

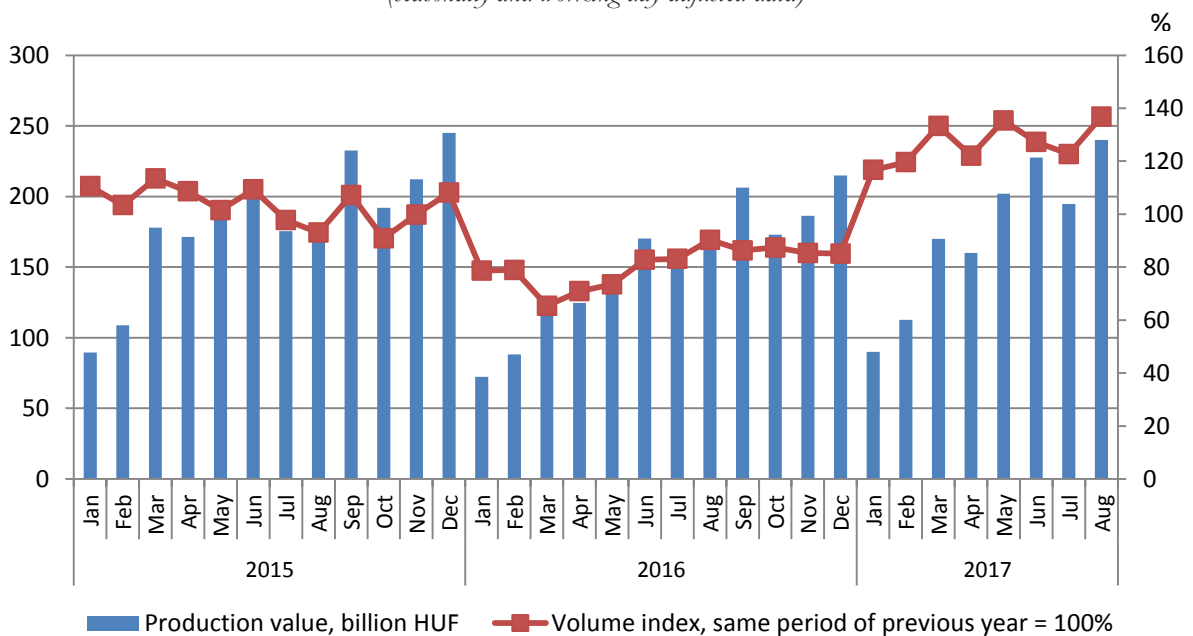


Data show that the expansion of Hungary’s construction sector is solid and persistent

In the period January-August 2017, the volume of construction sector output surged by 27.9 percent year-on-year, according to the flash report of the Hungarian Central Statistical Office (KSH) in which the latest statistics for the month of August 2017 were published. The latest relevant Eurostat publication also shows that in the observed month Hungary’s construction sector posted the largest year-on-year growth rate within the European Union, even if the large increase was also due to a very low base.

The year 2017 brought a positive trend reversal for Hungary’s construction sector. While the sector’s output declined slightly in 2016 -- partly as a result of the dwindling volume of EU funds in the prior programming period – it has picked up in a steady and robust manner in the first three quarters of 2017. Since March 2017, the value of monthly output has either reached or even exceeded the figures seen in the year 2015, when EU convergence funds had still fuelled the sector’s expansion.

Fig.1: Value and volume of construction output, 2015-2017
(seasonally and working day adjusted data)



Source: Hungarian Central Statistical Office (KSH)

The latest data published in the recent KSH flash report also show that August was a bumper month for the sector, as output soared by 36.8 percent year-on-year and month-on-month growth was also as high as 9.8 percent. While earlier in the year, in every month except for

