



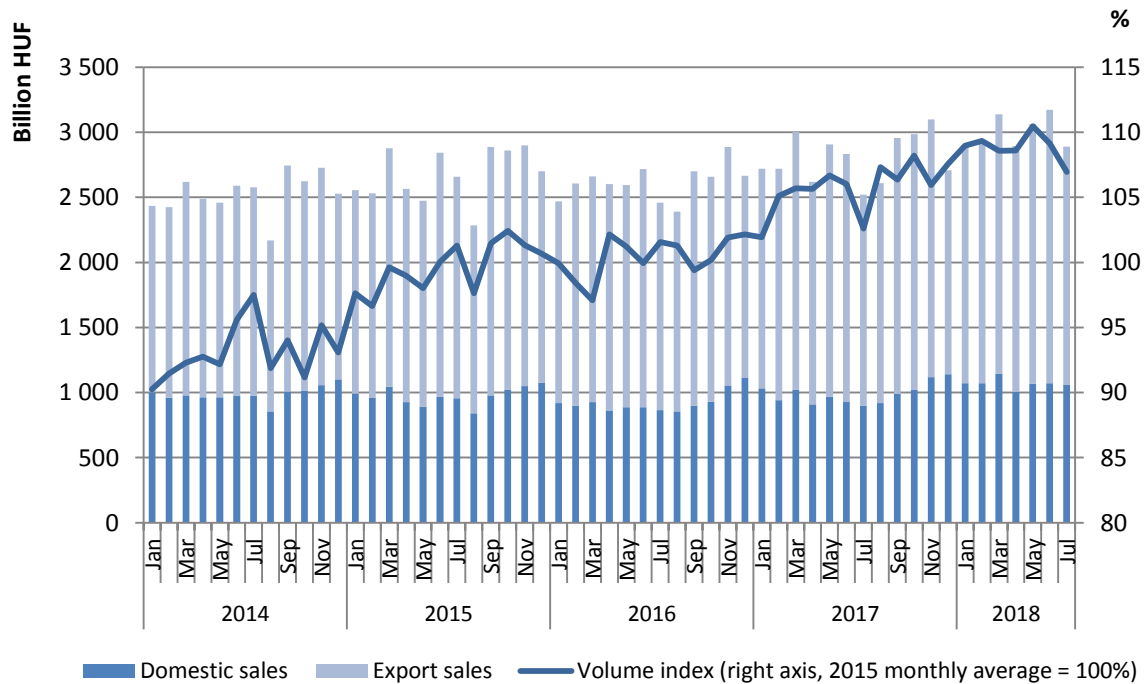
## *Strong growth of Hungary's industrial sector output persisted in the period January-July 2018*

The latest detailed data published by the Hungarian Central Statistical Office (KSH) reveal that in July 2018 the value of the Hungarian industrial sector's output increased by 6.2 percent year-on-year. Data adjusted for working-day effects show growth of 3.9 percent. Thus, the sector's performance has considerably beaten that of the EU, where output growth averaged below 1 percent in the observed period.

In recent years, several Government measures, aiming to boost the performance of the industrial sector, have been introduced (e.g. Irinyi Plan). This was one of the factors which have resulted in the fact that, in light of the latest KSH estimate, the sector has been on a path of steady output growth with only minor fluctuations since 2016.

**Fig. 1: Domestic and export sales and volume index of industrial production**

*(Sales in billion HUF, volume index: seasonally and working day adjusted)*



*Source: Hungarian Central Statistical Office (KSH)*



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According to data adjusted for seasonal and calendar effects, the value of *industrial output* has been steadily on the rise since the second half of 2016, in comparison to the monthly average of 2015. The performance of the Hungarian industrial sector turns out also favourable if output volumes are analysed on a year-on-year basis. The 6.2 percent growth rate observed in July is well above the rates of growth registered in the two prior months. The only months with even higher year-on-year growth rates this year were January and April. Month-on-month, in July 2018 output was down by 2 percent. However, this figure is still much more favourable than it was in the month of July 2017 when output fell by as much as 3 percent month-on-month. In the period January-July 2018, the industrial sector posted overall output growth of 3.9 percent year-on-year.

*Exports* account for some two-thirds of the total volume of the sector's sales. The volume of exports increased by 3.9 percent compared to the corresponding period of the previous year. The volume of domestic sales grew even more markedly, by 8.3 percent, compared to July 2017. The same trend was observed in the period January-July 2018: the volume of export sales gained 1.9 percent, while that of domestic sales was up by 6.1 percent.

