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The Hungarian industrial sector in the present and future options and challenges

In harmony with the reindustrialization strategy and objectives of the European Union, the Hungarian Government has formulated an industrial policy blueprint of its own. Hungary wants to utilize options offered by the planning period up to 2020 through channelling EU funding to enterprise development and help expand major production-oriented sectors. Within that, special emphasis will be placed on the support of high-tech industrial sectors, due to their multiplier effect. Potent high-tech industrial sectors – thanks to the transformation effect their existence and growth can exert – can and will have a positive impact on stakeholders in supplier chains and the industrial services sector. Eventually, headcount is expected to rise in these sectors, including low-skilled jobs. From the aspect of foreign trade, motor vehicle manufacturing, related sub-sectors as well as pharmaceutical and food industry exports may constitute the axis of future growth.

One of the key dilemmas of every industrial development strategy is how to help **achieve concurrent employment and high added value growth**. This, however, is not an irreconcilable antagonism. The solution lies in the differentiation of various industrial sectors producing high added value. For example, within the motor vehicle manufacturing sector, segments must be identified that produce high added value but in the case of which production procedures are typically difficult to automatize and which domestic companies are having hidden potentials. These include the manufacturing of buses, railway, tramway locomotives or rolling-stock, heavy machinery and special vehicles.

The adoption of new and **digital technologies** is an objective at each of our export partners and one of the cornerstones of the EU's competitiveness policy. The use of digital technologies is expected to boost high added value-producing activities.

Other challenges include:

- **energy-efficient production**, as rising energy prices are likely to increase unit labour costs in the long term;



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- **material-efficient production**, in order to fully exploit technological multiplier effects
- **optimised load balancing**, in order to save energy in low demand periods.

It has to be noted that the development levels of Hungarian regions differ greatly, but maintaining the present status quo would be unacceptable from the aspect of both social and economic development policies. Accordingly, one of the main principles in implementing certain investment projects must be that they shall help mitigate regional disparities.



In order to reach these goals, **special financial instruments must be conceived and used in industrial development**, which may lead to some additional gains. The phasing-out of forex loans and an interest rate environment that is favourable also for SMEs require the reconsideration of corporate lending. In the period up to 2020, the Economic Development and Innovation Operative Programme (EDIOP) will be the main instrument for supporting demand arising from the aforementioned factors.

The **reduction of administrative burdens** is another obvious goal. The deregulation-focused attitude in the legislative process will result in a homogenous, unambiguous, pro-competitiveness regulatory environment. The pivotal tools to achieve this are the rationalized competencies of institutions, which will permit direct interference and sanctions only in fully justified cases.

In addition to the reduction of administrative burdens, the regulatory environment must be overhauled along the lines of improved economic transparency, which will in turn boost fiscal revenues. Recently, the introduction of the Electronic Trade and Transport Control System (EKÁER), the public health product tax (NETA) and on-line cash registers were among major steps in this direction.



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Achievements of the foreign trade sector

In 2014, the value of Hungarian exports and imports totalled EUR 84.7bn and EUR 78.3bn, respectively, constituting a surplus of EUR 6.4bn in Hungary. In 2014, the volume of export and imports rose by 4.2 percent and 4.7 percent, respectively, in comparison to 2013. **Hungary's trade of goods continues to be highly concentrated in terms of destinations.** In 2014, 78.1 percent (EUR 66.2bn) of exports headed to EU member states. This accounts for 5.6 percent growth compared to 2013. The bulk of imports, 75 percent (EUR 58.7bn), also came from EU member states.

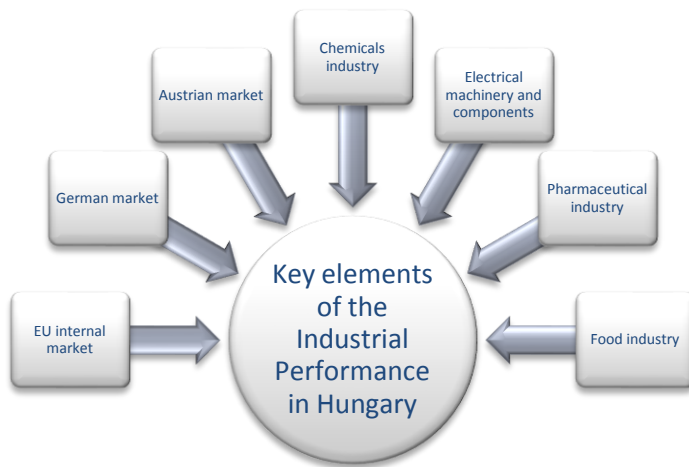
Hungary's number one trade partner is Germany, which receives 27.4 percent of Hungarian exports. In comparison to 2013, the volume of exports to Germany rose by 10.5 percent in 2014. **Our second largest trade partner is Austria**, with a 5.5 percent share of total export volume, up by some 3 percent in the observed period. In this aspect, Romania and Slovakia are also significant trade partners.

Hungarian exports to and imports from non-EU trade partners accounted for 21.9 percent and 25 percent of total, respectively. Among non-EU export partners, the most significant were the USA (EUR 3bn) and Russia (EUR 2.1bn) in 2014.

In 2014, the machinery and transport equipment category produced 54.6 percent of export volume and 46.3 percent of import volume, and thus added EUR 9.1bn to the balance of trade. Compared to 2013, this category recorded dynamic growth, as export and imports were up by 6.2 percent and 5.4 percent, respectively, compared to 2013. This massive increase was mainly the result of 31.8 percent export growth and 22.4 percent import growth in the product category of motor vehicles, trailers and semi-trailers. Trade volumes of this group are primarily determined by the EU 15, but trade turnover saw massive growth vis-à-vis countries in Asia and the Americas. Inbound and outbound trade volumes within groups related to the car industry -- the manufacturing of electric machinery, equipment and instruments (especially insulated electric wires and cables) as well as general-purpose industrial machinery (mainly various types of pumps) -- increased significantly.



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The volume of exports and imports of **manufactured goods** rose by 3.7 percent and 6.1 percent, respectively, in comparison to 2013. The main drivers of export growth were the manufacturing of car industry control instruments, medicine and pharmaceutical products. On the other hand, imports of iron and

steel as well as rubber products saw substantial growth, while both export and import volumes of metal products soared.

The **chemicals industry**, another key growth engine, also registered impressive trade volume increases. Lower exports to Russia, Hungary's largest export market of chemical products, could be offset by higher exports to EU countries. Other product categories with positive trade trends include that of organic chemicals (imports up by 8.6 percent); essential oils, perfumes and detergents (higher two-way trade); and among groups of minor weight the category of wearing apparel and accessories as well as footwear (higher imports).

Taking into account Hungary's top 10 export destinations, the **most popular product group is the category of electrical machinery and components, along with mechanic equipment.**

As a whole, these two categories top the rankings in case of every observed country. Exports of motor vehicles are in the third place, followed by exports of optical and medical instruments.

In light of currently available export data and the structure of the Hungarian economy, exports of Hungarian motor vehicle industry products and related machinery and equipment (electrical and mechanic appliances, plastic components and rubber products) are set to rise further. In addition, global economic trend signal potential growth in the exports of, among others, **pharmaceutical and food industry products** (currently, some 96 percent of products of domestic pharmaceuticals manufacturers are being exported, while export revenues are steadily rising).