MINISTRY
FOR NATIONAL ECONOMY

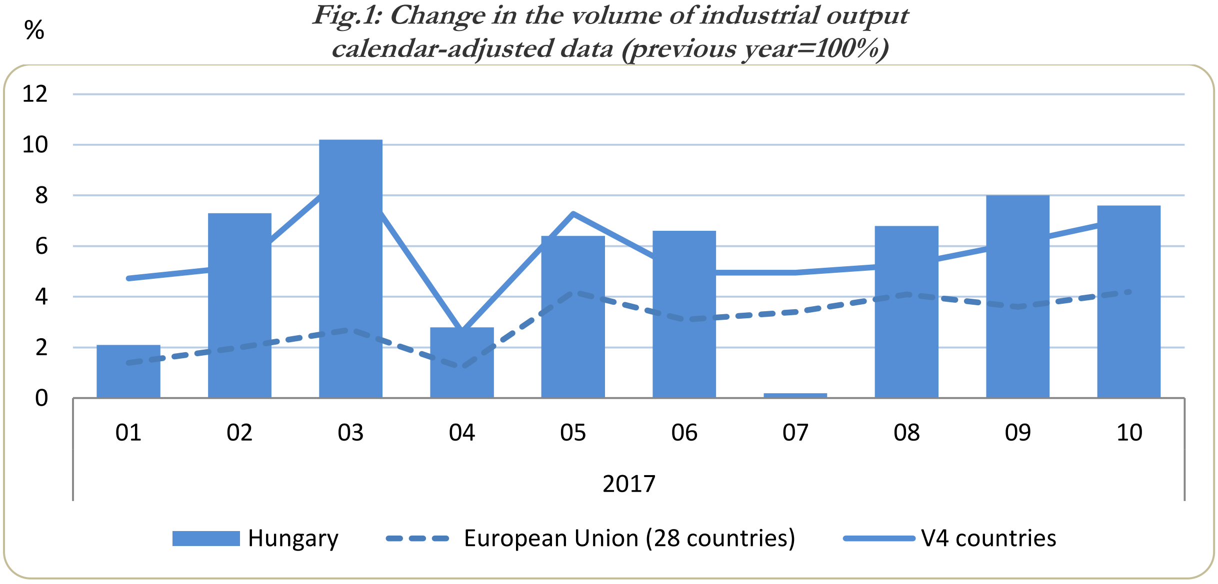
Hungary's economy closed the year 2017 with good results

2017 was a successful year for the Hungarian economy. Increasingly positive data in the regular reports published by Hungarian Central Statistical Office (KSH) showed favourable trends in various economic sectors. In the period Q1-Q3 2017, the volume of GDP, the most comprehensive indicator of overall economic performance, gained 3.8 percent compared to the corresponding period of the previous year, and for the full year the pace of growth is expected to significantly exceed last year's 2 percent and the EU's average.

This year, favourable global economic environment acted as an accommodating background for the Central and Eastern European region in general and for Hungary in particular. Several sectors of the national economy saw substantial improvement, thanks besides favourable international environment to the sizable grants provided by funds of the programming period 2014-2020.

In the first ten months of the year, **industrial sector output** has picked up after registering lacklustre performance in the previous year: in January-October 2017, output grew by 5.4 percent year-on-year, with higher output registered in every region of the country. The pace of growth was higher than the EU average and it was also remarkable within the Visegrad Four. The **volume of sales in the industrial sector** increased by 8 percent year-on-year; two-thirds of the total volume of HUF 27 900bn (EUR 90bn) were sold on foreign markets.

