

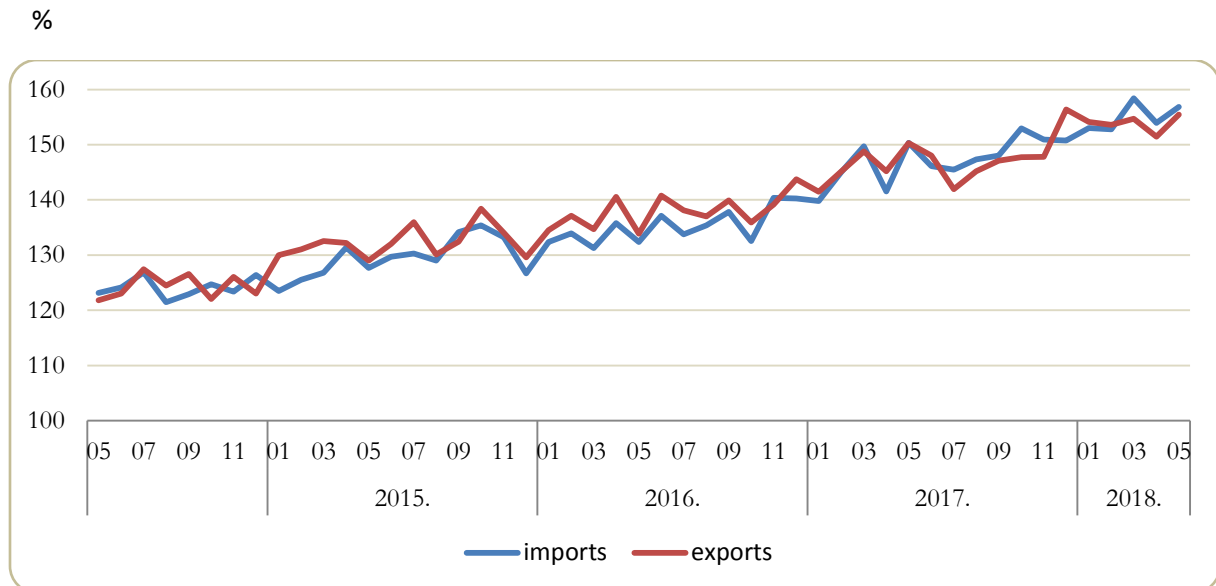


Volume of external trade on the rise in recent years

External trade plays a key role within the Hungarian economy: the trade-to-GDP ratio is one of the highest within both the European Union and the OECD member states. This is one of the findings in a recently published comprehensive study by the Hungarian Central Statistical Office (KSH) which presents some major characteristics of Hungary's external trade sector through the analysis of trade turnover observed last year. Last week, the KSH also published the latest respective data for the period January-May 2018 which indicate that favourable trends have continued.

Hungary's economy is one of the most open within the European Union, the sector's ratio (including both imports and exports) relative to the country's GDP has risen in a steady manner to 172 percent by 2017. The combined balance of the external trade of goods and services accounted for 7.8 percent of GDP in 2017, well above the EU average of 3.6 percent. This aptly shows the significance of external trade for the Hungarian economy.

*Fig.1. Change in the volume of external trade in goods,
Seasonally and working day adjusted data, monthly average of 2010=100%*



Source: Hungarian Central Statistical Office (KSH)

According to KSH data, the value of Hungary's external trade of goods has been rising robustly since the end of the economic crisis and the beginning of this decade. In the year 2017, the value of exports was up year-on-year by 8.2 percent and exceeded the EUR 100bn mark (EUR

