



Macro-economic data indicate ascending growth path in Hungary

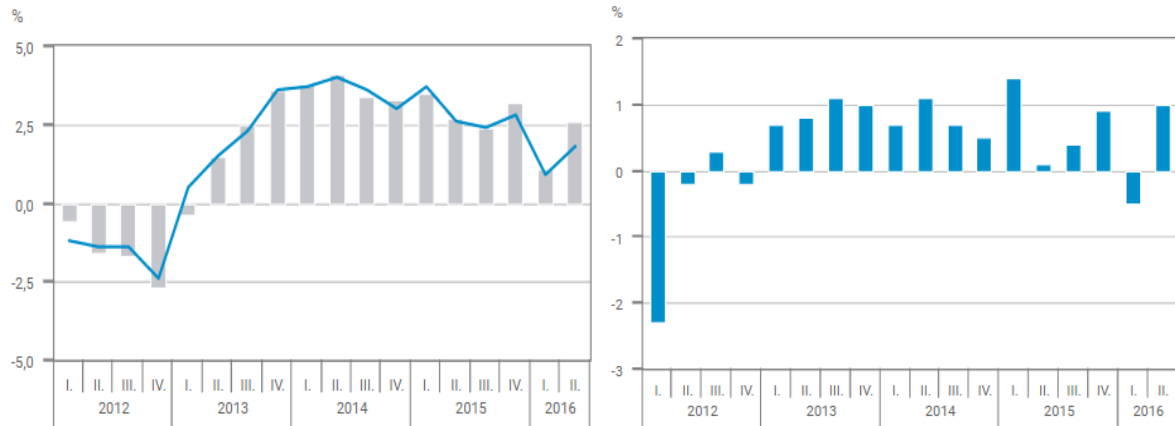
Real economic GDP growth and labour market data show that Hungary's performance is solid even from a European perspective. Over the past one year, the overall employment rate among those aged 20-64 years improved by 2.6 percentage points and thus edged closer to the 75 percent level, the EU's target for 2020. The manufacturing industry repeatedly recorded output volume growth figures above the averages produced by the highly volatile industrial sector of the Euro-zone. The Hungarian economy has been also posting massive foreign trade surpluses: data from the first half of the year show that the volume of exports and imports was up by 8.2 percent and 6.1 percent, respectively, year-on-year. Hungarian families are also benefiting from the upturn, as domestic consumption growth in the first quarter exceeded the rate of GDP growth. Efforts to reduce the government debt-to-GDP ratio have also been successful, and this is another positive factor that is shaping Hungary's competitiveness. As a whole, macro-economic data are signalling that Hungary's competitiveness has been improving. The fact that two out of the "big three" credit rating agencies (Fitch Ratings and S&P's) have restored the country's investment grade status is yet another recognition of favourable tendencies.

The **gross volume of GDP** – according to unadjusted data – **was up in Q2 2016 by 2.6 percent** in comparison to the corresponding period of the previous year in Hungary. The solid performance of the industrial and agricultural sectors and sound output increase at the services sector also contributed to the expansion, accounting for 0.9 percent, 0.4 percent and 1.8 percent, respectively, of the total figure.



MINISTRY
FOR NATIONAL ECONOMY

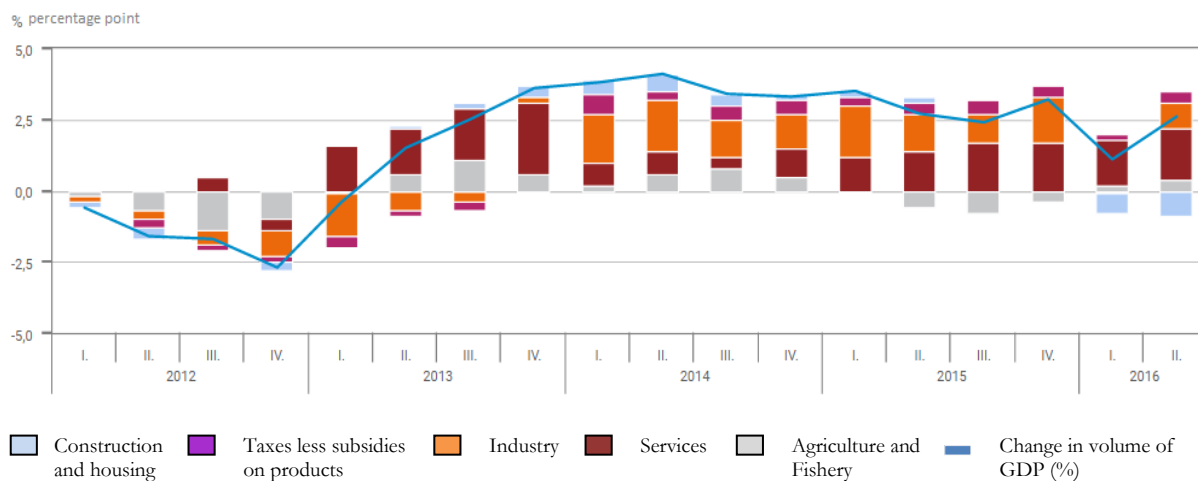
Fig. 1: Change in volume of GDP (Left: year/year; right: quarter/quarter)



