

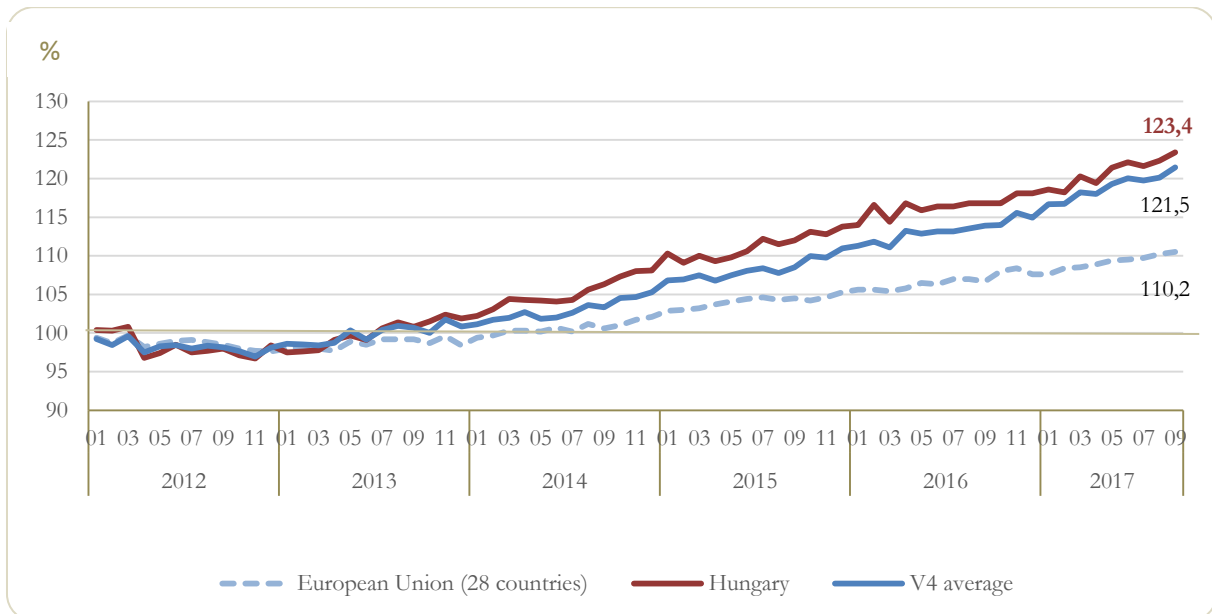


Retail sales growth trend unbroken for more than four years in Hungary

According to the latest report by the Hungarian Central Statistical Office (KSH), the long-term upward trend in retail sales remained unchanged in the month of September 2017. September was the 51st month in a row when sales were rising in the sector: data adjusted for calendar effects show that the volume of sales increased by 6 percent year-on-year. In the period January-September 2017, the volume of sales was up by 4.3 percent compared to the corresponding period of the previous year.

The volume of sales in the Hungarian retail sector has been rising since 2013, and – as calendar adjusted data show – the rate of year-on-year growth was as high as 4.8 percent in the year 2016. This year, the favourable trend has continued and the volume of sales recorded in September was up by some one-fourth (23.4 percent) of the average sales volume seen in 2010.

*Fig. 1: Change in volume of retail trade
Calendar- and seasonally adjusted data, monthly average of 2010=100%*



