base of 2016. Output growth was accompanied by producer price increase of 5.2 percent.

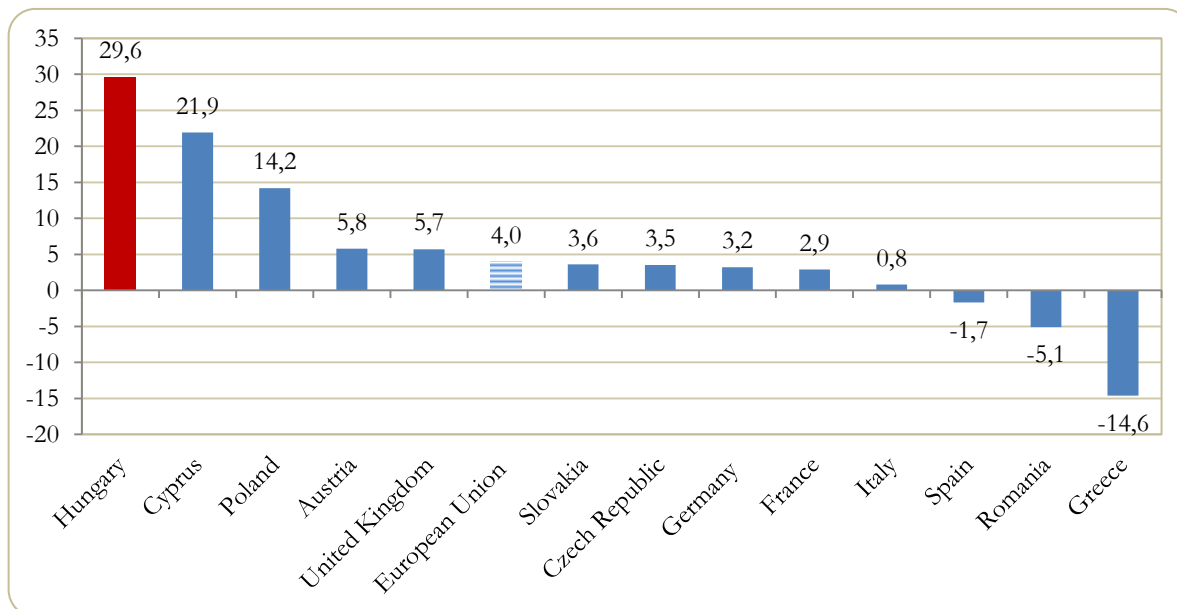
Rising construction activity observed in almost every sector of the economy has prompted construction sector companies to expand production capacities: in 2017, they spent 11 percent more – at comparable prices – on construction projects than one year before. Concurrently, in 2017 the total volume of construction investment projects within the national economy was up by 21 percent compared to 2016.

Output growth was recorded in every region of the country. The largest output growth (40 percent) was reported by enterprises based in the Southern Great Plain region, while the lowest (17 percent) was registered at companies with headquarters in Northern Hungary. Budapest-based enterprises accounted for more than one-third of the sector's total output with respective output growth of 25 percent in 2017.

At the end of 2017, there were 92 900 enterprises registered in the construction sector, up by 5 percent year-on-year. 89 percent of them had less than five employees on their payrolls. The 302 900 people employed by the sector constituted 6.8 percent of the total number of people in employment within the national economy.

Fig.2. Change in the volume of construction output in some EU member states, 2017
seasonally and working day adjusted data , 2016=100%

%



Source: Eurostat

Last year, construction sector output was higher in the majority of EU member states. The rate of growth of Hungary’s construction sector was the most dynamic within the EU28, well above that of Cyprus, the country with the second best rate of 21.9 percent. Only seven countries have reported double-digit output growth and only one of these – Poland – was from the V4. Output growth averaged 4 percent among the EU member states.