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



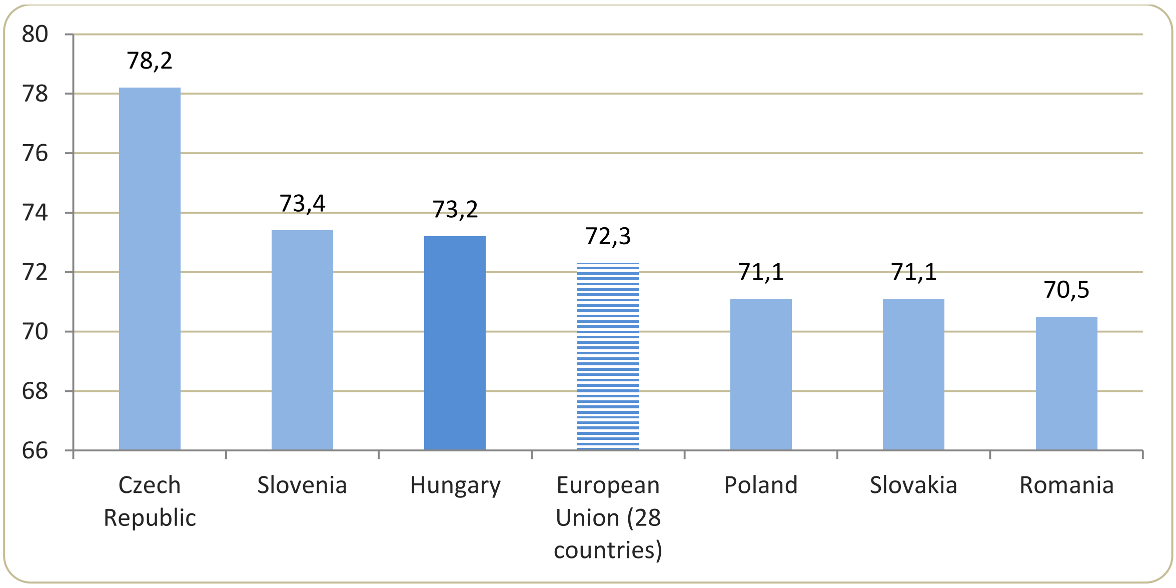
Source: Hungarian Central Statistical Office (KSH)

Thanks to EU-funded projects, capacity expansion projects of enterprises facilitated by the economic upturn as well as new housing and other property development projects, investments also grew dynamically. In Q1-Q3 2017, the **volume of investment** totalled HUF 4 100bn (EUR 13.2bn) in the country, which constitutes growth of some 25 percent compared to the same period of the previous year and more than 10 percent when compared to the corresponding period of 2015.

Investment growth has also been reflected by robust activity in the **construction sector**: in the first ten months of the year, the volume of the sector's output soared by 28.4 percent year-on-year. In the construction of buildings, which category includes home building projects funded partly by the Hungarian Government's housing scheme, the volume of output rose by 26.1 percent, while in the case of the construction of civil engineering works output surged by 33.5 percent. Volume growth exceeded last year's total increase as early as in October, and the volume of orders was also double the figure of 2016 by the end of October.

The economic upturn has also had a favourable effect on the **labour market**. According to the latest data available on the Eurostat's website, in Q2 2017, 73.2 percent of people aged 20-64 years had a job in Hungary, which figure is already close to the target of 75 percent set for 2020. Hungary's employment rate is higher than the EU average and within the region it is only the Czech Republic where statistics show a significantly better situation.

Fig. 2: Employment rates in Hungary and some EU countries, 2017 Q2
(total employment from 20-64 years, percentage of total population)



Source: Eurostat

In Q3 2017, the average **number of unemployed people** fell by 36 thousand, to 183 thousand, year-on-year, and the unemployment rate declined by 0.8 percentage points to 4.0 percent – the fourth lowest figure in the European Union. The unemployment rate of men was lower than that of women, and the rate of improvement was also higher in their case.