Source: Eurostat

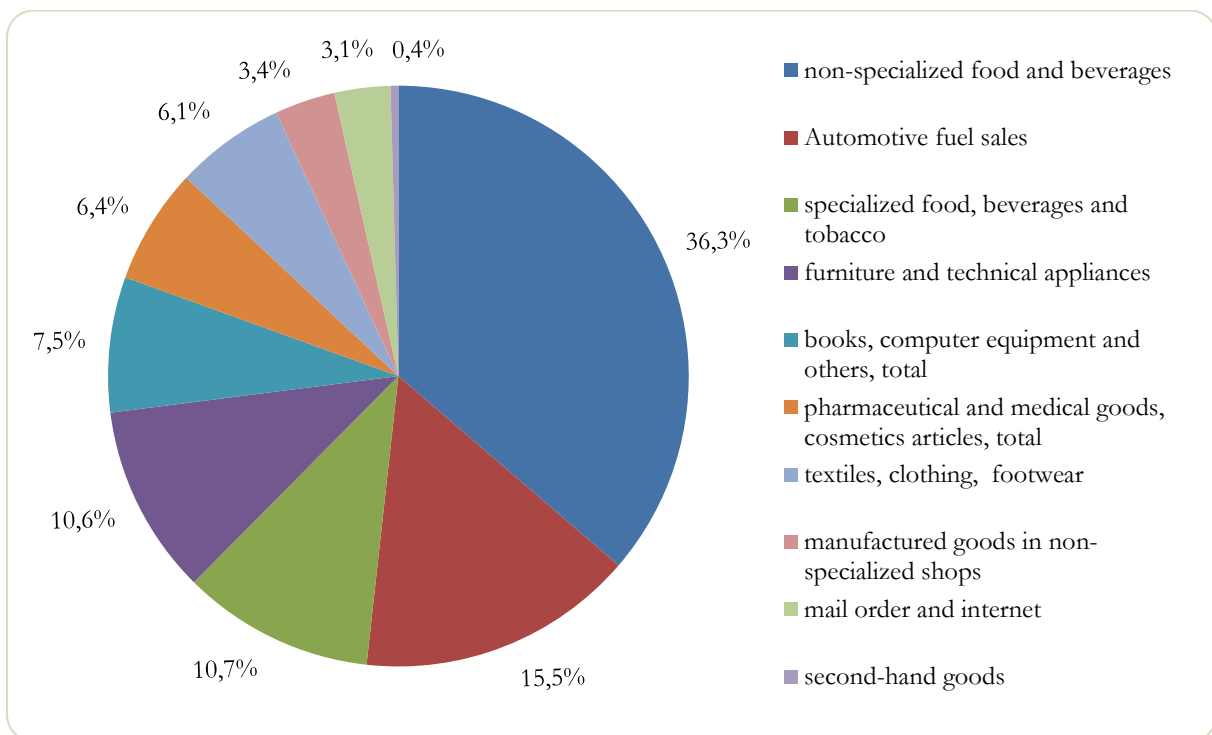
In recent years, Hungary, the Visegrad Four and the entire European Union have seen a similar pattern in sales volumes: indicators have moved in tandem both upward and downward. Following the sales slump triggered by the crisis, the volume of retail sales has been picking up steadily since 2014. The rate of growth in the Visegrad Four has exceeded the EU's average in this period, hitting 4.6 percent on average in 2016 whereas it was 2.5 percent in the EU28.



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There were several domestic factors besides the favourable international environment that have recently fuelled retail sales growth in Hungary. Improving labour market trends, rising real wages and the slight decrease in consumer prices have all had a positive effect on growth. In 2016, consumer prices declined on average by 0.5 percent, mainly as the result of a significant decrease of 7.6 percent in fuel prices. In addition, the introduction of on-line cash registers in 2014 has caused the grey economy to shrink as cash registers began to send sales data directly to the tax authority, and the higher number of registered sales has also added to volume growth.

Fig.2: Distribution of retail trade by type of shops in 2016 (%)



Source: Hungarian Central Statistical Office (KSH)

