

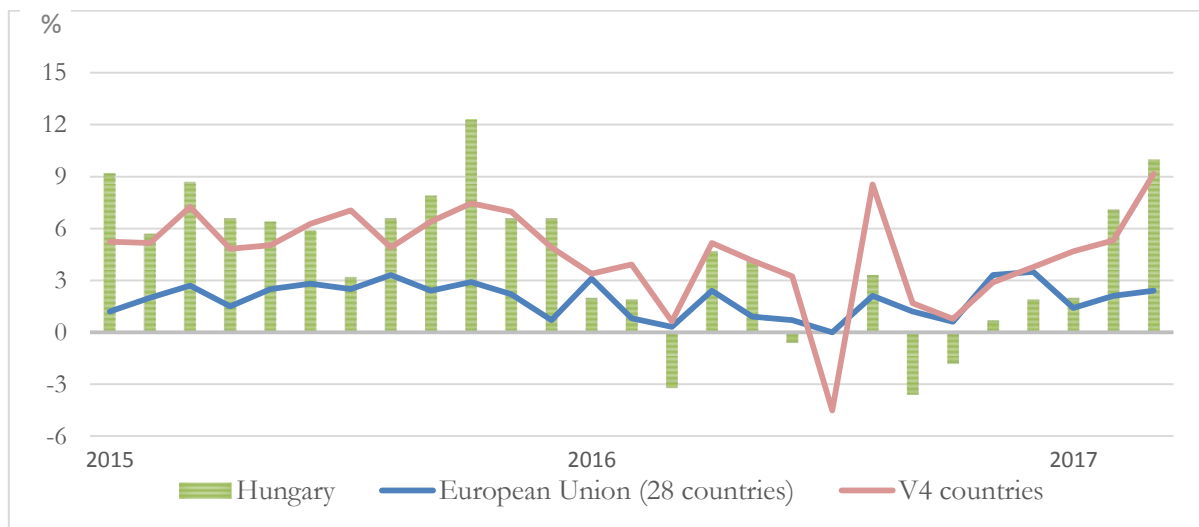


Industrial sector gained fresh momentum at the beginning of the year

According to the latest data by the Hungarian Central Statistical Office (KSH), in March 2017 the volume of industrial output increased by 13.4 percent year-on-year, while working-day adjusted data show growth of 10 percent. In Q1 2017, output was up by 7.8 percent year-on-year. Following a year of subdued growth, the sector's performance in the first quarter presages a positive outlook for the year 2017.

Fluctuating monthly output figures and flat full-year output growth have marked the year 2016. The volume of industrial sector output, which constitutes 23 percent of GDP, grew by only 0.9 percent in 2016. The last quarter of the year saw a modest rebound, which then gathered steam in 2017 as the pace of growth was picking up month after month. The last period when double-digit growth had been registered was October 2015.

*Fig.1. Change in the volume of industrial output
calendar adjusted data (previous year=100%)*



Source: Eurostat

In the first three months of the year, **output growth in the member states** of the European Union was well below the Hungarian figure, showing an average of 2.4 percent in March. Industrial sector output increased in the countries of the Visegrad Four at a faster rate than the EU average. In the month of February, Hungary's output growth was the largest (7.1 percent), while in March the sector posted the fastest growth, 13.4 percent, in Slovakia, followed by Hungary with a 10 percent-increase.

