

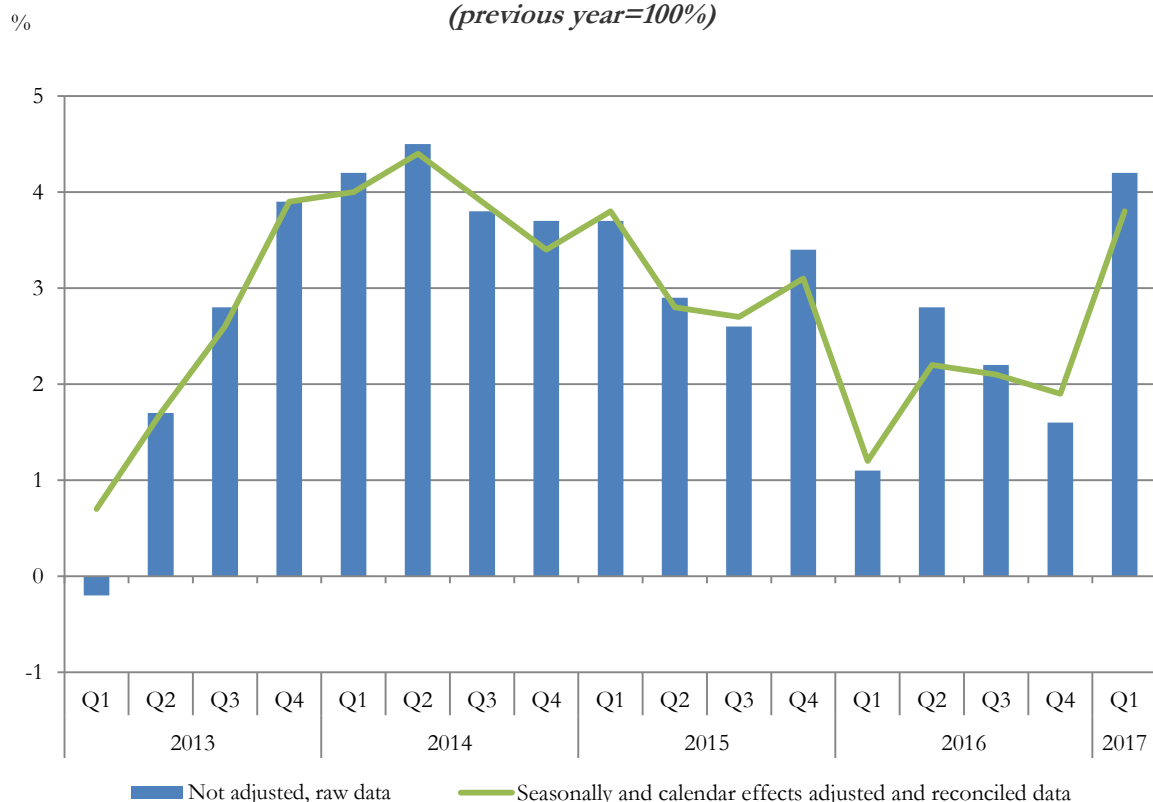


Hungary posted stable economic growth in Q1 2017

Following subdued growth in the year 2016, the latest data compiled by the Hungarian central Statistical Office (KSH) show that in Q1 2017 Hungary's GDP grew by 4.2 percent year-on-year. This has been the second largest growth rate in the past eleven years. According to seasonally and calendar-effect-adjusted and reconciled data, economic output was up by 3.8 percent compared to the corresponding period of the previous year and by 1.3 percent quarter-on-quarter.

In 2016, economic growth decelerated from 3.1 percent registered in 2015 to 2 percent. Sluggish growth was the consequence of the temporary drop in investment due to the closure of the EU development period 2007-2013, which could not be fully offset by household consumption growth driven by rising employment and real wages.

*Fig.1. Change in the volume of GDP
(previous year=100%)*



Source: Hungarian Central Statistical Office (KSH)

Concurrently to the publication of calls for expressions of interest under the upcoming EU programming period, the Hungarian Government has prognosticated GDP growth of 4.1 percent for the year 2017.