Source: Hungarian Central Statistical Office (KSH)

In the observed period, added value in the industrial sector gained 3.9 percent, while that of the manufacturing sector increased by 3.7 percent, year-on-year. Within the manufacturing industry, a key determinant of industrial output, added value was higher at the majority of sub sectors, including motor vehicle manufacturing. The largest output increase was recorded, among major sub sectors, at manufacturers of computers, electronic and optical products. The weaker performance of machinery and equipment manufacturing as well as the construction sector were factors that weighed down on overall output. The agricultural sector had a good harvest this year, and the sector's added value also improved by 13 percent within the national economy, year-on-year. Gross added value within the services sector grew by 3.3 percent. Services related to accommodation establishments and catering posted remarkable growth of 7.7 percent, while info-technology services and other professional, scientific, technical activities and administrative activities saw increases of 4.6 percent and 6.6 percent, respectively.

Fig. 2: GDP growth and growth components by economic sectors



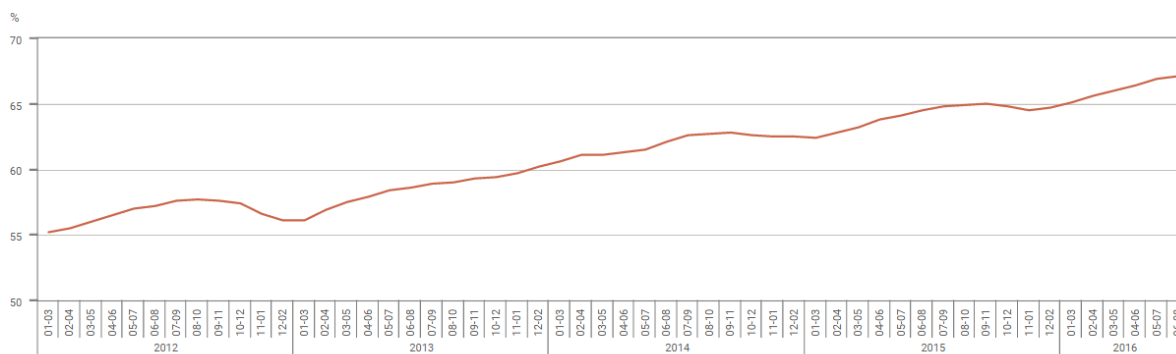
Source: Hungarian Central Statistical Office (KSH)

According to data adjusted for seasonal and calendar effects, **economic output grew by 1.8 percent year-on-year and 1.0 percent quarter-on-quarter**. Thanks to solid agricultural output growth, the first statistical estimate for Q1 GDP growth was later upwardly revised, by 0.2 percentage points to 1.1 percent. **Overall, in the first quarter of 2016, economic output was up by 1.9 percent.**

In the period June-August 2016, **the number of people in employment averaged 4 million 386 thousand**. This corresponds to a **year-on-year increase of 135 thousand** within the national economy. **The economy produced some 130 thousand new jobs in this one-year period.**

The employment rate of those aged 15-64 years rose to 67.1 percent. This indicator showed larger growth for women: while the employment rate of men improved by 2.8 percentage points (to 73.5 percent), that of women was up by 3.5 percentage points (60.8 percent). The employment rate for people **in the age bracket of 20-64 years** – a priority group with a pre-set target in the Europe 2020 Strategy – **gained 2.6 percentage points, to 72.1 percent.** The EU's target for 2020 is 75 percent. Hungary's objective for men and women of this age is 79.1 percent and 65.2 percent, respectively. The employment rate for those in the so-called prime working age (25-54 years) edged up by 1.5 percentage points, to 82.7 percent.

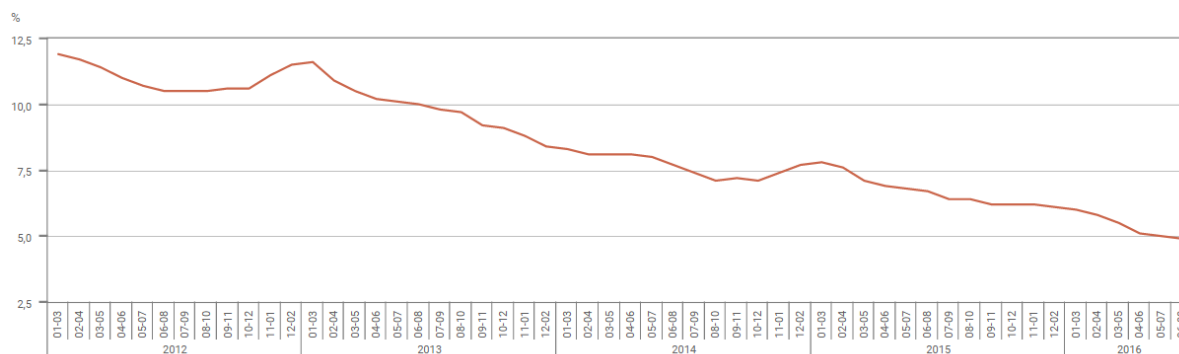
Fig. 3: Employment rate (age group of 15-64 years; 3-month moving average)



Source: Hungarian Central Statistical Office (KSH)

The unemployment rate fell to below 5 percent in the first half of 2016. The number of jobless people dropped by 77 thousand, to 227 thousand, and thus the unemployment rate eased by 1.7 percentage points to 4.9 percent.