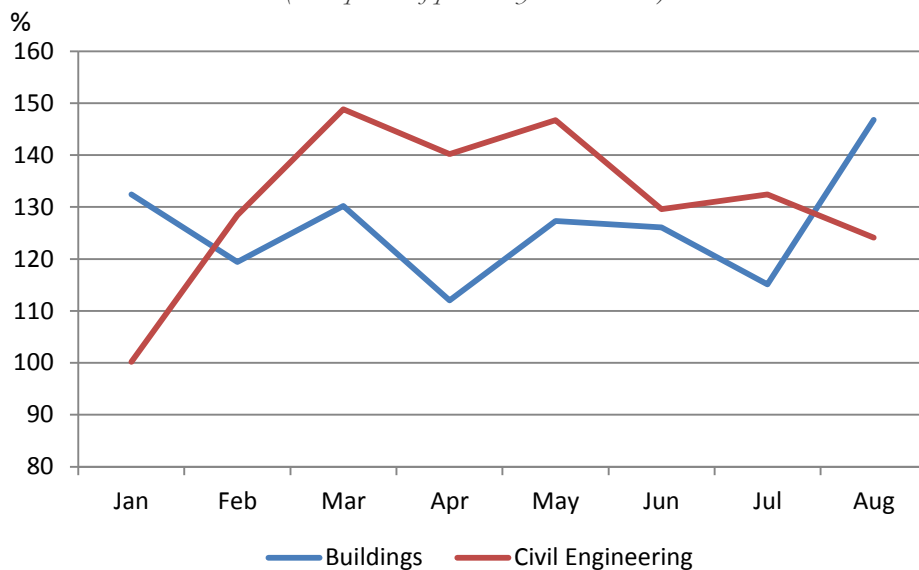


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January, output growth in the category of construction of buildings had exceeded that of civil engineering works, this trend was reversed in August. In that month, output volume in the construction of buildings was up by 46.8 percent, while that of civil engineering works rose by 24.1 percent. In the case of buildings, growth was primarily attributable to the construction of industrial and storage facilities, whereas in the case of civil engineering works the increase was mainly driven by road, railway and public utility projects.

Fig.2: Output volume indices of construction industry sub sectors, 2017

(same period of previous year = 100%)



Source: Hungarian Central Statistical Office (KSH)

One of the signs that indicate a lasting recovery of the sector is dynamic growth in the value and volume of orders. The value of new orders concluded during the month of August was up by 46 percent compared to the level registered in the corresponding period of the previous year, and the total value of the contracts concluded until the end of the month was 89.7 percent higher year-on-year. Fig. 3 aptly shows that both the value and volume of new orders are higher than not only the corresponding indices of 2016 but also of 2015. In the case of new orders, the largest growth was recorded in the contracts for residential buildings and hotels. However, the growth in the volume of contracts was rather determined by the respective increase regarding civil engineering works (+134.6 percent) than that of buildings (+22.2 percent).

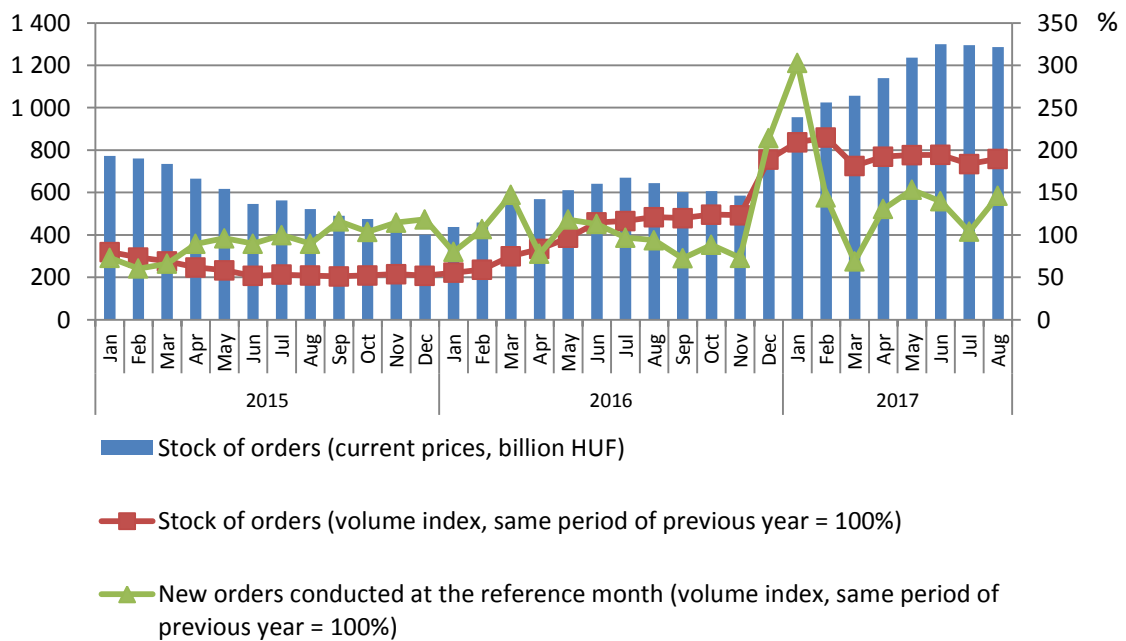
The latest economic sentiment survey by GKI Economic Research Co reveals that the sector's economic confidence index hit a historic high in the month of August, and expectations of the sector's stakeholders as well as perceptions of output and order outlook have improved. The



