

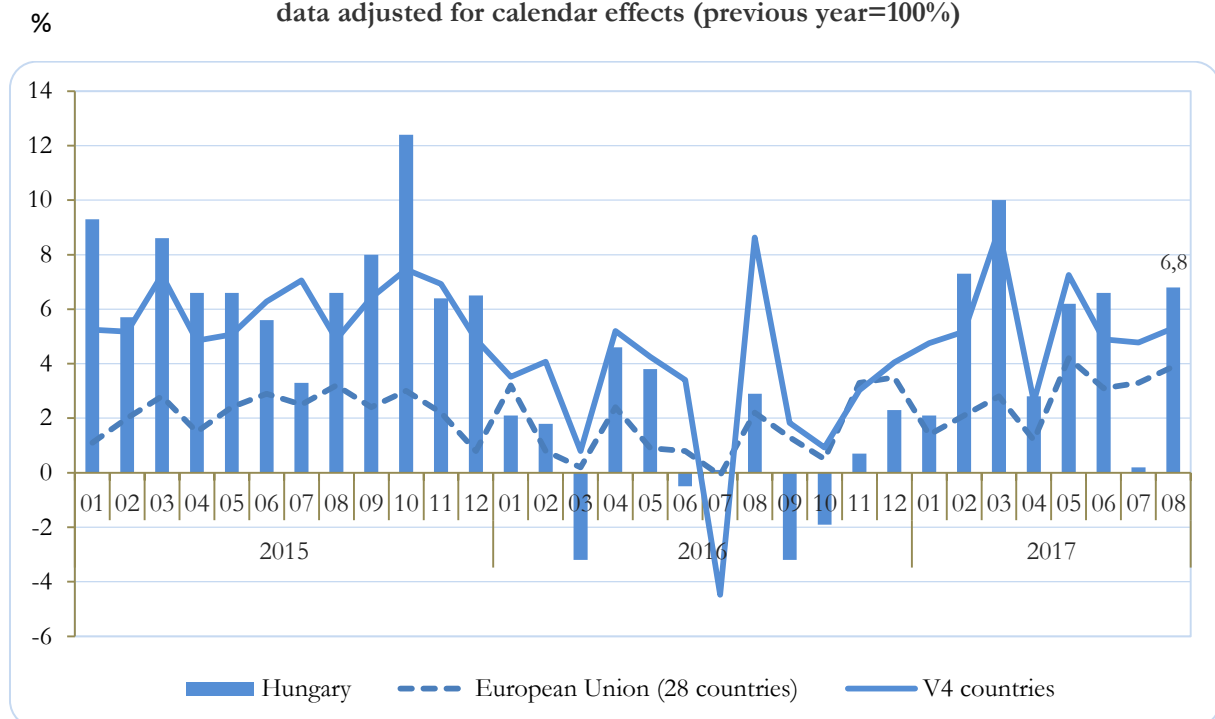


Strong industrial sector growth momentum persists in Hungary

According to the latest report by the Hungarian Central Statistical Office (KSH), the industrial sector continued to expand in the month of August 2017. In August 2017, the volume of industrial sector output was up by 6.8 percent year-on-year and 5.5 percent month-on-month. In the period January-August 2017, the volume of industrial sector output and export sales of the sector's products grew by 5.1 percent and 5.6 percent year-on-year, respectively.

The year 2017 has been a period of boom for the sector: with the exception of April, output was higher in every month. Following rapid pace of growth in the first quarter, the sector continued to expand more modestly afterwards. The growth figure from the month of August has been the third highest this year.

**Fig.1: Change in the volume of industrial output
data adjusted for calendar effects (previous year=100%)**



Source: Eurostat

In August 2017, industrial output was higher in all but one EU member state (the exception being the Netherlands). The average rate of growth, 3.9 percent, was well below that of Hungary's, and expansion within the EU has been driven by the new Eastern European member states. The industrial sector's output growth within the Visegrad Four has exceeded that of the



