MINISTRY OF FINANCE

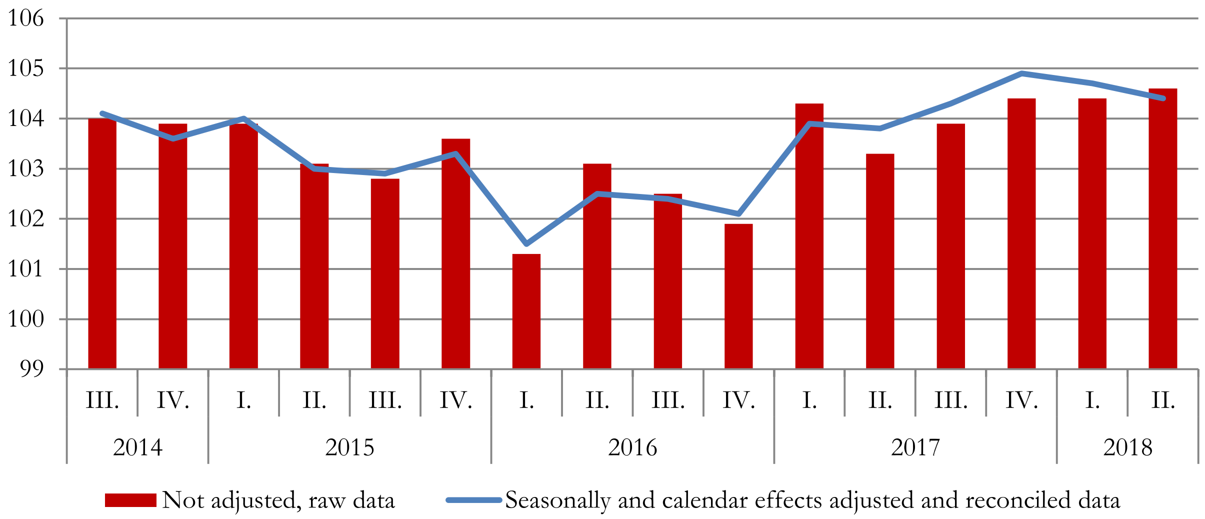
Dynamic GDP growth reflects robust economic performance in Hungary

According to the latest flash report of the Hungarian Central Statistical Office (KSH), Hungary's GDP grew by above 4 percent also in the second quarter of 2018. The rate of growth significantly exceeds that of the EU average.

Unadjusted data show that Hungary's GDP was up by 4.6 percent in Q2 2018, which rate of growth is even higher than the increase of 4.4 percent recorded in the first quarter. The last occasions when a similarly favourable figure was registered were four years ago, in the second quarter of 2014, and in the second half of 2005. The latter period was similar to the current one: the country posted GDP growth of above 4 percent in a couple of subsequent quarters. The latest data have beaten prior analyst estimates, as experts had expected slight deceleration. In the first half of the year, the economy thus grew by 4.5 percent. GDP data adjusted for seasonal and calendar effects also show robust expansion, albeit a few decimal points lower than indicated by raw statistics. These data show that the economy expanded by 0.9 percent quarter-on-quarter and 4.4 percent year-on-year in Q2 218.

Volume indices of GDP

(the corresponding period of previous year = 100.0%)



Source: Hungarian Central Statistical Office (KSH)

The above graph aptly demonstrated that the Hungarian economy has delivered a solid performance since 2016. The majority of economic sectors have contributed positively to the growth observed in the latest quarter. The performance of the agricultural and industrial sectors was strong once again but they were outperformed by the market services sector. On the consumption side, household consumption continued to be strong and investment growth has also contributed to overall expansion.

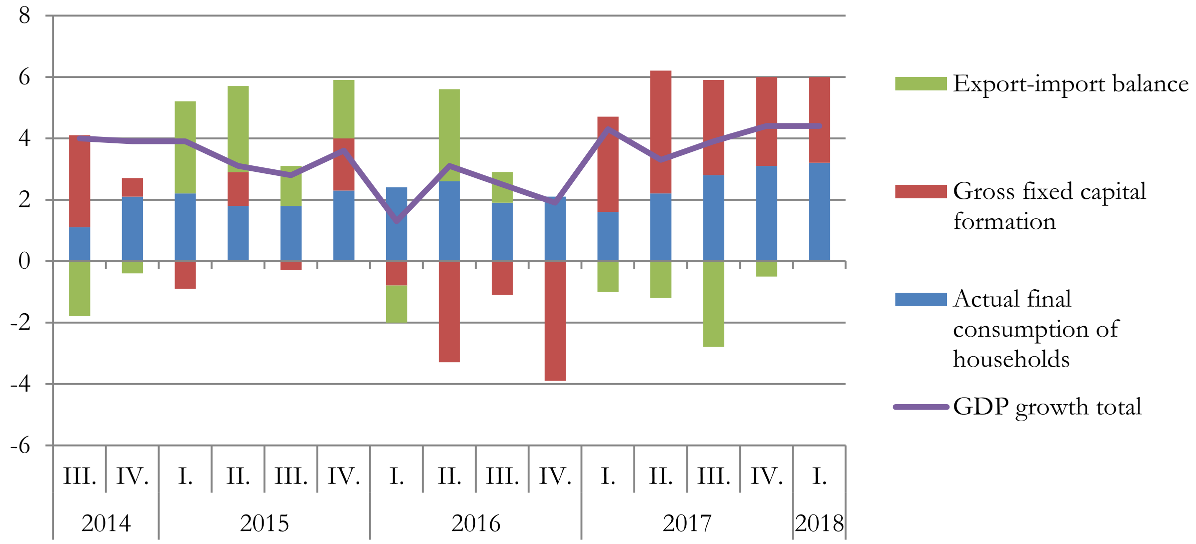
Household finances have been bolstered by several Government measures, such as the six-year wage and tax agreement, which has boosted domestic consumption through tax cuts.