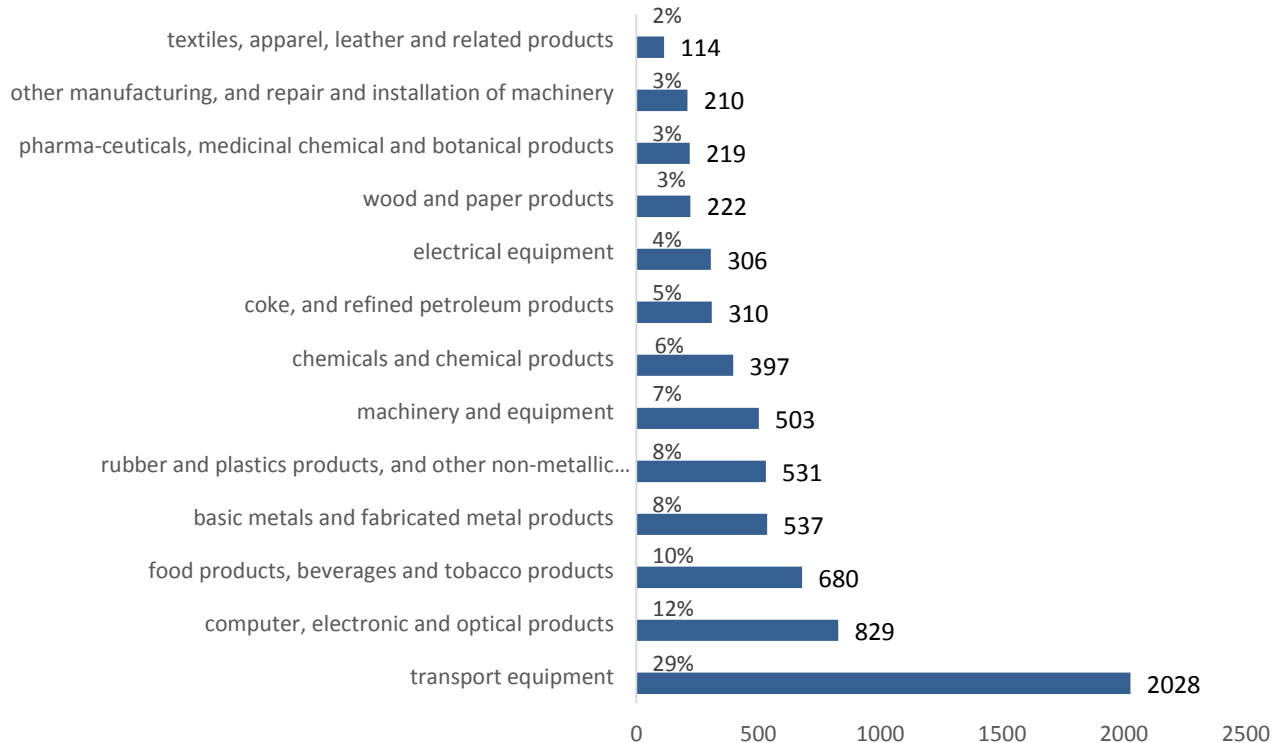


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The bulk of Hungary's industrial sector output, some 95 percent, is generated by manufacturing sub sectors. The energy sector and mining account for 5 percent and only 0.2 percent, respectively, of total output. Accordingly, the major determinant of overall industrial sector output is the performance of manufacturers.

In Q1 2017, **output of the manufacturing sector** grew by 7.8 percent year-on-year, within which the March figure of 14.1 percent was remarkable, stemming from higher output in all the thirteen sub sectors. In terms of output value, output at the motor vehicle manufacturing sector, constituting 29 percent of total, was up by 7 percent. Double-digit output increases were registered at manufacturers of computer, electronic and optical products; basic metals and fabricated metal products as well as of coke and refined petroleum products. The largest output growth of 25.6 percent was posted by the machinery and equipment manufacturing sub sector. Following a weak start into the year 2017, output at the pharmaceuticals sector gained 28.8 percent in March compared to the corresponding period of the previous year.

Fig.2. Share and value of manufacturing sub-sectors of total manufacturing, at current prices in 2017 Q1 (% , bn HUF)



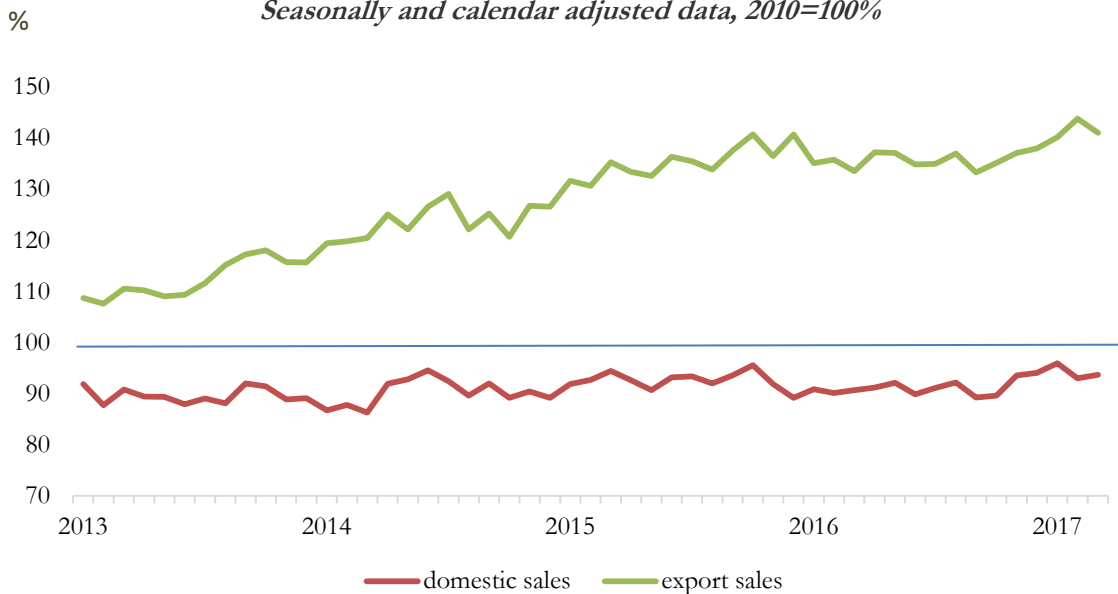
Source: Hungarian Central Statistical Office (KSH)



