MINISTRY OF FINANCE

Hungary's robust GDP growth is set to continue in 2018

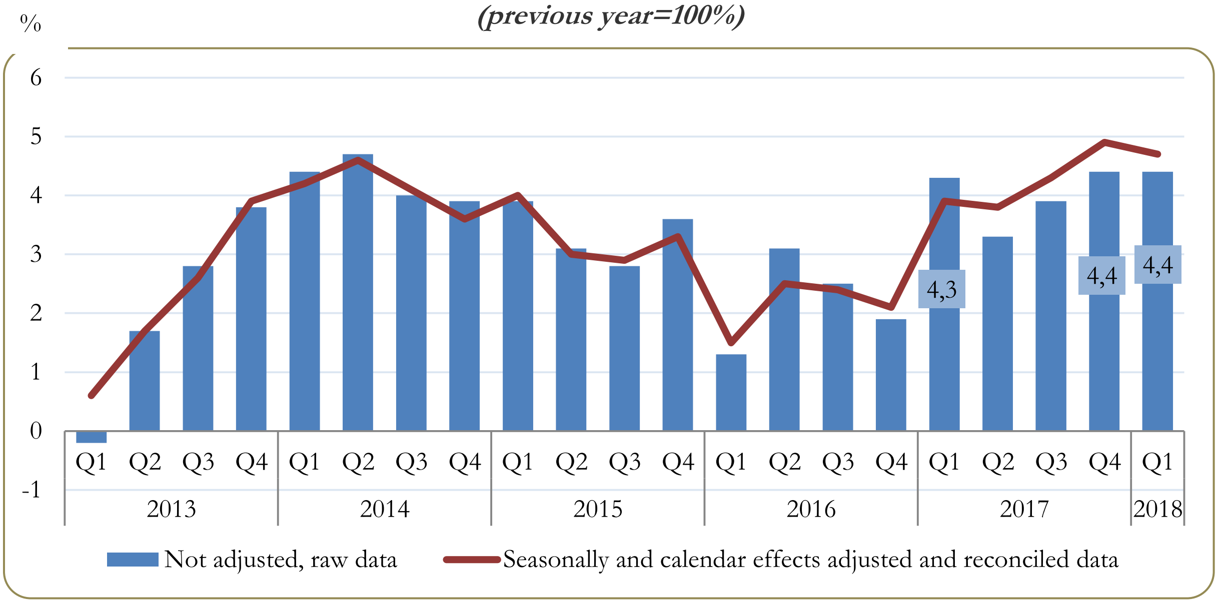
According to a report published by the Hungarian Central Statistical Office (KSH) last week, in Q1 2018 the volume of Hungary's GDP was up by 4.4 percent year-on-year. Seasonally and calendar-effect adjusted and reconciled data show that economic performance improved by 4.7 percent year-on-year and by 1.2 percent quarter-on-quarter. Market-based services were the main driving force behind the expansion.

The dynamic growth trend which has been observed since in the beginning of 2017 continued in the first quarter of 2018. In the year 2017, GDP grew by 4.0 percent, fuelled mainly by domestic consumption which stemmed on the one hand from rising household consumption driven by growing real earnings and, on the other hand, from buoyant investment activities reinvigorated by the release of EU funds from the programming period 2014-2020.

The global economic boom and higher exports resulting from rising demand on foreign markets were also among the factors which have underpinned economic growth. For the year 2018, the Government of Hungary is predicting GDP growth of 4.3 percent, a figure higher than last year's. The strong growth momentum observed in the beginning of the year has hitherto confirmed the Government's expectations: the rate of growth in the first quarter was above the prior forecast and also higher than it was in the corresponding period of last year.