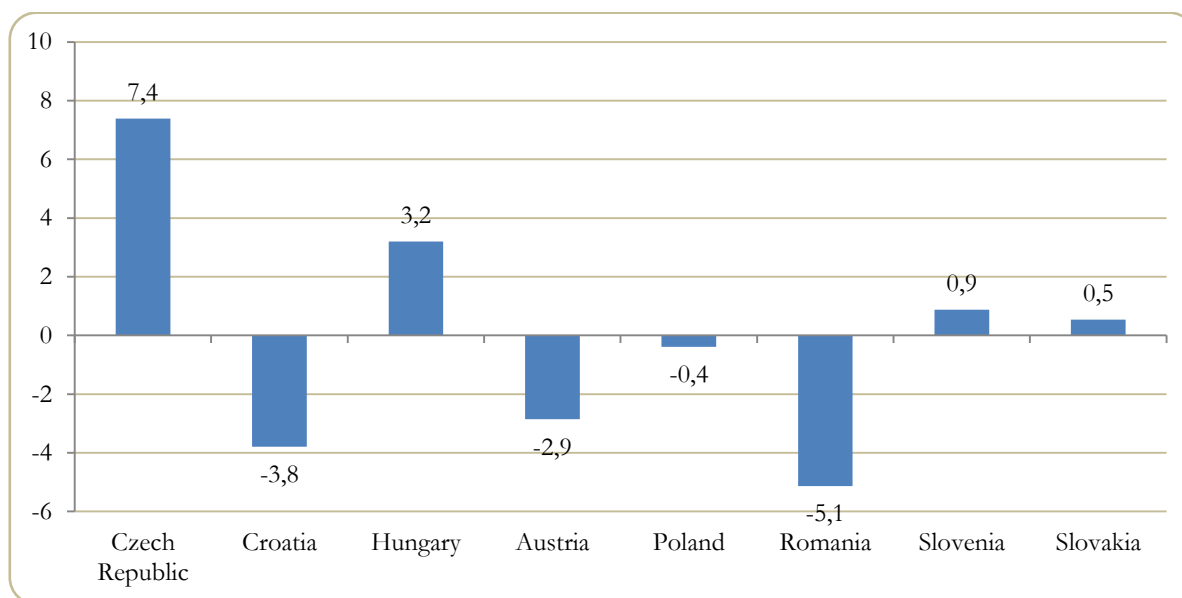


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100.6bn), while that of imports gained 11.1 percent (EUR 92.5bn). The surplus of EUR 8.1bn – albeit it was below the record-high level recorded in 2016 – is impressively high within the EU. Given the fact that external trade prices gained nearly 2 percent in the observed period, volume growth was slightly lower than value growth: 5.8 percent in the case of exports and 8.2 percent in the case of imports, still markedly higher than the respective EU average growth rates of 3.5 percent and 2.5 percent. Preliminary data by the World Trade Organization (WTO) show that the volume of global external trade increased by 4.7 percent in the year 2017.

In the first five months of this year, trade volume growth has continued: the volume of exports and imports increased by 4.7 percent and 6.3 percent, respectively, year-on-year. The value of the trade balance totalled EUR 3.2bn at the end of May, posting a surplus of EUR 596 million in May. As far as the balance of external trade of goods is concerned, Hungary's performance was outstanding in Central Europe where only the Czech Republic registered even more favourable data.

Fig. 2: External trade in goods balance in some Central European countries (January-May 2018, bn euro)



Source: Eurostat, Hungarian Central Statistical Office (KSH)

The commodity group with the largest weight within external trade turnover, in terms of both exports and imports, was that of machinery and equipment as well as manufactured goods. The export and import volume of the category machinery and equipment -- which has the largest weight -- accounted for 56 percent and some 50 percent of total, respectively. The product groups which saw the heaviest trade volumes in goods came from the automotive, electrical and