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latest survey, from the month of October, shows that sentiment in the constructions sector continues to be excellent, while respondents in certain fields, such as structural engineering, have turned even more upbeat about present conditions, future expectations and order outlook. The sector's great performance had a beneficial impact on other sectors, such as construction sector suppliers, as they have been working at full capacity. In the latest sectoral analysis, the Association of Hungarian Building Material and Construction Product Manufacturers predict that output growth is set to reach 20-30 percent this year. The sector's long-term growth, however, may be hindered by further labour shortages and, as a consequence, rising wages.

Fig. 3: Value and volume of new orders and stock of orders, 2015-2017



Source: Hungarian Central Statistical Office (KSH)

From an EU perspective, Hungary's construction sector performance was the most impressive. As the Eurostat reports using analysis of data from the EU28, in August 2017 output fell on average by 0.4 percent quarter-on-quarter in the sector. Year-on-year data reveal a somewhat more positive picture: the sector's output growth averaged 3.1 percent in EU member states. However, the performance of the observed sector varied greatly in individual member states. Whereas double-digit year-on-year output increases were registered in some of them, such as Hungary (36.8 percent), Poland (23.2 percent) and Sweden (14.7 percent), output actually decreased in certain other countries, for example in Italy (-1.1 percent), Romania (-0.6 percent), Belgium and Spain (both -0.4 percent). Quarter-on-quarter output figures also show marked differences in the sector's growth dynamics: the largest increases were recorded in Hungary (9.8