Fig.1: Change in the volume of GDP, Q1, 2018

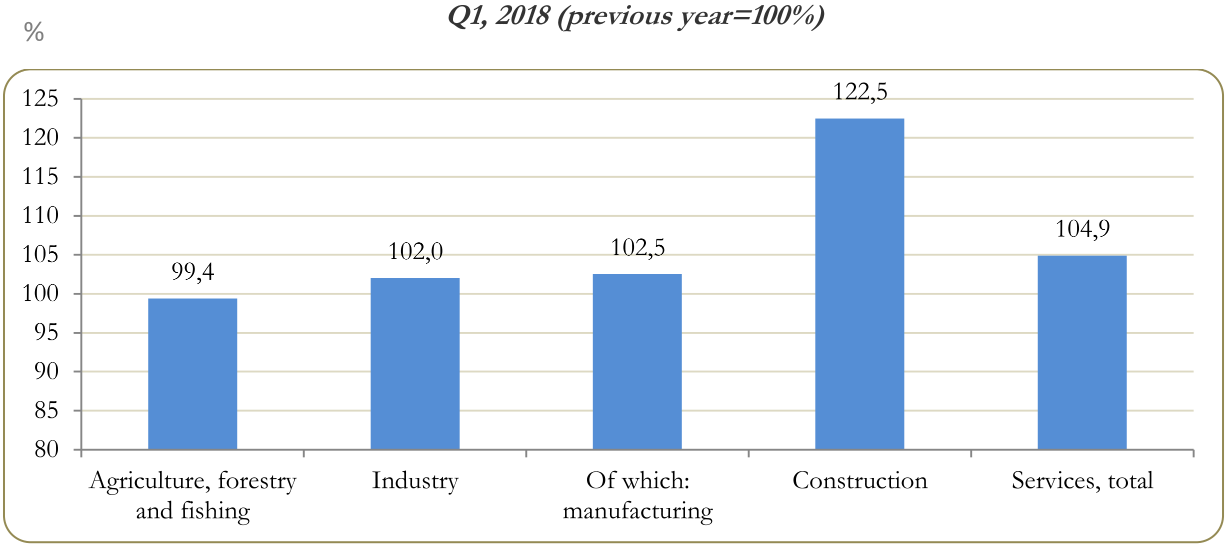
(previous year=100%)



Source: Hungarian Central Statistical Office (KSH)

From the **production approach**, in Q1 2018, value added of the *industrial sector* and, within that, of the manufacturing sector increased by 2.0 percent and 2.5 percent, respectively, in comparison to the same period of the previous year. Within the manufacturing sector, output was higher in each sector of major weight – with the exception of the category machinery and equipment manufacturing. Output in the *construction sector* soared by 23 percent, in addition to the outstanding figures registered in prior quarters. The value added of the agricultural sector fell slightly, by 0.6 percent.

Fig. 3: Change in the volume of GDP by sectors of the national economy, Q1, 2018 (previous year=100%)



Source: Hungarian Central Statistical Office (KSH)

The gross value added of *services* was up altogether by 4.9 percent, thanks mainly to growth in the category market services. The largest growth in value added, 12 percent and 8.2 percent were posted by the information and communication and by retail and wholesale trade as well as accommodation services and catering sectors, respectively. Above-average growth was also observed concerning transport and storage as well as professional, scientific, technical and administrative activities. However, the value added of public administration, education and healthcare activities was down by 0.3 percentage points.

From the **expenditure approach**, *final consumption expenditure* added 3.6 percentage points to the 4.4 percent GDP growth registered in the first quarter of 2018. Household consumption expenditures and social transfers in kind from the government grew by 5.9 percent and 4.6

