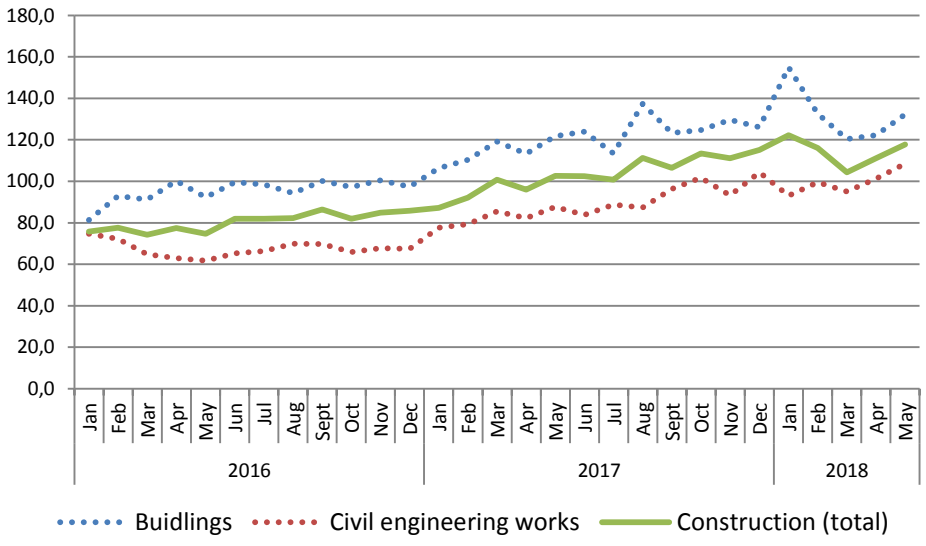
MINISTRY OF FINANCE

Hungary's construction sector output continued to rise

According to the latest data by the Hungarian Central Statistical Office (KSH), in the period January-May 2018 the performance of the construction sector has improved further after it had posted dynamic output growth last year. Unadjusted data show output increase of 15.1 percent year-on-year, while data adjusted for seasonal and calendar effects show growth of 6.1 percent in the observed period.

Output in the construction sector continued to rise in each division and construction category in the year 2018. Data compiled by the KSH for the period January-May 2018 show that output in the category construction of civil engineering works increased by 23.7 percent year-on-year, and that of buildings was up by 8.8 percent. In the month of May, the value of output exceeded HUF 122bn in the former and HUF 137bn in the latter category. In the case of the building of civil engineering works the main driver of growth were road-, railroad and public utility projects, while for the category construction of buildings the construction of industrial facilities was the main factor behind growth.

Fig. 1: Volume index of construction output by main groups
(seasonally and working day adjusted data, 2015 monthly average = 100%)



Source: Hungarian Central Statistical Office (KSH)

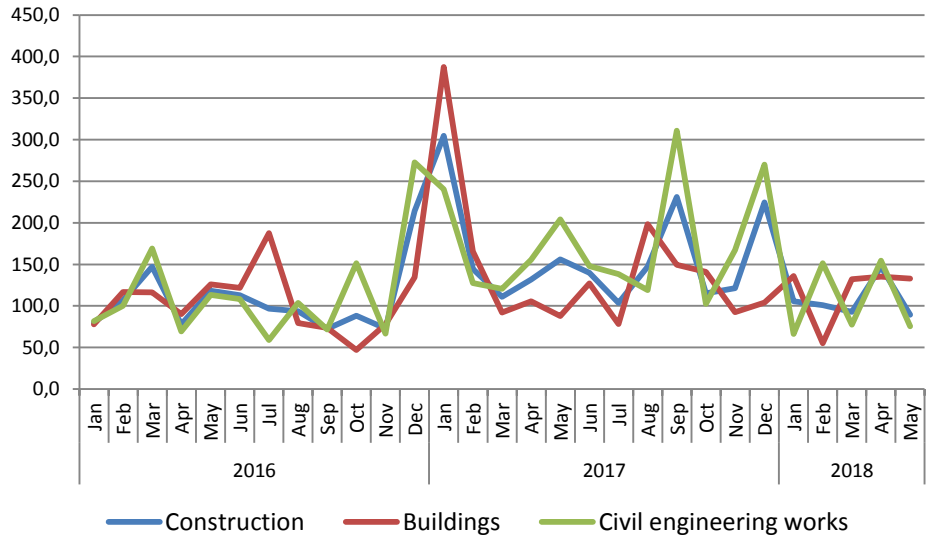
Fig.1 aptly demonstrates that since 2015 output growth in the category of construction of buildings has been more dynamic than that of civil engineering works. The volume of output in

the former category exceeded the output level of 2015 already at the beginning of 2017 and the other group also surpassed this output figure by the spring of 2018.