The actual final consumption of households has been a main driver of GDP growth. In Q1 2018, households added 3.2 percentage points to the 4.4 percent (year-on-year) increase of GDP, which figure is higher than this indicator was in any other quarter over the past four years.

Gross capital formation was also a key contributor, adding 2.8 percentage points to Hungary's GDP growth in the first three months of this year. On the other hand, the external trade sector ceased to be a GDP growth engine last year, as import growth has exceeded export growth. At the beginning of 2018, exports and imports were in balance.

Contribution of selected components to GDP growth (expenditure approach)

(Percentage point, calculated from indices compared to the corresponding period of previous year)



Source: Hungarian Central Statistical Office (KSH)

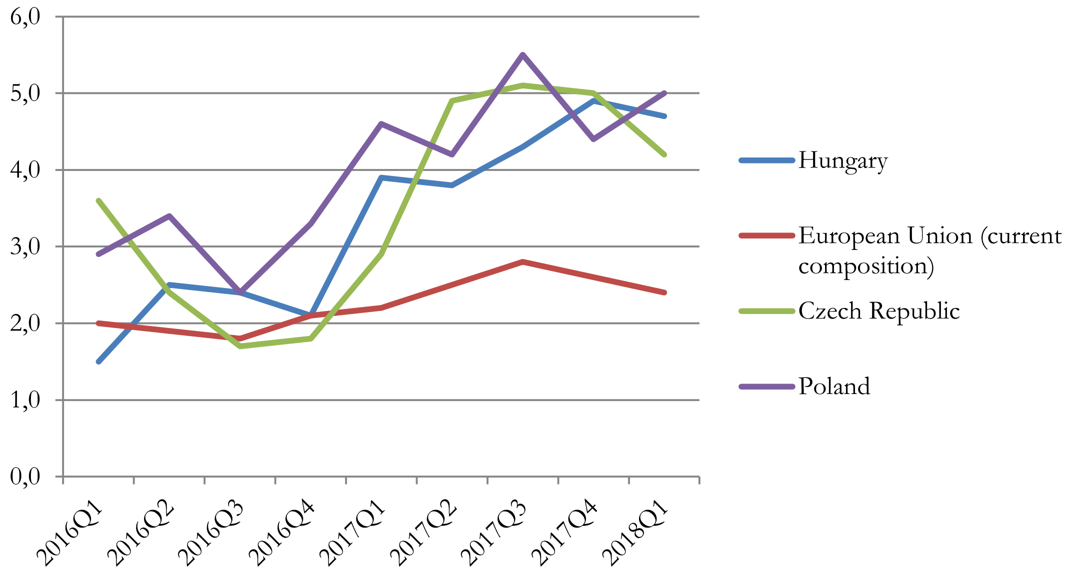
Growth has not resulted in more debt or other adverse outcomes. Data compiled by the National Bank of Hungary (MNB) also show that the pillars of the Hungarian economy are firm: the country's external debt has been declining, the financing capacity is persistently high, the government budget deficit has been below 3 percent of GDP and the government debt-to-GDP ratio has also been edging down.

In Q1 2018, GDP in the euro-zone and the EU28 grew by 0.4 percent quarter-on-quarter and by 2.2 percent year-on-year.

In the latest quarter, the rate of GDP growth was the second highest in Hungary among EU members, only Poland has managed to post higher growth.

Volume index of GDP (at market prices) in selected countries

(Seasonally and calendar adjusted data, %change compared to same period in previous year)



Source: Eurostat online database

Eurostat data, which do not include statistics of the latest quarter yet, show that the V4 region, including Hungary, had much higher growth rates than the EU average over the past two years.

Government measures implemented in recent years have also helped the Hungarian economy enter a growth path which has not increased external debts but enabled organic expansion driven by internal resources and this has led to more economic self-reliance.

Since 2017, the rate of growth has exceeded the EU average, a potential key to gradual economic convergence.

The Ministry of Finance projects dynamic GDP growth for the remainder of the year and predicts a full-year growth rate of possibly 4.3 percent.