The *manufacturing sector* accounts for 96 percent of total industrial output; this sector posted growth of 6.5 percent. Output at the two sub sectors of lesser weight was mixed: that of mining and quarrying was up by 62 percent whereas that of the energy industry was down by 2.8 percent. Within the manufacturing sector, the volume of exports and domestic sales increased year-on-year by 12.4 percent and 4.4 percent, respectively, in the month of July 2018. As a consequence, the share of exports within the total sales volume decreased slightly to a still remarkable figure of 71.5 percent.

In Hungary, the automotive industry, computer manufacturing and the food industry are the three largest sub sectors of the manufacturing industry. The *automotive industry* accounts for 25 percent of the total volume of manufacturing output and 33 percent of manufacturing exports. In July, however, compared to the performance of the previous year, this segment proved to be sluggish: the output and export volumes were down by 6.4 percent and 6.1 percent, respectively. On the other hand, within this sector the manufacturers of parts and accessories for motor vehicles posted strong growth of 5.7 percent in the month of July as well. As a whole, the automotive sector has delivered highly impressive results so far this year. In the first half of 2018, the sector produced output value of some HUF 4500bn (EUR 14bn), up by some 7 percent compared to the first half of 2017. The Government has underpinned the sector's performance in several ways, as a result of which a number of large-scale car industry projects have been



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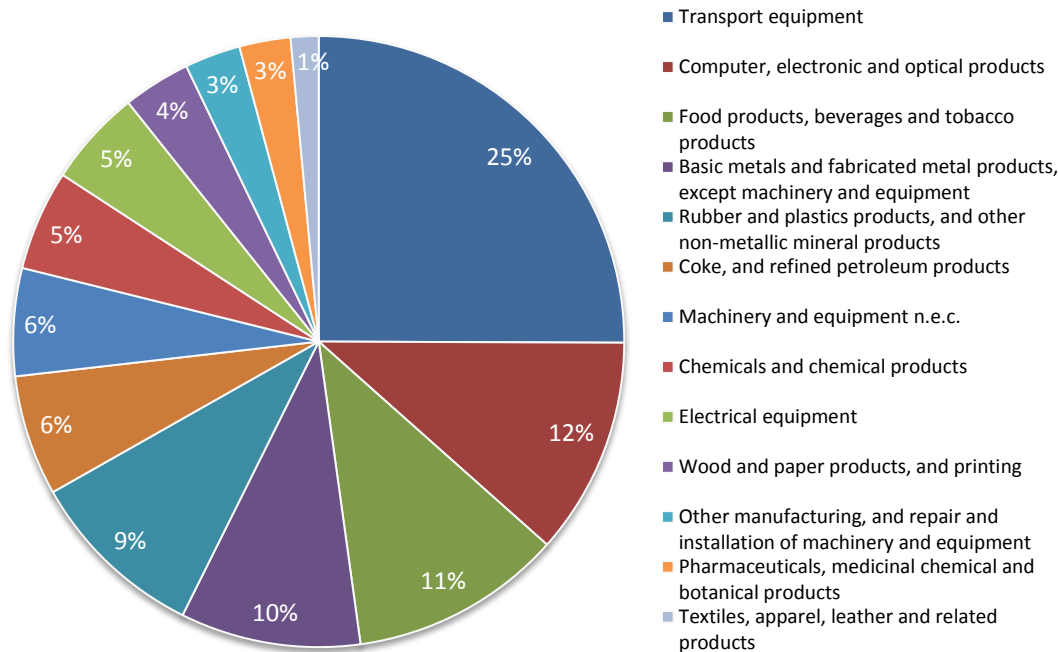
recently completed and several deals have been closed on the launching of new investment projects. Out of recently completed projects, the new production facility of Qualitative Production and a new unit for the manufacturing of the latest Audi e-engine models in Győr must be highlighted. The building of a new Mercedes plant should also be underlined among the various announcements of new capacity expansion projects which have been given high-priority status by the Government. Production is expected to start in 2020 at this facility. The existing Mercedes factory, on the other hand, has presented the one millionth car earlier this year. Continental continues to expand in the vicinity of Debrecen while BMW has announced a plan to build a new centre valued at EUR 1bn in the area. Gear box maker ZF is enlarging, with the help of state support, an existing facility in the city of Eger aiming to create 770 new jobs. Bridgestone of Tatabánya has also received non-refundable grants for new investment projects. Knorr-Bremse is yet another example of increased investment activity within the sector: the company is reinforcing the existing R&D units in Budapest and Kecskemét to turn them into one of the company's flagship European research centres. Under the Large Enterprise Investment Support Programme, the Government has granted some HUF 1.2bn for a development project by Ikarus Járműtechnika of Székesfehérvár. These recently announced new investment projects and the extra capacity they are creating ensure the sector's steady growth also in the future. These new projects are expected to start boosting output within the automotive sector in 2019-2020.