The sector’s outlook for the year 2018 also appears to be promising. The volume of construction sector contracts totalled HUF 1900.5bn at the end of last year, 2.3 times higher than one year before. Within that, the volume of contracts for the construction of buildings and civil engineering works grew by 16 percent and 185 percent, respectively, year-on-year.

In the first two months of 2018, the sector’s performance was in line with prior expectations. The favourable trend has continued: in January and February, output gained 33.5 percent and 26.0 percent, respectively, compared to the same months of the previous year.

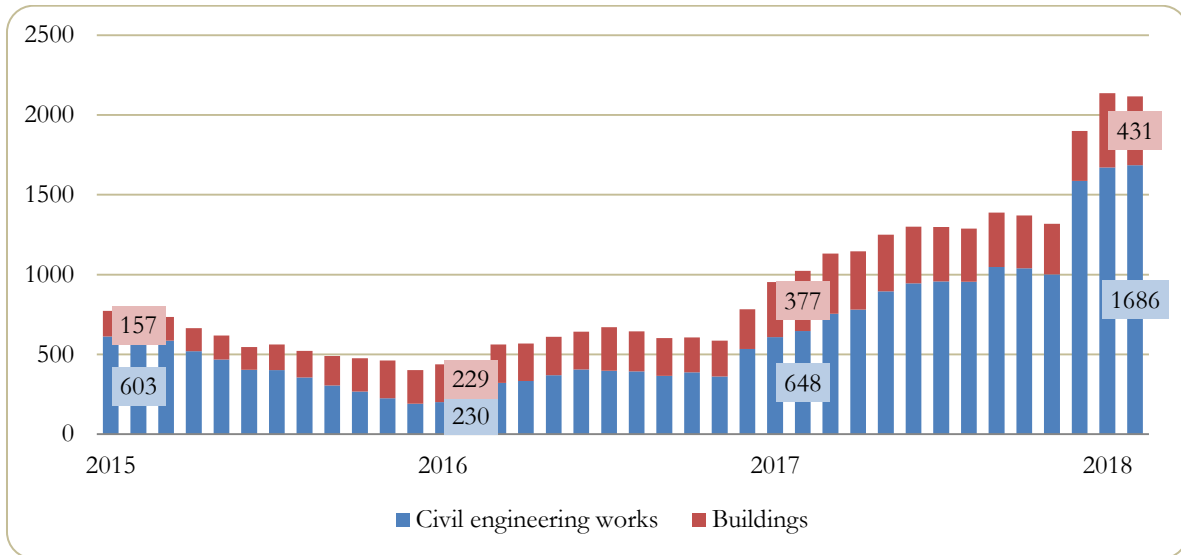
The stock of contracts also continued to increase. At the end of February 2018, the volume of contracts at construction sector enterprises was up by 92.4 percent year-on-year. Within that, the



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volume of contracts for the construction of buildings and civil engineering works rose by 4.3 percent and 145.4 percent, respectively, year-on-year.

Fig.3: Stock of orders at the end of the reference month, bn HUF



Source: Hungarian Central Statistical Office (KSH)

As far as the sector's outlook in the coming months is concerned, besides the rising contract volume the fact that the number of building permits issued last year was up by 20 percent year-on-year gives good reason for optimism. The Government has recently implemented several measures aiming to improve housing mobility. The introduction of CSOK (Family Housing Subsidy), the reduction of VAT on new homes to 5 percent and the tax incentive for enterprises applicable for the building of workers' hostels and rented dwellings are expected to underpin the sector's upward trend through boosting demand. Besides that, the Government has also been assisting SMEs active in the construction sector with some direct incentives. The Construction Sector Support Programme, designed to help technological modernization and the improvement of efficiency is also expected to contribute to competitiveness growth at these companies through the resulting implementation of technology updating projects.

According to GKI Economic Research predictions, this sector will remain the fastest growing this year, albeit the pace of growth may be lower due to a high base. Business confidence indices were still at record high levels in the month of April, including those within the construction sector, reflecting optimism.



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