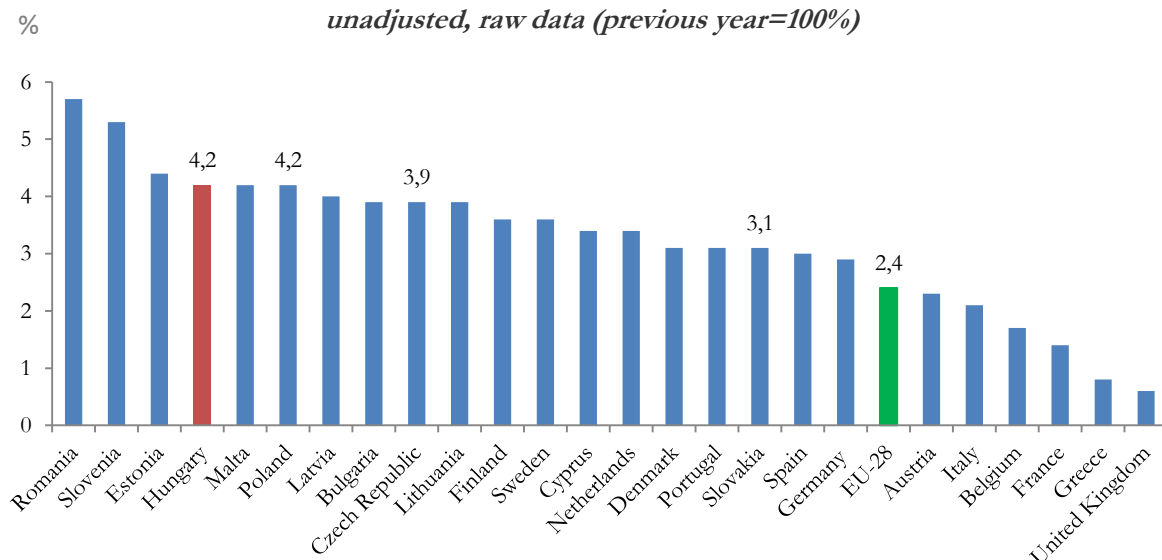


MINISTRY
FOR NATIONAL ECONOMY

Forecasts by authoritative international economic organizations concerning the performance of the Hungarian economy in 2017 have also been optimistic. In the latest half-yearly Economic Outlook published by the Organization for Economic Cooperation and Development (OECD) at the beginning of June, the organization revised its former estimate, published last November, on Hungary's economic growth rate for 2017 from 2.5 percent to 3.8 percent, and that of 2018 from 2.2 percent to 3.4 percent. The Hungarian growth rate predicted for 2017 is the highest among the Visegrad Four.

The strong growth momentum observed at the beginning of the year has confirmed the Government's prior expectations. The 4.2 percent increase in the first quarter placed Hungary among the EU's top performers, and Hungary shares the top slot with Poland among the V4.

*Fig.2 Change in the volume of GDP, Q1 2017
unadjusted, raw data (previous year=100%)*



Source: Eurostat

On the **production side**, the largest contributors to the 4.2 percent growth rate in the first quarter were the market services and industrial sectors. Output at the industrial sector and, within that, the manufacturing sector was up by 6.8 percent and 7.8 percent, respectively, year-on-year. The construction sector posted a remarkable increase of 25 percent.

The gross value added of services grew by 3 percent. Within that, the sub sectors with the largest output growth were the following: retail, accommodation establishments, catering (4.8 percent), professional, scientific and technical activities (6 percent) as well as information and communication activities (4.9 percent), the latter driven by a surge in the production of movies,

