



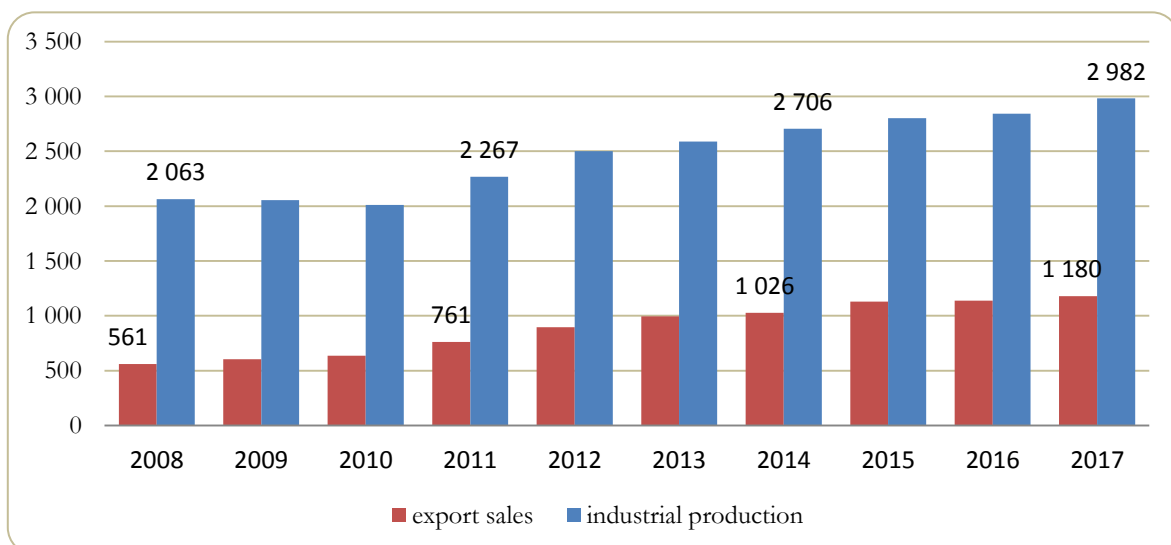
MINISTRY OF FINANCE

***The food industry is one of the most promising sectors of the Hungarian economy***

The Hungarian food industry has been expanding steadily in recent years -- a fact proven by statistical data and the rising volume of investment in the sector. Food industry enterprises which are capable of continuously modernizing production procedures, adapting themselves to market demands and providing high-quality products for customers have also done a lot to improve Hungary's competitiveness, Minister of Finance Mihály Varga said at the beginning of October when he inaugurated a new packaging unit of turkey meat producer Gallicoop Ltd.

Hungary's food industry, a sector of long history, has had to face various challenges in the past decades. The regime change in 1990, the opening of the country's market required for EU accession and the global economic crisis have created some major hurdles for the sector. It has to be noted though that even the global economic crisis could not derail the industry; it could remain stable and continue to be a net food exporter. Since the year 2010 the sector's output has been steadily on the rise. In 2017, the value of output was up by 4.8 percent year-on-year, totalling HUF 2982bn (EUR 9.3bn) which accounts for 10 percent of total industrial sector output (Fig.1).

***Fig.1: Industrial production and export sales in manufacture of food products, beverages (bn HUF)***



*Source: Hungarian Central Statistical Office (KSH)*



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Along with rising domestic consumption driven by higher real wages, output growth has also been underpinned by exports, the value of which could increase over the past ten years despite the crisis. The share of exports within the total value of output has reached 40 percent in 2017.

The category food, beverages and tobacco products plays a key part in Hungary's external trade. The share of this category within the total volume of the export of goods is more than 7 percent, and this product group accounted for 29 percent (with EUR 2.351bn) of the external trade surplus. The main items which improved the balance were cereals and cereal products, meat and meat products as well as livestock feed (these product groups posted trade surpluses of EUR 1311 million, EUR 513 million and EUR 402 million, respectively).

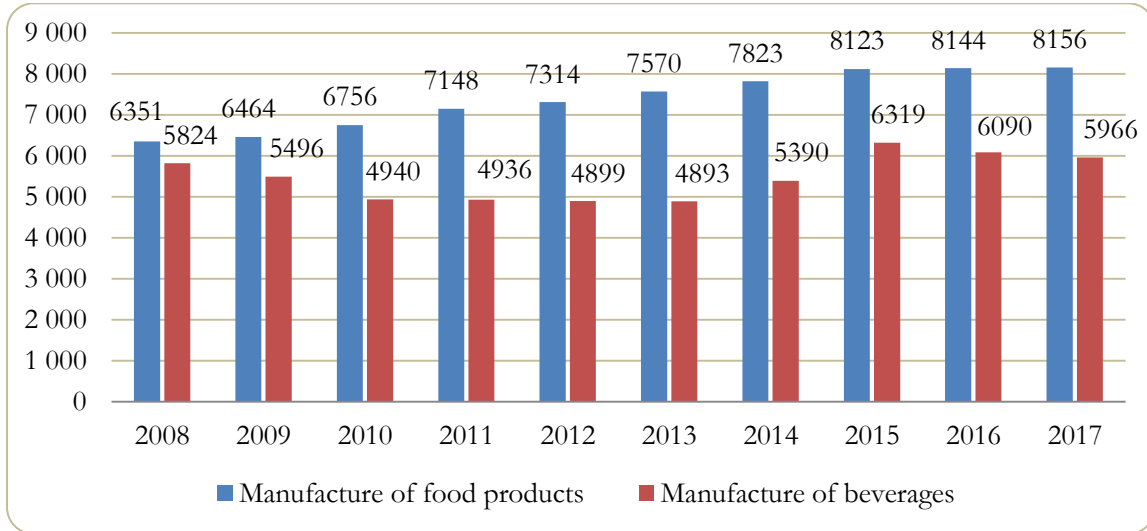
In the period January-July 2018, the largest increase in terms of export value was registered with regard to meat products in general (+EUR 52 million) and the export of poultry meat in particular. In addition, other product groups with robust growth in export value (ranging between EUR 30-40 million) were livestock feed, other food products and beverages. On the other hand, the export value of cereals and cereal products declined due to a high base last year.