Computer manufacturing, another major manufacturing sub sector, posted year-on-year output and export growth of 16.8 percent and 17.2 percent, respectively, in July 2018. Within this sector, output at telecommunications equipment manufacturers soared by 79 percent year-on-year. Manufacturers of food, beverages, and tobacco products have also added to the good performance of the industrial sector: both the value of output and the volume of exports were higher compared to the level of the same period of the previous year.



**Fig. 2: Value of manufacturing production by sub-sections, July 2018**

(at current prices, Million HUF)



Source: Hungarian Central Statistical Office (KSH)

Among minor manufacturing sub sectors, manufacturers of chemicals and chemical products as well as of pharmaceuticals posted double-digit output growth, while manufacturers of coke and refined petroleum products saw year-on-year output growth of above 30 percent. The positive trend in output growth has continued at rubber and metal products manufacturers as well: output gained 18.5 percent in the former and 12.7 percent in the latter segment. On the other hand, a downward trend of six months at machinery and equipment manufacturers has resulted in a 9.7 percent volume decrease in the month of July compared to the corresponding period of 2017.

A key indicator of the industrial sector's strength is gross value added (GVA) per head, which showed an increase of 2.7 percent year-on-year at enterprises with at least five employees. At the same enterprises, the number of jobs was up by 3.5 percent in the observed period.

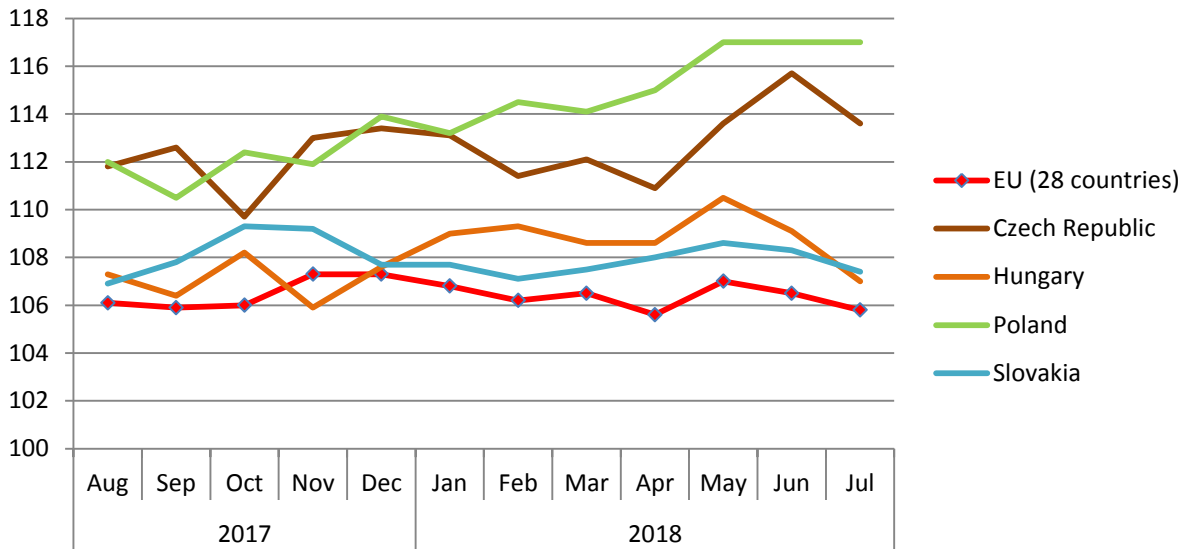
The rate of output growth in the Hungarian industrial sector significantly exceeded the average of EU member states; however, within the region, this figure was short of being outstanding. Among the Visegrad Group, the growth rate of Poland and the Czech Republic were clearly higher than that of the Hungarian industrial sector.



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**Fig. 3: Volume index of industrial production (%)**

*(2015=100%, seasonally and calendar adjusted)*



*Source: Eurostat*

The industrial output-to-GDP ratio in Hungary is above the EU average and data from recent years show that this ratio is still on the rise. The Government has been using a number of direct and indirect incentives to stimulate the sector's performance. The automotive industry plays a key role within the manufacturing sector. Ongoing trends and new capacity expansion projects announced this year signal that the performance of the automotive industry is set to remain a main determinant of Hungary's economic growth both in medium and the long term. Investment decisions suggest that economic players find ideal business conditions in Hungary and they tend to have long-term plans for their operations in the country.