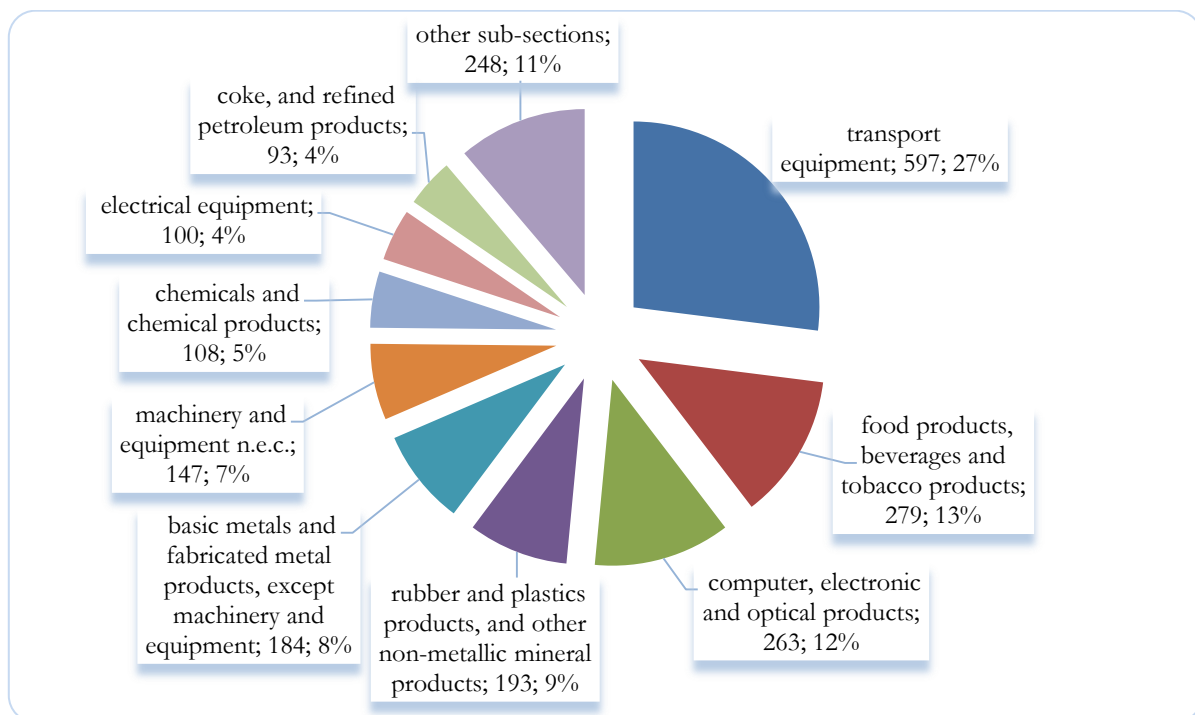
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EU member states for a long period now. In the month of August, Hungary's output growth rate was second only to Poland's (8.9 percent) within the Visegrad Four.

In Hungary, output in the manufacturing sector, which accounts for the bulk of industrial sector output with a share of 96 percent of total, increased by 6.8 percent in August, compared to the corresponding period of the previous year. Output in mining, a minor sector with a share of 0.4 percent, was up by 38 percent in the observed period, whereas that of the energy sector, which produces 3.1 percent of total output, decreased slightly.

With the exception of chemicals producers, output was higher in all thirteen manufacturing sub-sectors. In the largest sub sector, motor vehicle manufacturing – which accounts for 27 percent of total industrial output – output grew by 5 percent compared to the same period of 2016. At the second largest sub sector, the manufacturing of computers electronic and optical products, output increased by 9 percent. Within this field, output of electronic consumer goods soared by 21 percent. Output at pharmaceuticals producers and manufacturers of coke and refined petroleum products increased by one-fifth each. In the case of machinery and equipment manufacturing as well as the manufacturing of beverages and vegetable and animal oils and fats (two food industry categories) data showed double-digit output increases.

Fig.2: Share of output by manufacturing sub-sectors of total manufacturing, at current prices in August 2017 (bn HUF; %)



Source: Hungarian Central Statistical Office (KSH)