All the three divisions of the construction sector also posted growth. In the period January-May 2018, output in civil engineering rose by 22.3 percent year-on-year. The construction of buildings saw only slightly lower output growth of 18.4 percent, while output in specialised construction activities grew by 13.2 percent. The value of output was some HUF 222bn in civil engineering, HUF 291bn in buildings and HUF 427 in specialised construction activities in the observed period. The total value of construction sector output was up by 27.4 percent compared to the corresponding period of the previous year.

The volume of the sector's stock of new contracts increased by 67.4 percent, year-on-year. The volume of new orders in the construction of buildings has been edging up since February. Compared to the growth of 5.3 percent registered in the month of February, the volume of new contracts was up by as much as 9.3 percent year-on-year in the month of May. The opposite trend can be observed in the case of civil engineering works: end-of-month increases has been edging lower – however, the sector still posted year-on-year growth of 91.1 percent in the month of May.

Fig. 2: Volume index of new contracts in the construction industry by main groups (same period of previous year = 100%)



Source: Hungarian Central Statistical Office (KSH)

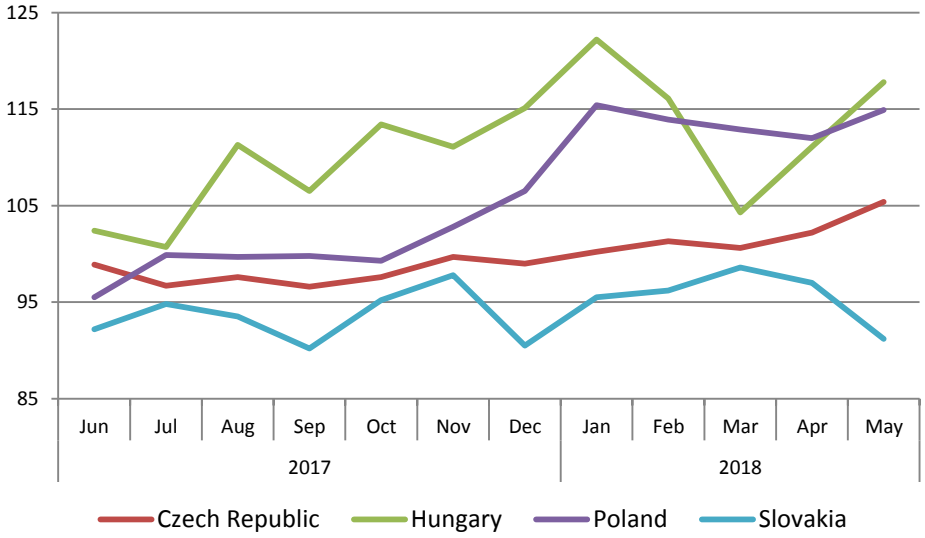
The volume of new contracts on the other hand was down by 10.7 percent year-on-year in the month of May. Within that, the volume of new contracts for the construction of buildings rose by 33 percent and that of buildings decreased by 24.4 percent. Fig. 2 shows that the stock of new contracts for the construction of buildings posted above-30 percent year-on-year growth in the year 2018, with the exception of February.

In Q1 2018, the number of new building permits issued was up by 3.4 percent and came to a total of 9850. The regions with the most dynamic growth were Pest County (42.0 percent) and Southern Great Plain (32.4 percent), while the indicator was lower in Budapest (-8.2 percent). The number of dwellings put to use however increased sharply, by 64.7 percent compared to Q1 2017. In this regard Budapest was the leader, where the number of newly built dwellings has almost tripled; the indicator showed increases of 118.9 percent in Pest County, 154.2 percent in the Southern Great Plain and 37 percent in the Northern Great Plain regions. These data signal that the construction sector boom as far as private dwellings are concerned has not been limited to Budapest but more and more regions have come to benefit from the upturn.

The Housing Market Report of May 2018 by the National Bank of Hungary notes that the number of new dwellings built/put to use may reach a peak in 2018/2019 because the preferential VAT rate of 5 percent on new housing units is be abolished as of 2020. The Ministry of Finance predicts that although housing market fundamentals are pointing to further growth, the steady increase in housing output may be dampened by supply-side frictions despite the fact that it would be highly beneficial to see the number of newly built dwellings continue to rise and contribute to the modernization of Hungary's stock of residential properties. Residential properties at this point are not believed to overpriced.

Hungary's construction sector has been performing well even from an EU perspective. In light of respective data by the Eurostat, in May 2018 the output of the Hungarian construction sector posted the third highest rate of increase, behind the Netherlands and Sweden, compared to the average of 2015. A comparison of construction sector output within the Visegrad Four reveals that Hungary has been the top performer in the past 12 months.

Fig. 3: Construction sector output
(Index, 2015 = 100%)



Source: Eurostat online database

Output in the construction sector has been rising dynamically for a long period now and has been substantially contributing to the growth of Hungary's economy. Short term, prior to the phasing out of the preferential VAT rate, the housing market may see further expansion. The Family Housing Subsidy Scheme is still in effect; Minister Varga plans to review the Scheme in 2019 and possibly extend the scope of tax incentives. Order data signal that the rate of growth may moderate but the upward trend is expected to remain and result in further output growth.