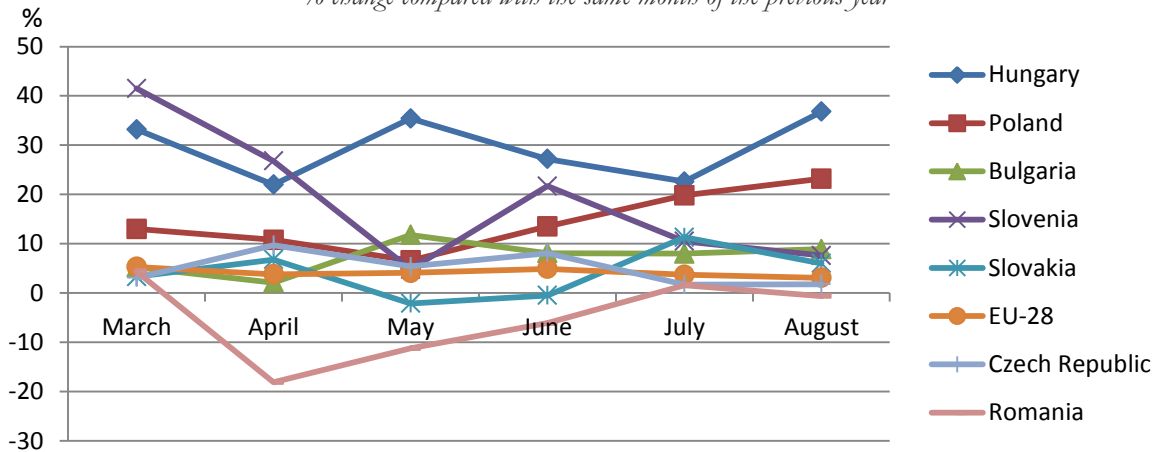


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percent), Italy (1.8 percent) and Bulgaria (0.9 percent), while the weakest data came from Sweden (-9.7 percent), Slovenia (-3.6 percent) and Slovakia (-1.4 percent).

Fig. 4: Construction sector output, March-August 2017

% change compared with the same month of the previous year

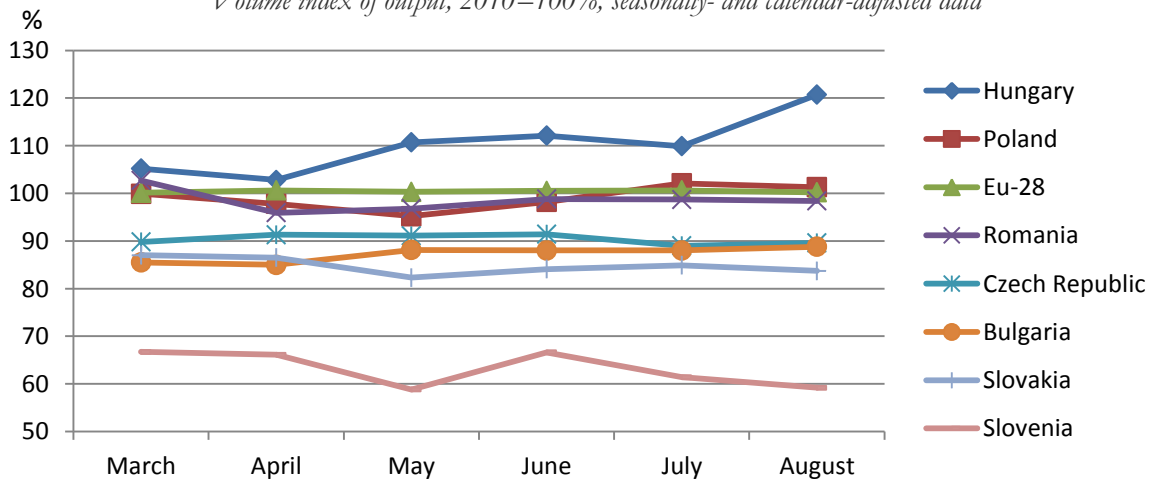


Source: Eurostat

Taking a closer look at the region around Hungary shows that Poland was the only country besides Hungary where the construction sector has managed to post double-digit output increases repeatedly, while output growth has remained below the 10 percent mark in the Czech Republic and Slovakia. In Slovenia, the sector's performance was similar to Hungary's albeit growth has fallen below 10 percent in the last two months, the period for which data are available. Output growth has been typically below 10 percent in Bulgaria and Croatia, while growth has slightly decreased in Romania.

Fig. 5: Construction sector output, March-August 2017

Volume index of output, 2010=100%, seasonally- and calendar-adjusted data





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Source: Eurostat

Even if one compares the long-term performance of the sector in the region the Hungarian construction sector emerges as one of the leaders. According to currently available Eurostat data, in the month of August the largest output growth of the EU was posted by Hungary since 2010 but it was also above the average of the EU28 recorded in the period January-July 2017.

Through the decrease of the VAT rate and the establishment of an expert body for quality control with the aim of reducing debt circles the Hungarian Government has also created the conditions required for steady growth. Among measures designed to boost demand the Family Housing Allowance must be highlighted as it has also contributed to the rising number of newly built homes.