



MINISTRY OF FINANCE

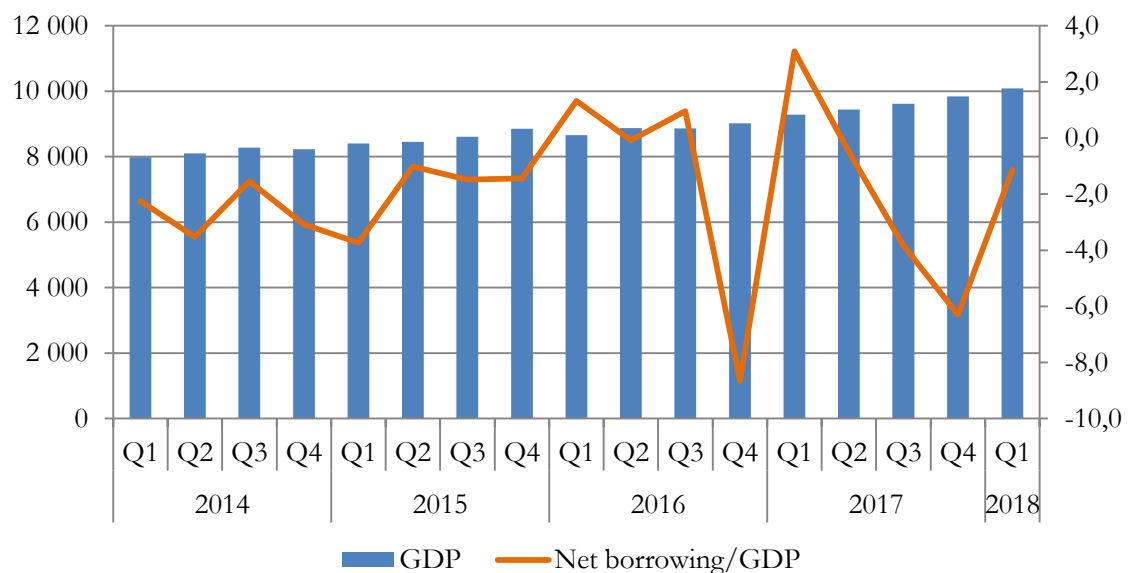
***Hungary is set to become more competitive in coming years***

***“Having left the years of groundwork behind, we must now aim for maintaining rapid economic growth, increasing efficiency and productivity, and improving competitiveness,” Minister of Finance Mihály Varga has recently said.***

In the drafting of the budget bill of 2019, which was presented on 27 June 2018, special attention has been paid to stable and prudent public finance management, a prerequisite for sound growth. This will facilitate, coupled with rising wages, full employment, the protection of families, the assistance of elderly people, financial stability and steady economic growth rates. For the year 2019, the Government is projecting GDP growth of 4.1 percent and a general government budget deficit of 1.8 percent.

In Q1 2018, the deficit of the general government budget was 1.1 percent of GDP. Preliminary data show a shortfall of HUF 115.5bn. The fact that expenditures rose more than revenues caused the deficit to widen to 4.2 percentage points of GDP in the observed period.

***GDP (bn HUF) and Net borrowing/GDP (%)***  
*seasonally adjusted data*



*Source: Hungarian Central Statistical Office (KSH)*

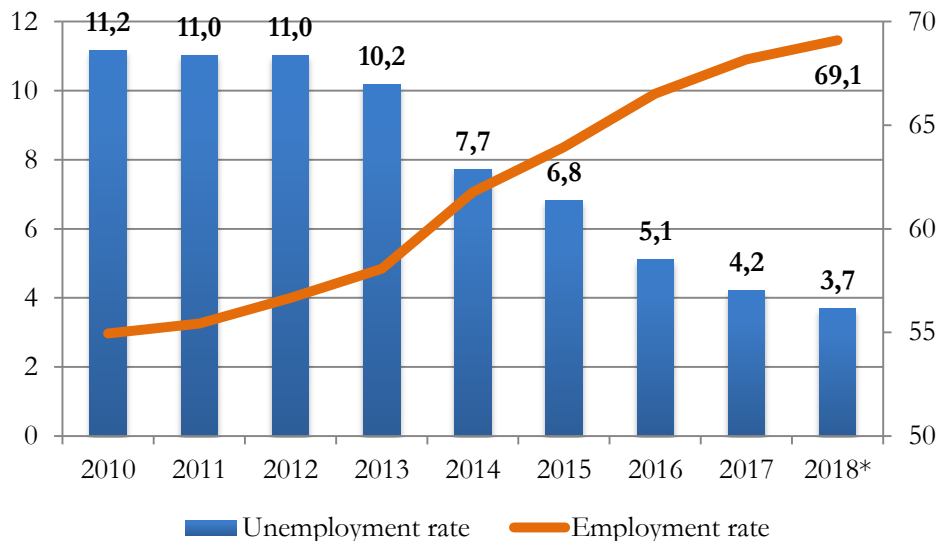


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The Government considers it a priority to improve the competitiveness of Hungarian enterprises and help them cope on global markets. The National Competitiveness Council has hitherto been working to quickly improve business environment while future plans include, besides the lowering of payroll taxes, the development of certain large sectors, such education and healthcare.

One major factor behind economic growth has been the six-year wage agreement and a subsequent favourable labour market trend which have led to concurrent double-digit income and job growth. The number of people in employment has risen by some 750 thousand since 2010, and the employment rate increased to 69.1 percent in the period March-May 2018.