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In the first three months of the year, the **sales of industrial sector products** increased less markedly, by 6.9 percent year-on-year, than the sector's output. Exports, which account for 65 percent of total sales volume, were up by 7.9 percent year-on-year, and thus the sector has expanded altogether by 41 percent since 2010. The volume of domestic sales, with a 35 percent share of total, rose less steeply, by 5.1 percent.

*Fig. 3. Change in volume of domestic and export sales
Seasonally and calendar adjusted data, 2010=100%*



Source: Hungarian Central Statistical Office (KSH)

The volume of **manufacturing sector exports** was up by 7.3 percent. The volume of motor vehicle exports, constituting 36 percent of total manufacturing sector exports, grew by 7.6 percent year-on-year. The largest increases, ranging between 13-14 percent, were registered at manufacturers of machinery, chemicals and chemical products as well as that of textiles, apparel, leather and related products. Energy sector exports, with a 4.3 percent share of total, soared by 20 percent.

The **volume of domestic sales** increased at the fastest pace at manufacturers of computers, electronic and optical products as well as machinery and equipment, by 35 percent and 29 percent, respectively. The only sector with a decrease of 25 percent was that of chemicals and chemical products.

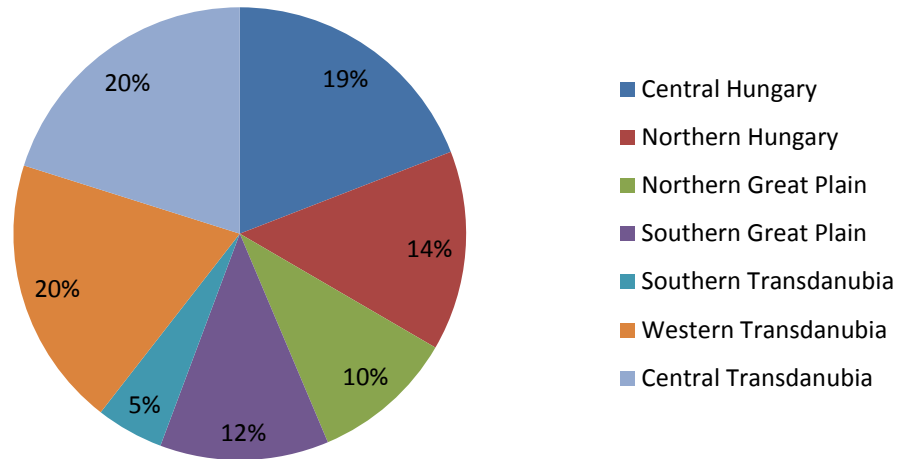
The total **volume of orders** at the observed sector gained 13.4 percent year-on-year. Within that, the volume of export orders was up year-on-year by 15.5 percent and 18.3 percent at manufacturers of road vehicles and optical products, respectively.



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Domestic order growth was the highest at machinery manufacturers (34.8 percent) and at manufacturers of computers, electronic and optical products (36.0 percent), which figures confirm expectations of rising output in coming months.

Fig. 4. Volume of industrial output by regions, year 2016, bn HUF



Source: KSH

Analysing **Hungary's output by regions** reveals three regions with outstanding performance: in 2016, output by Central Transdanubia, Western Transdanubia and Central Hungary, accounted for 60 percent of total output.

In Q1 2017, industrial output was higher in every region, ranging between 9.8 percent (Western Transdanubia) and 5.3 percent (Central Hungary).

As a whole, the industrial sector closed the first quarter with robust output growth. In light of the latest KSH data, Hungary's economic growth in the first three months of the year has beaten prior analyst estimates, having gained 4.1 percent year-on-year. The expansion was mainly driven by the industrial and market services sectors. Order volume growth and industrial sector confidence, which hit a nine-month high in April, both signal that the upward output trend is set to continue in the remainder of the year. International economic conditions are also favourable, and the rebounding Eurozone is expected to boost the Hungarian industrial sector, which may again be the engine of Hungary's GDP growth.