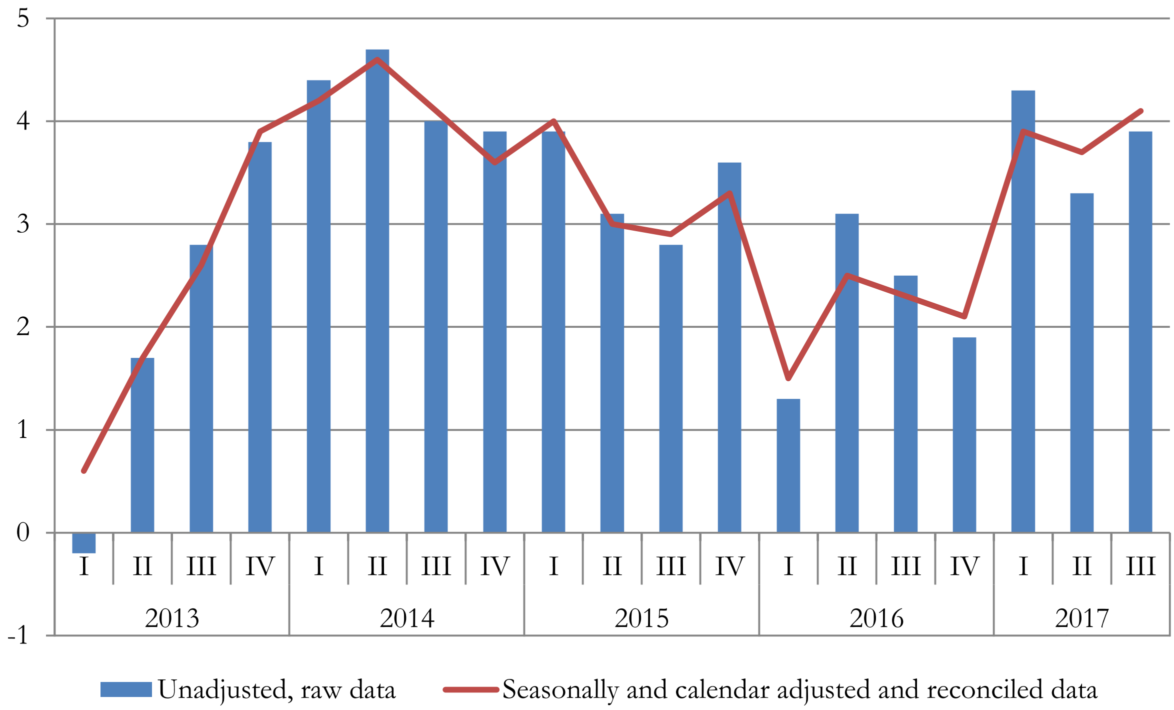
Pace of Hungary's GDP growth picked up in the third quarter of 2017

The Hungarian Central Statistical Office (KSH) published a second estimate of GDP growth for the third quarter of 2017 on 5 December 2017. The latest data show that in the observed period GDP per capita grew by 3.9 percent year-on-year.

In the latest report, the KSH has upwardly revised the preliminary GDP growth estimate by 0.3 percentage points for the third quarter of 2017. The main driver of GDP growth was the better-than-expected performance of the market services sector. According to seasonally and calendar adjusted and reconciled data, the volume of GDP was up by 4.1 percent compared to the corresponding quarter of the previous year and by 0.9 percent compared to the second quarter. In the period Q1-Q3 2017, GDP increased by 3.8 percent year-on-year.

Fig. 1: ***Volume change of GDP, compared to corresponding period of previous year (%)***

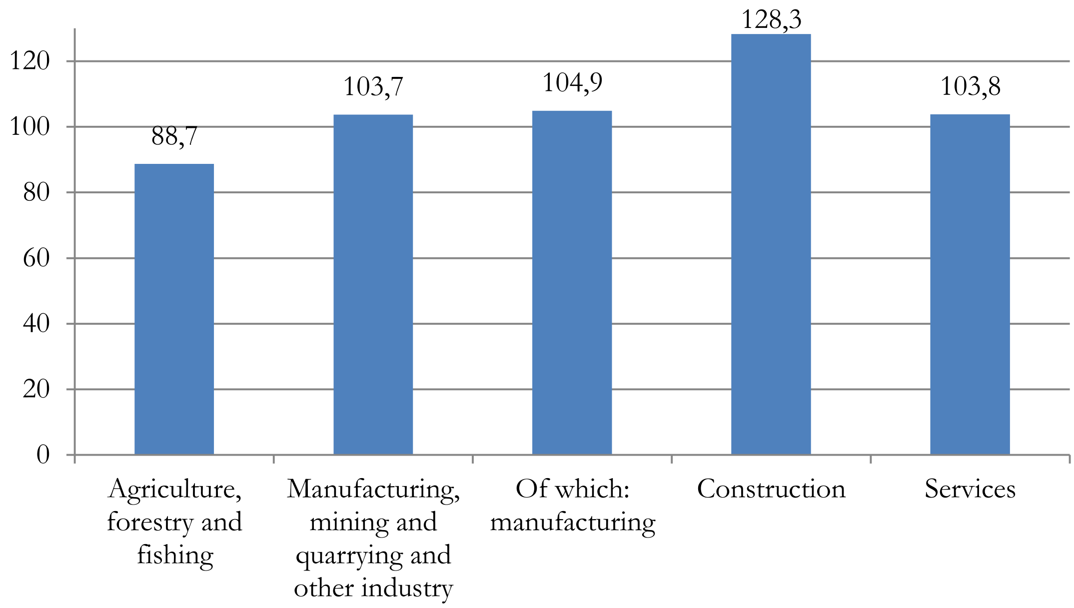


Source: Hungarian Central Statistical Office (KSH)