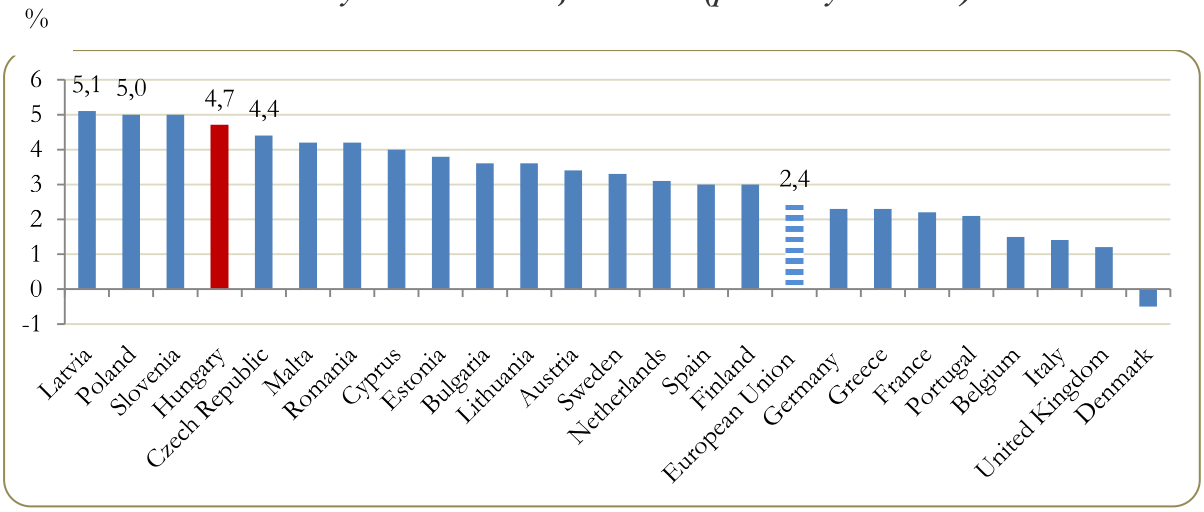
percent, respectively. The volume of actual final consumption as a whole was up by 5.0 percent year-on-year.

Gross fixed capital formation was 17 percent higher compared to the corresponding period of the previous year. The volume of investment at budgetary units rose outstandingly. The volume of investment in the field of public administration, defence, mandatory social insurance, education as well as human healthcare and social services rose by 71-75 percent each compared to the level in the same period of last year. The 45 percent increase in the volume of real estate investment was also remarkable, as besides expenditure growth observed in housing the volume of investment in commercial property for rental purposes (office blocks, retail units and storage facilities) was also higher. On the other hand, the volume of investment in the manufacturing sector, which accounts for three-tenths of total investment within the national economy, stagnated (-0.2 percent) after two years of strong growth, due to a high base and the completion of a number of large-scale projects.

Concerning *external trade*, the volume of exports and imports grew by 3.5 percent and 3.8 percent, respectively. This resulted in a surplus, at current prices, of HUF 671bn, which has not had a meaningful impact on the rate of GDP growth.

Fig.3: Change in the volume of GDP , Q1, 2018

seasonally and calendar adjusted data (previous year=100%)



Source: Eurostat

Eurostat data show that Hungary was one of the best performing member states of the EU in the first quarter. According to currently available statistics, Hungary now belongs, together with a couple of other countries from the region, to the economic front-runners of the European Union. Data adjusted for seasonal and calendar effects show that the rate of Hungary's economic growth was the fourth best in comparison to Q1 2017, right behind that of Latvia, Poland and Slovenia. On a quarter-on-quarter basis, Hungary shares place 3 and 4 with Finland on the ranking.

Hungary's steady performance has been recently acknowledged by various leading international economic institutions. In recent weeks, the Organization for Economic Cooperation and Development (OECD) and the World Bank joined the International Monetary Fund and the European Bank for Reconstruction and Development (EBRD) in their decisions to revise upward their prior growth estimates for Hungary with regard to this year. In the latest Economic Outlook published by the OECD at the end of May, the former forecast for 2018 was raised by 0.8 percentage points to 4.4 percent, even higher than the figure predicted by the Government of Hungary. At the beginning of June, the World Bank also raised the 2018 growth estimate figure assumed at the beginning of the year for Hungary by 0.3 percentage points, to 4.1 percent.

In the next one year and a half, the rate of economic growth is expected to remain around 4 percent, as first quarter growth has provided a sound base for this, Deputy PM in charge of economic policy and Minister of Finance Mihály Varga said at a business forum organized by the American Chamber of Commerce in Budapest last Friday. The Government is expecting the volume of investment, financed from partly domestic and EU funds, to total HUF 4000bn in 2019.

In coming years, continuous economic growth necessitates a paradigm change: enterprises must increase investment dedicated to research and development in order to boost innovation and meet targets set in the Industry 4.0 programme, a blueprint for industrial digitalization development, the Minister pointed out.