*Unemployment and employment rate (%)*



*Source: Hungarian Central Statistical Office (KSH)*

*\*March-May*

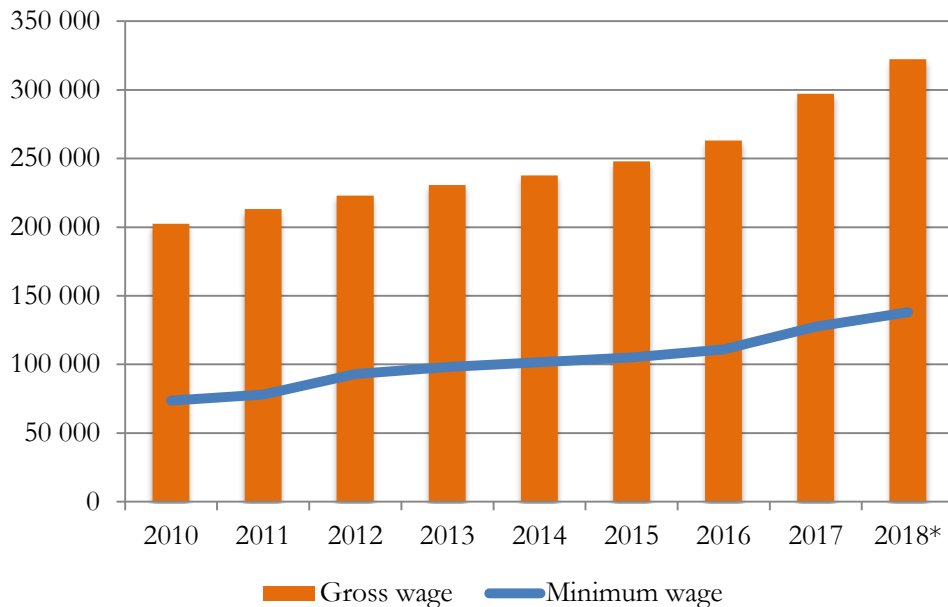
The unemployment rate has hit 3.7 percent, the lowest figure since the regime change of 1989, and the number of jobless people has fallen to one-third of the original level. Minister Varga has mentioned full employment as another objective of the near future, which the Government is working to achieve through incentivizing the hiring of elderly jobseekers, facilitating the shift of participants in public work schemes to the private sector and encouraging the return of people working abroad. In addition, tax incentives for career-starters, long-time unemployed people, mothers returning to work from parental leave and formerly inactive people are also expected to play a major role in these efforts. The wage ceiling below which this tax reduction is applicable is



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set to be raised, provided the parliament adopts the motion, from the current HUF 100 thousand to double the amount of the minimum wage.

*Changes in minimum and gross wages, HUF*



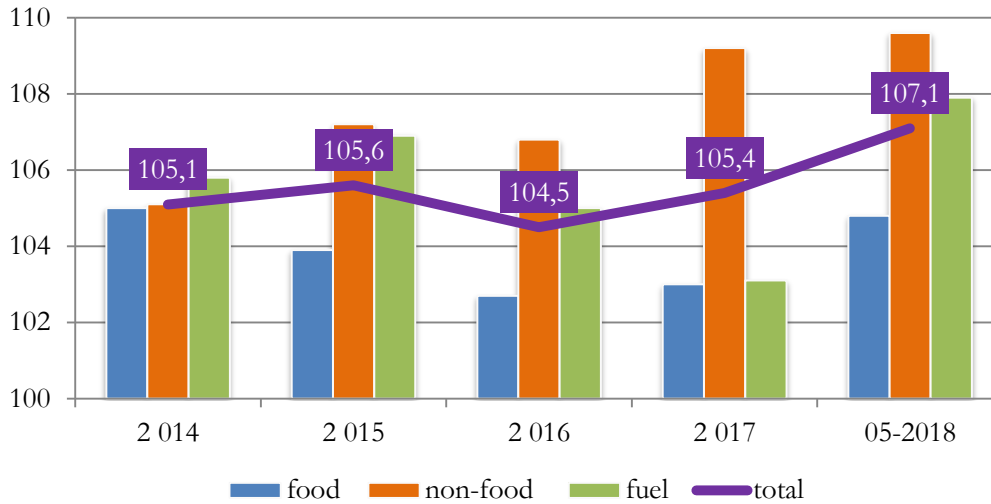
*Source: Hungarian Central Statistical Office (KSH)  
National Tax and Customs Administration (NAV)*

Gross incomes have risen by some 60 percent over the past eight years; gross incomes averaged HUF 322 400 in the period January-March 2018. Besides higher wages, some direct benefits will also bolster the financial status of families: the amount of these is expected to total HUF 2000bn (EUR 6.25bn) in the year 2019. The rising amount of family income has also boosted retail sales: in the period January-May 2018 their volume was up by 7.2 percent year-on-year. The volume of sales at food and non-specialized food stores increased by 4.8 percent, while that of non-food retailers gained 9.6 percent, year-on-year. The volume of sales at filling stations rose by 7.9 percent in the observed period.



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**Sales in retail shops by type of shop**  
(Calendar effect adjusted, same period of previous year=100%)



Source: Hungarian Central Statistical Office (KSH)

The Government is expecting further growth in consumption, external trade volume and construction sector output. Several grants and subsidies continue to be available for public road, digital development, tourism and industrial development as well as large enterprise and healthcare projects. Various other fields are also projected to receive more than before from the state budget: budget estimates earmarked for education, healthcare as well as public safety and defence will increase by HUF 15bn, HUF 101bn and HUF 156bn, respectively, in 2019. In addition, the amount allocated as fiscal reserve for covering expenditures related to the financing of general and fiscal deficit targets is set to rise to one-and-a-half times the current appropriation.