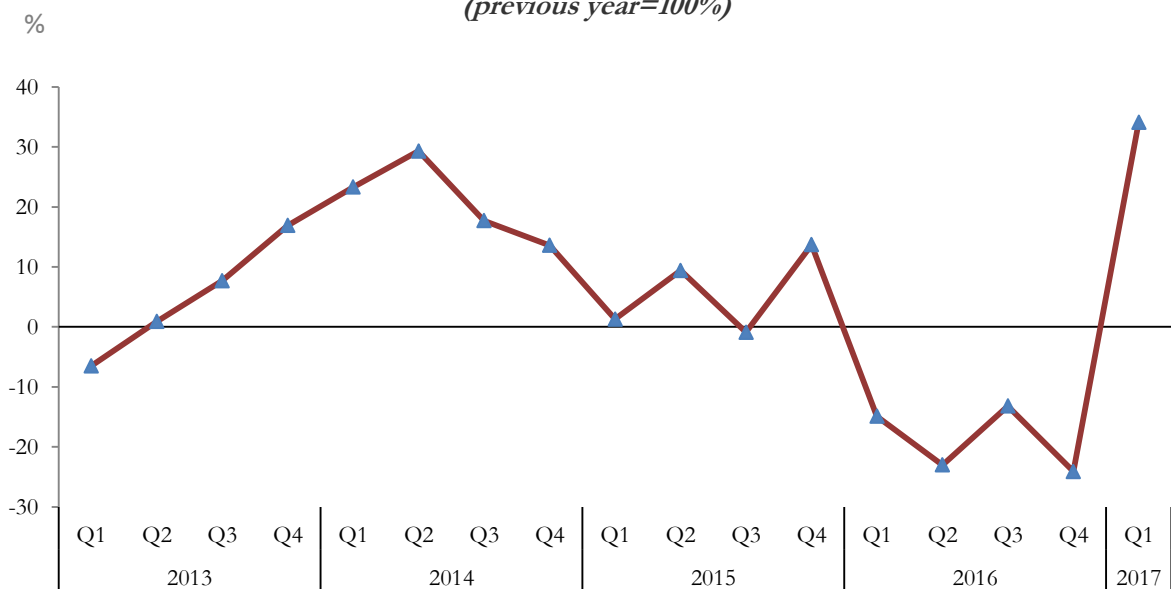


MINISTRY
FOR NATIONAL ECONOMY

videos and TV programmes. The only sector where an output decrease of 6.3 percent was observed is agriculture.

On the **consumption side**, in 2016 the main growth engine was household consumption. In Q1 2017, household expenditures continued to rise (by 3.5 percent), while investment has also gained momentum after seeing a downturn in 2016. In the first quarter, the volume of investment within the national economy was up by 34 percent compared to the low base in the same period of the previous year.

*Fig. 3. Change in the volume of investments, Q1, 2017
(previous year=100%)*



Source: Hungarian Central Statistical Office (KSH)

Investment activity has picked up in the majority of sectors within the national economy. The volume of investment at the manufacturing sector, which accounts for more than one-third of total investment volume, soared by 32 percent, with the bulk of increase observed at manufacturers of computers, electronic and optical products; at manufacturers of pharmaceuticals and at makers of food, beverages and tobacco products. The volume of real estate investment rose by 56 percent, as the volume of residential and commercial property construction projects have both increased.

The launching of new road construction and –renovation projects financed predominantly from EU funds has resulted in year-on-year investment growth of 48 percent in the transport and storage activities sector.



MINISTRY
FOR NATIONAL ECONOMY

Due to the openness of the Hungarian economy, **foreign trade** is also a key factor in GDP growth. In Q1 2017, the volume of exports and imports grew by 9.4 percent and 10 percent, respectively, which has added 0.4 percent to GDP growth, less than in the previous quarter. In 2017, the accelerated absorption of EU funds is expected to lead to higher import growth; therefore the trade balance will be a less significant determinant of GDP growth.

As a whole, the main driver of Hungary's economic growth in 2017 is predicted to be domestic consumption. Rising real wages generated by the six-year wage agreement concluded by the private sector and the Government in last November are seen to lead to steady household consumption growth. The Government's stimulus measures -- such as the reduction of corporate income tax, pro-competitiveness incentives, favourable loan conditions -- and the accelerated absorption of EU funds are expected to result in stable, balanced growth for the Hungarian economy.