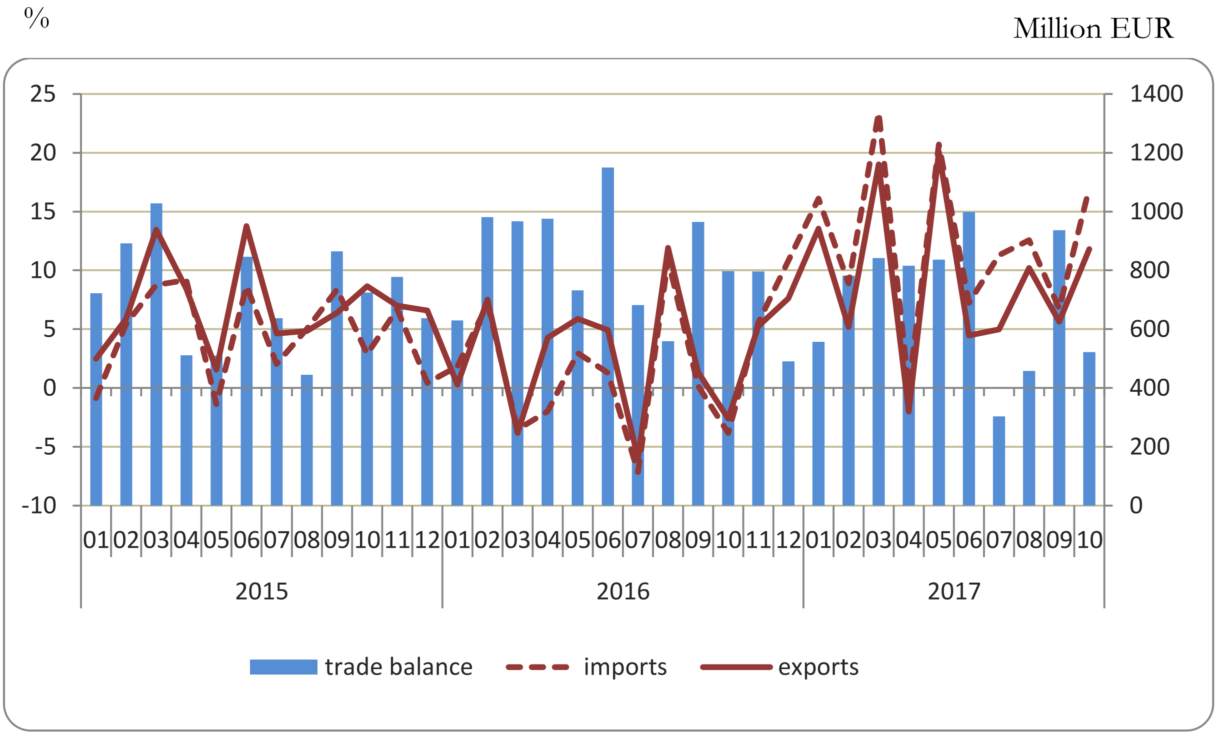
In the first nine months of 2016, both **gross and net wages** grew by 12.8 percent compared to the corresponding period of the previous year. This growth was mainly fuelled by the 15 percent and 25 percent increase of the minimum wage (for unskilled workers) and the guaranteed minimum wage (for skilled workers), respectively, as well as wage hikes at certain budgetary institutions and for employees of state-owned public utility companies.

Retail sales growth has been reflecting the rising purchasing power of households: in January-October 2017, the volume of retail sales – according to data adjusted for calendar effects – was up by 4.5 percent year-on-year. Sales volumes grew by 2.5 percent at specified and non-specified food retailers, by 7.7 percent at non-food retailers and by 3.2 percent at filling stations.

Trends in **external trade** have mirrored other positive tendencies within the national economy, posting substantially higher growth than last year. In the period January-October 2017, according to the first estimate, the volume of exports and imports was up by 9.2 percent and 12.3 percent, respectively, year-on-year. Due to the fact that driven by rising consumption the pace of import growth was higher than that of exports, the **external trade balance** has slightly deteriorated and the surplus declined by EUR 1.4bn, to EUR 7.1bn, compared to the level in the same period of last year.

Given the country's size the surplus is still seen as massive, however; within the region it was only the Czech Republic where the surplus was higher than Hungary's, with EUR 13.9bn in the first ten months of the year.

Fig. 3: Change in the volume of external trade (left-side axis, %) and surplus/deficit in current prices (right-side axis, million EUR)



Source: Hungarian Central Statistical Office (KSH)

The **economic confidence indicator** of one of Hungary's leading economic think tanks, GKI Economic Research Co., hit a new historic high in December 2017. The EU-backed survey shows that business expectations have never been as upbeat as they are now. Intentions to employ were stronger in every sector, and the fear of households of unemployment has declined. The assessment of households' own financial position, their savings capacity and the perspectives of the Hungarian economy was only better in one of the months in the first half of 2006.

Assisted by economic tailwinds, EU funds and occasionally unconventional economic policy measures, the country has been manoeuvred competently through the year 2017, thus avoiding major risks and pitfalls. But, as the old saying goes, "The art of the sailor is to leave nothing to chance." In order to brace the country for the presumably larger storms and certainly lower EU funding ahead, the Government has already introduced a number of pro-competitiveness measures this year, and it is determined to implement new ones which can help strengthen existing and build new economic pillars also in 2018.