MINISTRY
FOR NATIONAL ECONOMY

FDI a major contributing factor for reaching foreign trade goals

In Central and Eastern Europe, Hungary has the second highest exports-to-GDP ratio, while the contribution of industrial output to the country's GDP is also remarkably high in the country. Since the regime change in 1990, Hungary has had one of the most open economies in the region, a fact that has also been proven by data of the recently published World Investment Report. In the region, Hungary has the third highest level of FDI, while the country has the second best per capita FDI figure. This implies that the country has been on the right track for reaching foreign trade objectives.

The UNCTAD World Investment Report, published on 25 June 2015, reveals that economic policies all over the world increasingly tend to provide investment incentives. As far as new investments are concerned, the industrial and services sectors have been characterized by liberalization, while – due to national security reasons – restrictive measures are more and more frequent in the energy and transport sectors.

Hungary has several economic instruments to assists investors in implementing projects at the best possible location under the best possible conditions. One of the key bodies of the Hungarian foreign trade institutional system is the Hungarian Investment Promotion Agency (HIPA) which has been established in order to provide all the information possible for potential investors they require for making a proper investment decision. The fact that the HIPA helped launch 27 investment projects in the initial five months of this year shows how attractive Hungary is as an investment destination. As a result of these initiatives, Hungary received FDI totalling EUR 548.82 million. In 2014, HIPA assisted 60 investment projects, the value of which reached EUR 1.66bn.

Another vital instrument of the Hungarian foreign trade institutional network is the Hungarian National Trading House that aims to promote the interest of domestic enterprises on new markets and facilitate SME exports. The growing export volume of domestic companies is contributing to the global marketing of Hungarian products, as Hungarian trade houses have already been opened in 29 countries world-wide.

Hungary has identified three key policy priorities of foreign trade:

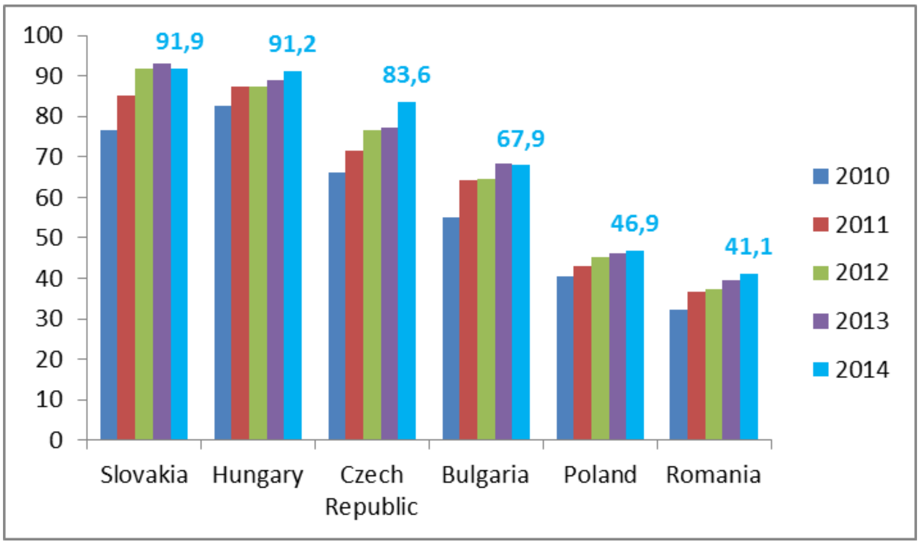
1. Hungary shall be among the EU top performers in terms of the exports-to-GDP ratio.
2. Hungary shall be among the EU top performers in terms of the industrial output-to-GDP ratio.

3. Hungary shall be CEE number one in terms of per capita FDI.

Exports-to-GDP ratio within the CEE

Concerning the exports-to-GDP ratio, Hungary has been close to reaching the above goal, as in the region only Slovakia is ahead of Hungary, by a mere 0.7 percent. The Hungarian figure of 91.2 percent is the fifth highest following Luxembourg, Malta, Ireland and Slovakia. Among the Visegrád Four, the export volume of the Czech Republic is also outstanding, with 83.6 percent in 2014.