Fig. 4: Unemployment rate (age group of 15-64 years; 3-month moving average)



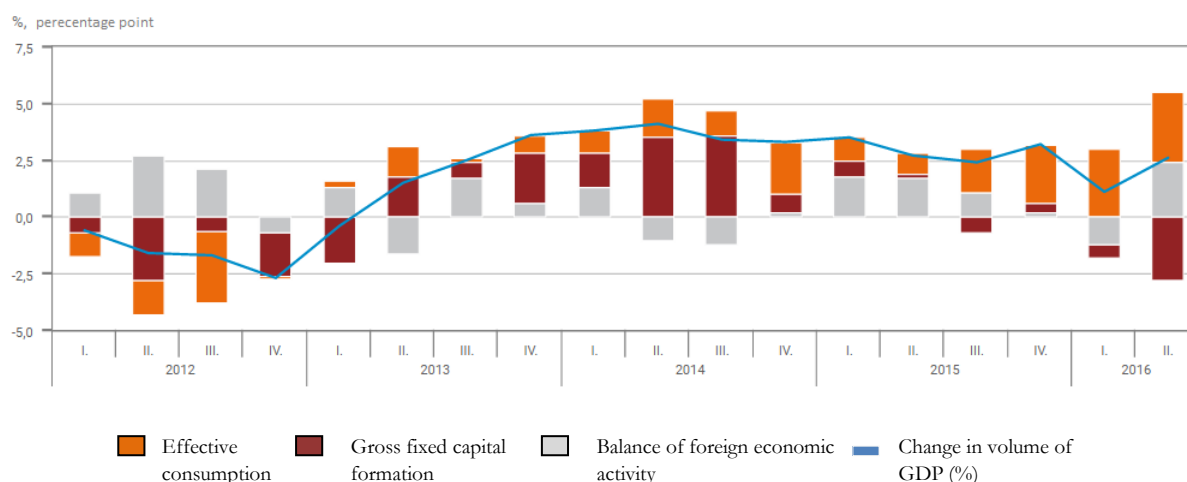
Source: Hungarian Central Statistical Office (KSH)

Favourable economic processes have led to **consumption growth of 4.4 percent**. Compared to the same period of the previous year, household consumption increased by 4.6 percent, with volume growth registered in each expenditure category. Domestic spending by households grew by 5.2 percent. The volume of spending by Hungarians abroad exceeded that of non-residents in Hungary.

Gross fixed capital formation has declined within the national economy. This is due to the low volume of state development and investment projects as the observed period coincided with

the conclusion of the previous and the beginning of the new EU programming period. While the investment volume of machinery and equipment stagnated, that of construction projects fell.

Fig. 5: Consumption component of GDP and contribution by economic activities



Source: Hungarian Central Statistical Office (KSH)

In **Hungary's foreign trade**, another massive surplus of HUF 989bn (EUR 3.2bn) was registered, as **the volume of exports and imports gained 8.2 percent and 6.1 percent, respectively, year-on-year**. In the trade of goods, exports and imports were up by 7.0 percent and 6.1 percent, respectively. Within the total volume of foreign trade, the export and import of services (which includes tourism) rose by 13 percent and 6.2 percent, respectively, year-on-year.

Effective consumption added 3.1 percent to the overall GDP growth of 2.6 percent in Q2 2016. The decrease of gross fixed capital formation erased 2.8 percentage points off the final GDP growth figure. Foreign economic activities, however, contributed 2.4 percentage points to it.

Hungarian macro-economic data as a whole are signalling that competitiveness has been improving. Economic relations with the Euro-zone were stable, the performance of the manufacturing sector was sound and exports were rising in the previous quarter. Economic expansion that has been accompanied by job growth also assisted households, which tendency is being reflected in rising consumption. All these factors have contributed to GDP growth. On the other hand, the economy's competitiveness was adversely affected by the first sluggish and then



MINISTRY
FOR NATIONAL ECONOMY

negative investment growth, which trend is expected to see a U-turn as the absorption of EU funds accelerates. In global comparison, Hungary's current government debt-to-GDP ratio of 75 percent is not a major impediment to balanced growth. Efforts to improve this indicator have proven to be productive in recent years, and this trend is anticipated to continue. Now that Hungary's credit rating has been revised upward by two major rating agencies and the country's debt is recommended for investment again, the costs of debt financing may decline further. This may create more fiscal manouvering room and, consequently, more potential economic stimulus.