An analysis of the output side reveals that growth was attributable primarily to the increase in the performance of market-based services, where gross value added gained 3.8 percent. Value added of professional, scientific, technical and administrative activities grew by 8.1 percent, within which the increase of administrative and support service activities was the largest contributing factor. The value added of information and communication, wholesale and retail trade as well as accommodation and food service activities also increased markedly. The performance of financial and insurance activities was 0.6 percent higher thanks to growth in lending and the volume of bank deposits.

The value added of the industrial sector was up by 3.7 percent year-on-year, and within that output in the manufacturing sector grew by 4.9 percent. In the latter category, all major sub sectors except for automotive manufacturing posted significant increases. The construction sector, which had struggled for several years during and after the crisis, posted output growth of 28 percent, due mainly to the increase in the building of civil engineering works. On the other hand, output in the agricultural sector was down by 11 percent, as a result of a high base last year and poor weather conditions.

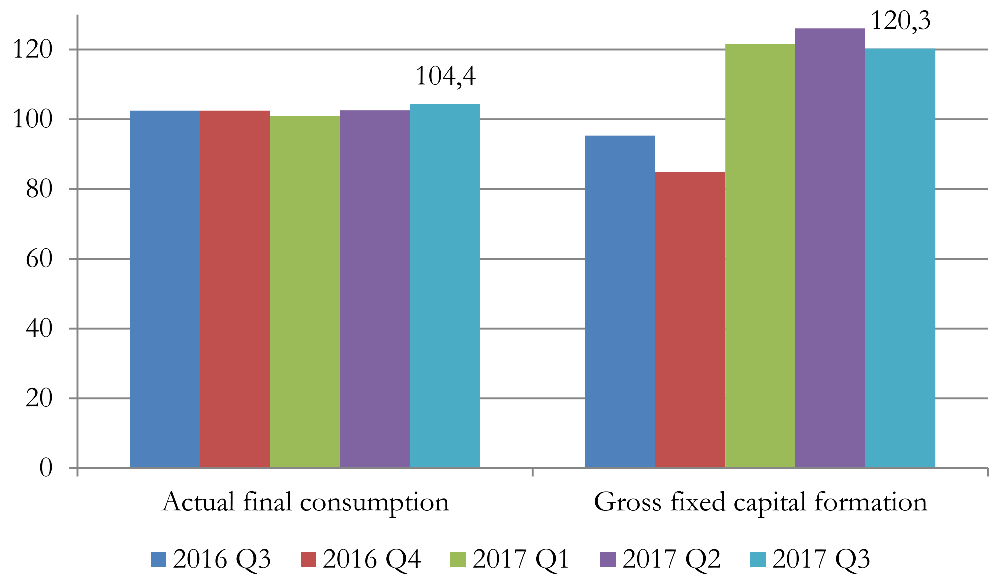
Fig. 2: Volume indices of GDP, corresponding period of previous year=100%



Source: Hungarian Central Statistical Office (KSH)

The consumption side grew at the expected rate: final household consumption increased by 4.8 percent in comparison to the third quarter of last year. Within that, consumption expenditure was up by 4.7 percent. Among expenditure categories, higher-than-average volume growth was registered in the case of furnishings and household equipment, food, restaurants and hotels as well as other services. Actual final consumption grew by 4.4 percent year-on-year. The volume of exports and imports was 4.5 percent and 9.3 percent higher, respectively. Regarding the trade of goods, the volume of exports and imports increased by 5.3 percent and 9.9 percent, respectively, while the export and import of services posted growth of 2.0 percent and 6.4 percent, respectively.

Fig.3: Volume indices of final use of GDP, corresponding period of previous year=100%



Source: Hungarian Central Statistical Office (KSH)

Investment activity was vibrant in every sector of significant weight within the national economy. The volume of both construction and equipment investment has increased. Domestic use as a whole rose by 8.0 percent in the third quarter.

In the Economic Outlook published at the end of November, the OECD revised upward Hungary's GDP growth estimate for this year and next compared to the prior predictions in the summer report. The authors of the study are also expecting strong economic performance to continue in 2018. The organization prognosticates economic growth of 3.6 percent for 2018 and 2.8 percent for 2019, as a result of wage hikes and job growth driven by the absorption of EU funds and investment growth. Private sector investment is seen to be fuelled by low interest rates, while the upward trend in the number of newly built homes is believed to be underpinned by the Government's housing incentives.

The six-year wage agreement had caused wages to rise and this, as anticipated, has boosted consumption. This trend, in turn, has had a favourable effect on GDP growth through surging investment volumes. Along with the OECD and other international organizations, credit rating agencies and investors have also come to acknowledge the good performance of the Hungarian economy.