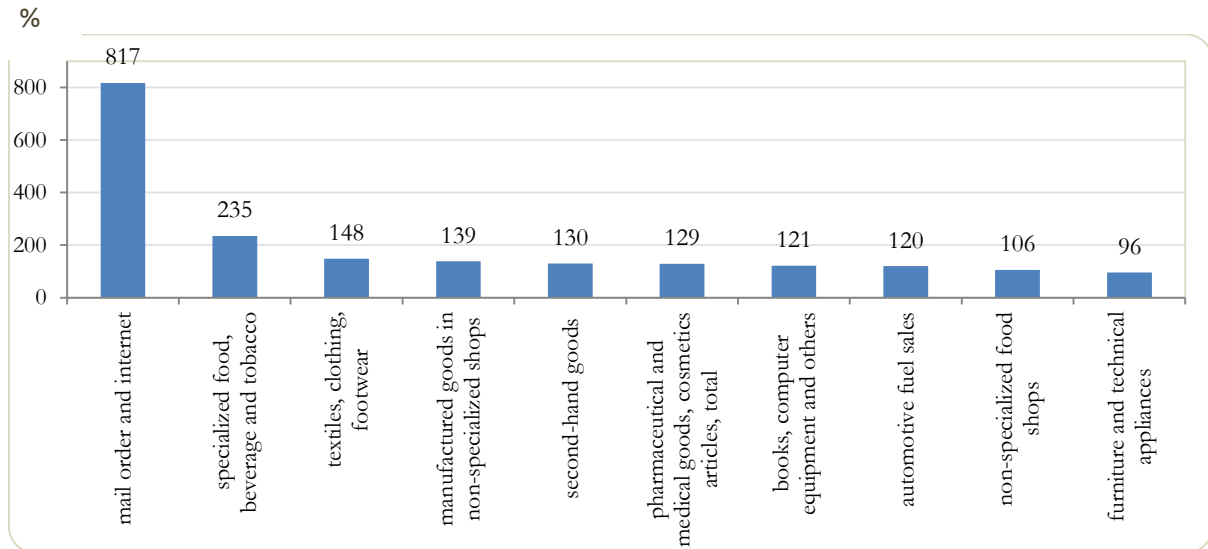
According to the a recent KSH report on sales of the retail sector in 2016, at the end of the observed year there were 129 thousand retail shops in Hungary. By type of shops, the category with the largest share of sales, 36 percent, was non-specialized food and beverages stores. Hypermarkets of large floor spaces and massive turnovers also belong to this category: sales in these stores accounted for some 15 percent of the total volume of retail sales. Filling stations also have a large weight, constituting 16 percent of total. Stores specialized in food, beverages and



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tobacco sales (e.g.: butcher's shops, groceries, tobacco stores, bakeries, etc.) and stores of furniture and technical appliances had a share of 11 percent each.

Fig. 3: Change in volume of retail trade by type of shops
Calendar- and seasonally adjusted data, August, 2017, 2010=100%



Source: Hungarian Central Statistical Office (KSH)

Since 2010, the volume of sales has increased in each category with the exception of stores selling furniture and technical appliances. The volume of sales has more than doubled at food stores, and it increased nearly one-and-a half times at shops selling textiles, clothing and footwear. Mail order and internet retailers saw highly dynamic sales growth averaging 33-42 percent per year in 2011-2016, and thus by August 2017 the volume of sales increased eight times compared to the average of 2010. As GKI Digital – the e-trade-focused branch of the economic think tank – has recently reported, in Hungary 2.8 million people carried out 30 million transactions in the value of some EUR 1bn in 2016, of which the purchases of technical appliances accounted for 20 percent. The sales volume at mail order and internet retailers typically soars in the last two months of each year, and Black Friday, which has been gaining popularity year after year, has come to mark the beginning of the Christmas sales season also in Hungary.

Retail sales are highly concentrated in terms of both the shop network and regions. The number of shops is remarkably high in Budapest and Pest County, accounting for 23 percent and 11 percent of total, respectively.

In 2016, 39 percent of transactions were carried out in Central Hungary, and 24 percent of the total in Budapest. When compared to the number of residents, Central Hungary is substantially



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and Western Hungary is modestly over-represented regarding retail sales. In these regions, higher retail sales are the result of the higher purchasing power of residents but the purchases stemming from tourism and the massive flow of people either commuting or in transit have also contributed to an elevated volume.

In light of favourable economic data analysts are expecting further expansion in the retail sector for 2017-2018. In the first nine months of 2017, net wages grew by 12.8 percent year-on-year, and in the third quarter the number of people in employment also increased, by 1.4 percent. Besides rising purchasing power, another factor that gives reason for optimism is the marked improvement in consumer sentiment index observed since last year as well as the rise in the volume of investment by mainly international food retailers that follows a multi-year downward trend.