Exports of goods and services in % of GDP



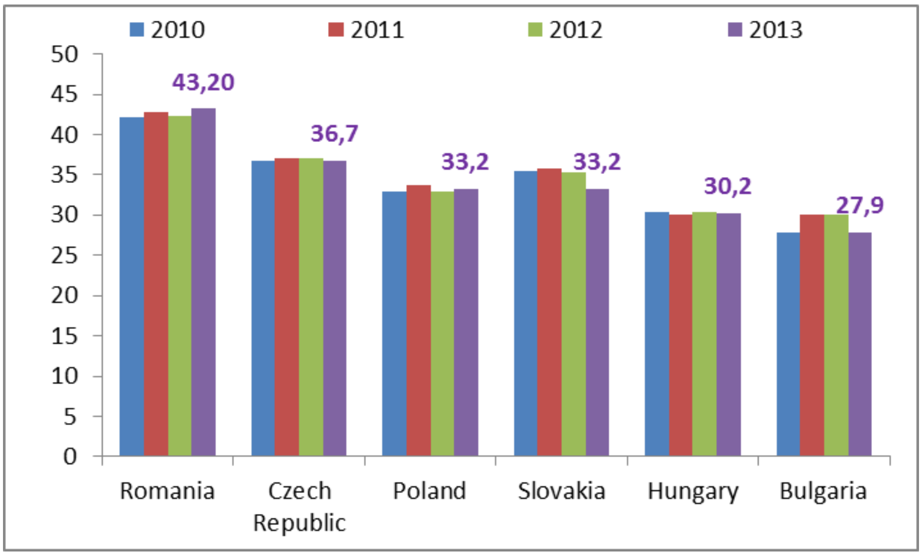
Source: Eurostat

According to data compiled by the Hungarian Central Statistical Office (KSH), in the initial three months of 2015 the volume of Hungarian exports totalled EUR 22 288 million. The massive volume of Hungarian exports is mainly attributable to motor vehicle industry production and related supplier activities. The share of motor vehicle exports constituted 18 percent of total export volume, and thus it is the single largest export category. Hungary aspires to boost employment and maintain high economic growth through supporting high added value producing manufacturers and bringing new manufacturing capacities to the country.

Industrial output-to-GDP ratio

Another major priority of Hungarian foreign trade policy is to increase output and added value within the industrial sector. In light of World Bank data, in Hungary the industrial output-to-GDP ratio was 30.2 percent in 2013, while this indicator was above 43.2 percent in Romania. Among the Visegrád Four, the industrial sector of the Czech Republic is the largest contributor to GDP, while this indicator is the same, 33.2 percent, in Poland and Slovakia.

Industrial output-to-GDP ratio (% of GDP)



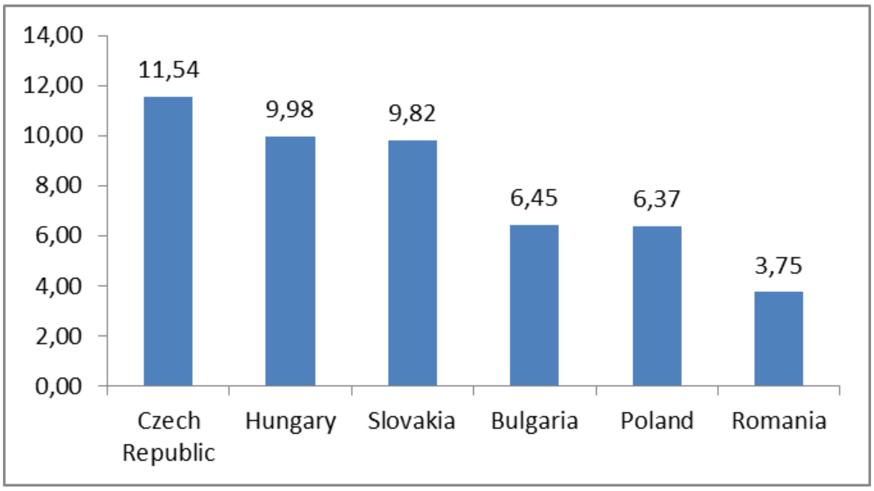
Source: World Bank

Although the Hungarian figure is not outstanding from a regional perspective, it is relatively high when compared to Western European indicators, as in Germany the industrial output-to-GDP ratio is only slightly higher than Hungary's with 30.7 percent. The respective indicators show 20.2 percent in the United Kingdom and 19.8 percent in France. The high share of industrial added value does not necessarily mean that the services sector is to shrink within the Hungarian economy. On the contrary: several countries with sizable services sectors used to be industrial powerhouses some decades ago and these industrial sectors served as the driving engines of services sector expansion.

Per capita FDI in Central and Eastern Europe

In light of 2014 Eurostat population data, the Czech Republic tops the regional ranking with FDI of USD 11 500 per inhabitant in a country of 10.5 million people. In this regard, Hungary comes second with per capita FDI of some USD 10 000 in a country of hardly 10 million inhabitants. Although cumulative FDI is the highest in Poland, per capita FDI is slightly below USD 6 400.