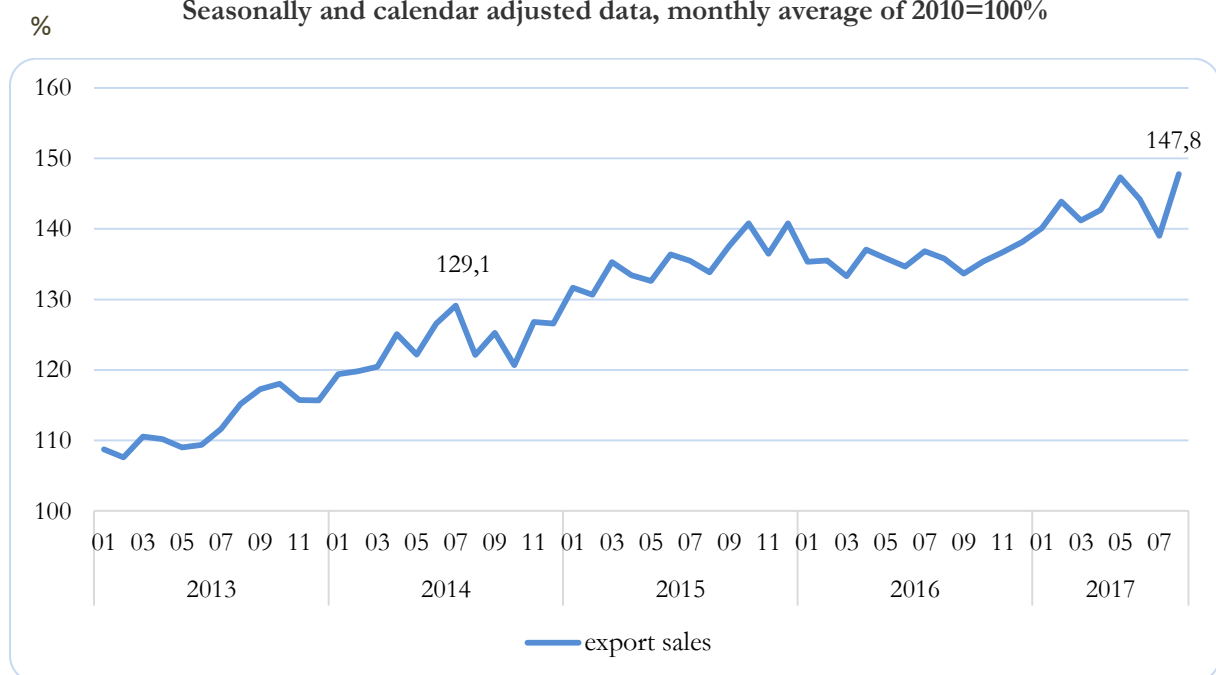


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The **sales volume growth of industrial sector products** exceeded that of the sector's output, as it was up by 9.1 percent year-on-year. Industrial sector sales were mainly driven by exports, which account for three-quarters of the total sales volume. The marked upward growth trend of export sales has been in place for several years: the volume of sales grew by 47.8 percent in August 2017 compared to the monthly average of 2010. Within that, the export volume of motor vehicles – a major growth driver – has more than doubled. Motor vehicle exports, valued at HUF 556bn, accounted for one-third of total industrial sector exports in August; this amount constituted volume growth of 6.1 percent year-on-year. The volume growth of the exports of computers, electronic and optical products was ever higher, 10.5 percent (totalling HUF 254bn). Double-digit volume growth was recorded in the export of pharmaceuticals, machinery and equipment, metal products and (partly due to a low base) mineral oil products. In the initial eight months of the year, the largest export volume growth rates, 12.6 percent and 12.2 percent respectively, were registered at machinery and equipment as well as chemicals manufacturers.

The volume of domestic sales, which had practically stagnated in recent years, has picked up in the initial eight months of 2017; the annual rate of growth was 4.5 percent in August.

Fig. 3: Change in volume of export sales
Seasonally and calendar adjusted data, monthly average of 2010=100%



Source: Hungarian Central Statistical Office (KSH)



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The total **volume of the new orders** of manufacturing sub sectors whose data are compiled by the KSH grew by 15.8 percent year-on-year. The volume of new export orders rose by 17.4 percent, within which that of road vehicles, metal products as well as computers, electronic and optical products was up by 30.5 percent, 46.4 percent and 16.1 percent, respectively, compared to August 2016.

The volume of new domestic orders was also higher, by 6.6 percent. Within that, the largest increases were recorded in the case of computer, electronic and optical products (34.2 percent), basic metals and fabricated metal products (31.7 percent) and electrical equipment (27.5 percent). In the initial eight months of 2017, industrial output was higher in each Hungarian region. In the three regions with the largest weight which, put together, account for some 60 percent of total output – Central Hungary (including Budapest), Central Transdanubia and Western Transdanubia – output growth averaged 4-5 percent. The rate of growth was above average, 7-9 percent, in Southern Transdanubia and Northern Great Plain, both regions of smaller economic weight. Among counties, Zala, Veszprém and Szolnok posted double-digit output increases.

In the first two quarters of 2017, the industrial sector was instrumental for Hungary's GDP growth, which exceeded the EU average. Data compiled in the intervening time signal a promising growth figure also for the third quarter. Investment growth driven by the launch of EU-funded projects and the high volume of new orders augur well for GDP growth in the remainder of the year. Favourable business sentiment also confirms upbeat expectations: the GKI Business Confidence Index has hit a historic high in September. Hungary's economic achievements have also been received well by international experts: in the World Economic Outlook, published in October 2017, the International Monetary Fund revised its former GDP growth estimate for Hungary upward, from the prior 2.9 percent to 3.2 percent for 2017 and from 3.0 percent to 3.4 percent for 2018.