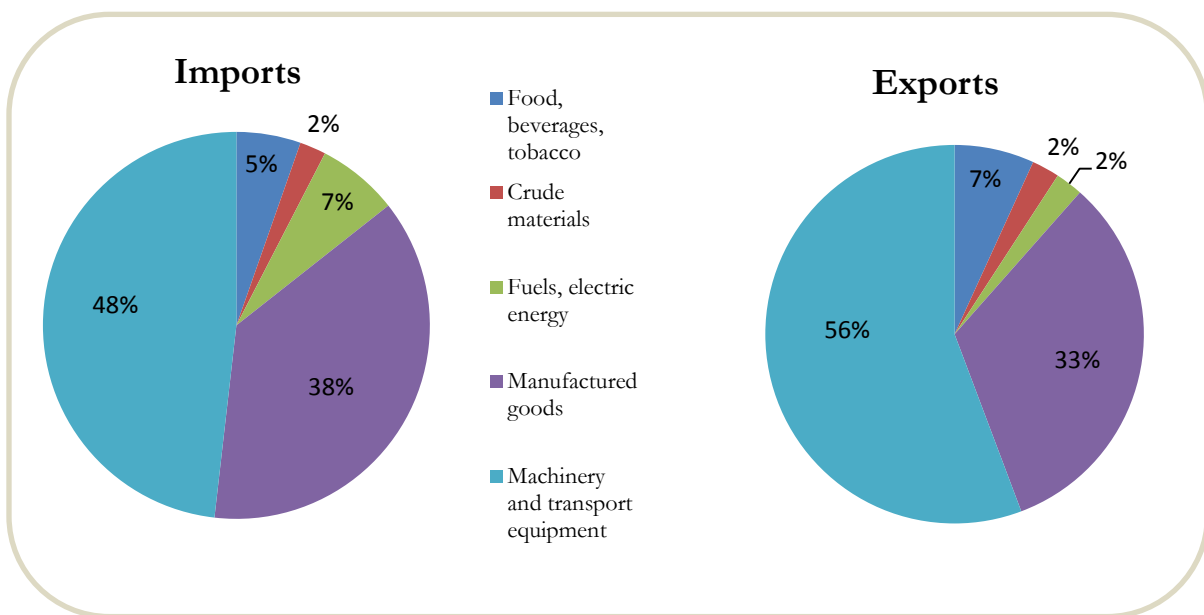


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telecommunication industries. The share of manufactured goods within exports was some one-third of total, while within imports this commodity group constituted 38 percent of the total volume. Among the main groups of manufactured goods, another category with robust trade activity was pharmaceuticals. Trade volumes in the categories food, beverages and tobacco products as well as fuels and electric energy were also remarkable, the former especially in exports and the latter in imports.

Within food exports, the product groups with the largest trade volumes were cereals and cereal products as well as meat and processed meat products. Within energy imports crude oil and crude oil products were the most actively traded.

*Fig.3: External trade in goods by main groups of commodities
(January-May 2018, % of EUR prices)*



Source: Hungarian Central Statistical Office (KSH)

Concerning trade relations, imports from and exports to EU member states accounted for 77 percent and 80 percent of total, respectively. In the first five months of this year, in this respect the weight of the EU continued to modestly rise. The share of imports from and exports to Hungary's number one trade partner, Germany, constituted 27 percent and 28 percent of total, respectively.

Concerning the number of export-import companies, the sector is highly concentrated. In 2017, the top 100 trading companies managed 47.5 percent of imports and 56.8 percent of exports,



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while 80 percent of imports and 88 percent of exports were attributed to the top 1000 trading companies in Hungary. SMEs with less than 250 employees conducted 38 percent of the import of goods and 25 percent of the export of goods. The share of SMEs in trade was the largest within the agricultural sector, where more than half of the trade volume was related to these companies. In the industrial sector, enterprises with more than 249 employees had a large weight.

SMEs have until now only partially exploited opportunities provided by external trade. The Government of Hungary is working – in harmony with the targets set in the EU cohesion policy for the period 2014-2020 – to increase the competitiveness of the SME sector and, as one of the key factors, improve their export potential. To this end, sizable EU cohesion funds have been channelled to the sector in recent years.

Both in Q4 2017 and Q1 2018, Hungary's economy posted GDP growth of 4.4 percent year-on-year, which growth rate has been exceeded only once in the past decade. Besides favourable global economic conditions, Hungary's economy has been mainly driven by EU-funded projects and growing household consumption fuelled by rising real wage growth.

These trends have also been reflected in external trade: export demand has caused industrial production boom and strong domestic demand has led to dynamic growth in imports. Import growth, the rate of which is expected to exceed that of exports, is set to result in a slightly lower trade surplus in 2018 relative to the figure seen in 2017.