In 2017 about every fifth economic unit registered as manufacturing industry enterprise was active in the food industry (altogether 14135 units). The majority of these (58 percent) were food producers, and their number has increased steadily in recent years (Fig.2.) Within the food industry, the category with the highest share of companies (21 percent) is the makers of bakery products and pasta ahead of the following groups with shares of 8-9 percent: makers of fruit and vegetable products, meat products, dairy products and other food products. In 2017, there were 6000 companies registered as makers of beverages; their number has declined slightly since 2015. The number of people on the payrolls of food industry companies was 145 900 last year, accounting for 15 percent of the total number of people employed within the manufacturing sector. Thus, the food industry comes as the second largest employer among manufacturing sub sectors.



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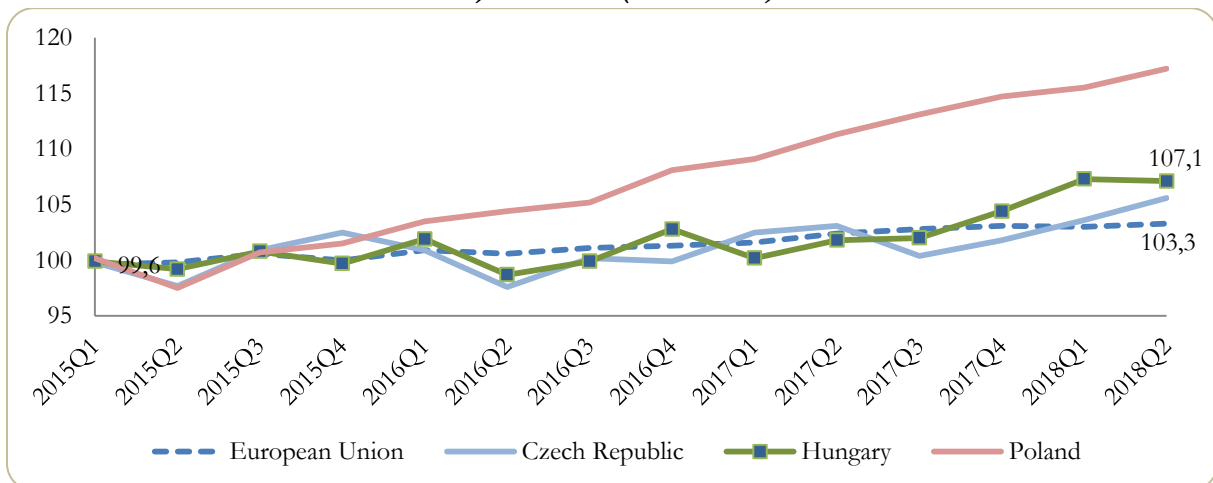
**Fig. 2: Number of registered enterprises in manufacture of food products and beverages (pcs)**



Source: Hungarian Central Statistical Office (KSH)

The performance of Hungary's food industry is good even from an EU perspective, and the rate of output growth has recently significantly exceeded the average of the EU28. According to Eurostat data, in Q4 2017 the output volume of Hungary's food industry grew by 23 percent compared to the base in 2010, while output growth averaged only 5.6 percent among EU member states in the observed period. The sector's performance has also been promising so far this year: in Q2 2018, the 7.1 percent output growth relative to the base of 2015, the base applied in the new Eurostat methodology, is also well above the average of the EU (Fig.3).

**Fig.3: Manufacture of food products, beverages and tobacco products, seasonally and calendar adjusted data (2010=100%)**



Source: Eurostat



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According to a survey conducted by the Research Institute of Agricultural Economics with the participation of 574 food industry enterprises, in 2017 the value of investment in the food industry was up by 65 percent year-on-year. The largest projects were implemented in the manufacturing of sweets, starch, poultry meat products, soft drinks and mineral water as well as in the group of “other” products. These altogether accounted for 44 percent of the total volume of food industry investment. The 11 projects of the highest value, with a total value of some HUF 34bn, accounted for 19 percent of the total value of food industry investment.

The food industry was identified as a priority area in Hungary’s re-industrialization blueprint, the Irinyi Plan. The main objective of the food industry strategy outlined in the Plan is to boost output, increase competitiveness and bolster market position. To this end, enterprises operating in the sector have received massive support in recent years. Under the Economic Development and Innovation Operational Programme, SMEs in the food industry have received subsidies of some HUF 36bn from EU cohesion funds since 2015. Successful large companies which are not eligible for EU funds have been given grants through the Large Enterprise Investment Support Programme for launching capacity expansion projects. The scheme aims to help beneficiaries maintain and increase their competitiveness.

Under the scheme, Gyermelyi Ltd, a pasta maker of long history, has recently received grants of HUF 2.4bn to co-finance the implementation costs of HUF 7.1bn for the building of a pasta-making facility capable of producing a higher quantity of pasta per year than the country’s total annual demand.

Speaking of the company Mihály Varga said that Gyermelyi had been on the right path to become a major market player within the CEE region and even the European Union and thus become a genuine Hungarian brand.