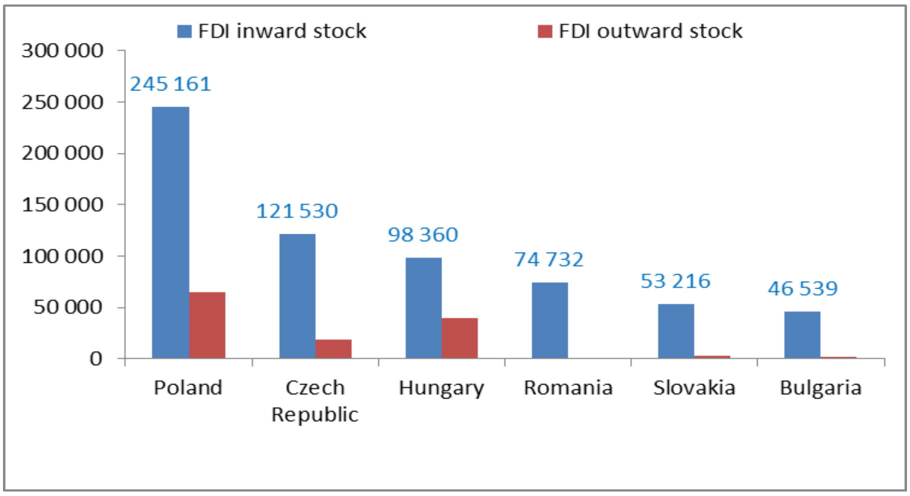
Per capita FDI, in 2014 (thousand USD)



Source: Eurostat, UNCTAD

In terms of cumulative FDI, Poland ranks first within the CEE region: the stock of FDI in the country with a population of 38.5 million exceeds USD 245bn, double the figure of the Czech Republic. The amount of cumulative FDI to Hungary reached USD 98bn in 2014, a remarkable figure especially given the fact that this indicator was only below USD 23bn in 2000. Over the past ten years, the countries of the regions have also proven to be attractive investment destinations: in 2010-2014, FDI totalled – for example -- USD 68bn in Romania and USD 46bn in Slovakia. As a result, cumulative FDI is some USD 75bn in Romania and more than USD 46bn in Bulgaria.

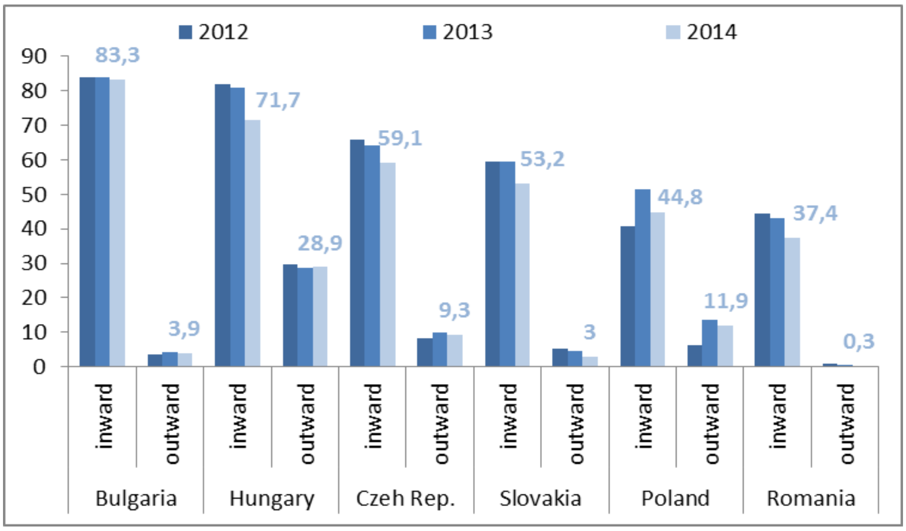
FDI stock in 2014 (million USD)



Source: UNCTAD

From a regional perspective, the FDI-to-GDP ratio was the highest in Bulgaria and Hungary over the past three years. As the below chart aptly demonstrates, Hungary is the only country within the region with a significant amount of outward FDI, compared to the size of the country's economy. Over the past three years, Hungarians invested some 30 percent of annual GDP abroad. This indicator shows much lower figures among other CEE countries: some 10 percent in the Czech Republic and slightly more than 10 percent in Poland.

FDI stock as a percentage of GDP (2012-2014, %)



Source: UNCTAD