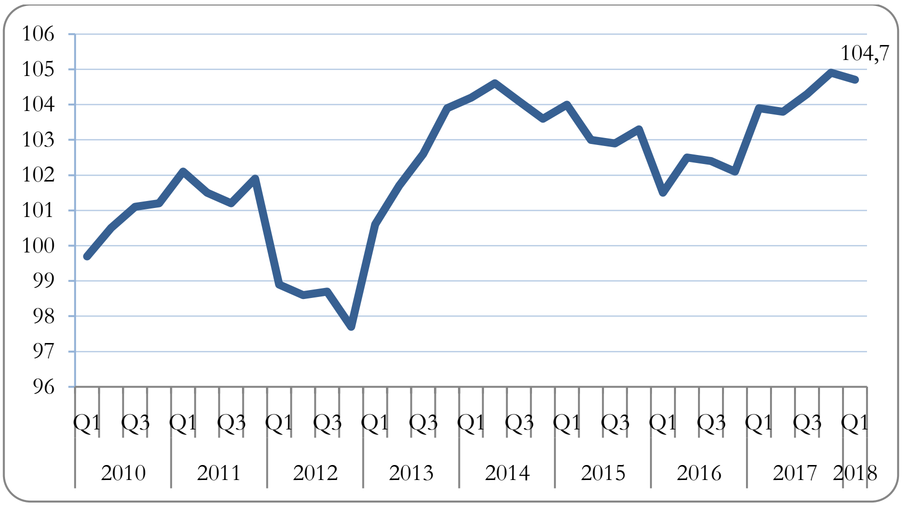
MINISTRY
FOR NATIONAL ECONOMY

Hungary's economy characterized by stable economic and robust investment growth

Raw data showed that in the first quarter of 2018 Hungary's GDP was up by 4.4 percent year-on-year. According to data weighted and adjusted for seasonal and calendar effects, GDP grew by 4.7 percent year-on-year and by 1.2 percent month-on-month. The fact that investment activity has been strong in almost every sector of the national economy signals that the current pace of growth is highly likely to persist even after the volume of investment has hit a historic high in 2017.

Fig.1: Gross domestic product (GDP) volume indices (percent)
(Data weighted and adjusted for seasonal and calendar effects (same period of previous year = 100.0 percent)

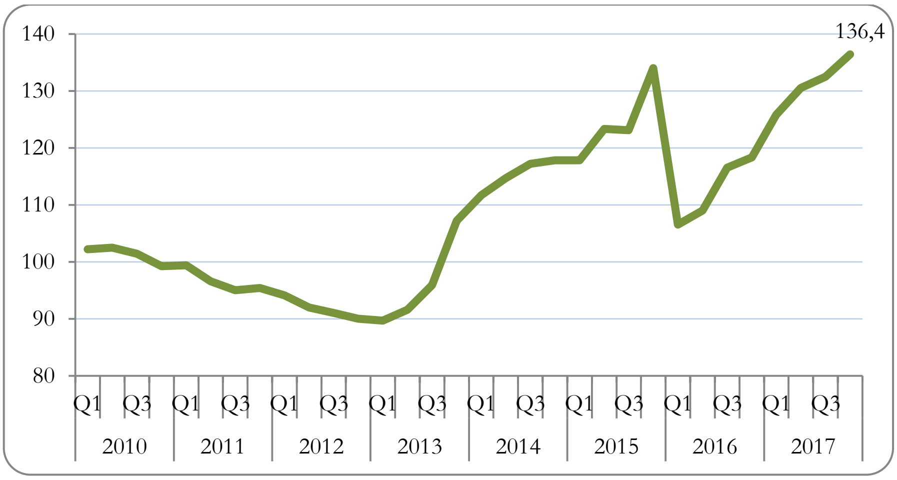


Source: Hungarian Central Statistical Office (KSH)

The Hungarian economy has been growing in a stable manner; statistics published this year have repeatedly confirmed that the economy is sound. Preliminary data show that in the first quarter Hungary's pace of growth far exceeded the 2.4 percent average GDP growth of EU member states. Growth has been broadly-based and almost every sector has reported expansion. The latest investment activity report published recently by the Hungarian Central Statistical Office (KSH) for the year 2017 also confirmed this view. The study found that investment activity in the Hungarian economy in general and within almost every economic sector in particular was vivid in 2017. Hungary's performance was impressive even if compared to international data: in terms of gross fixed capital formation, which includes investment growth and shows an increase of 17 percent, Hungary comes as second on the ranking of EU member states, well ahead even of the other countries of the Visegrad Four.

Fig.2: Investment volume indices (percent)

(Seasonally adjusted data, average of Q1-Q4 2010 = 100százalék)



Source: Hungarian Central Statistical Office (KSH)

The **volume of investment** in Hungary – following a downturn which had begun after the economic and financial crisis of 2008 and ended in 2012 – picked up and was placed on an ascending path by EU-funded projects which have been started since 2013. The completion of projects financed from funds of the EU programming period 2007-2013 caused investment to nosedive again: investment volume fell by 13 percent in 2016 compared to the high base of the previous year. In 2017, investment activity has regained momentum, driven by the recovery in corporate lending as well as the inflow of funds made avaialable by the EU programming period 2014-2020. In 2017, the volume of corporate lending transactions grew at a pace of more than 10 percent, the highest growth rate in the CEE region and unseen since the economic crisis. Consumption, as the main engine of growth, has been fuelled among other factors by the sharp rise in the volume of disposable income.

In the year 2017, the volume of investment totalled HUF 6440bn, up by 17 percent year-on-year which resulted in investment growth of more than one-third compared to the average of the year 2010.

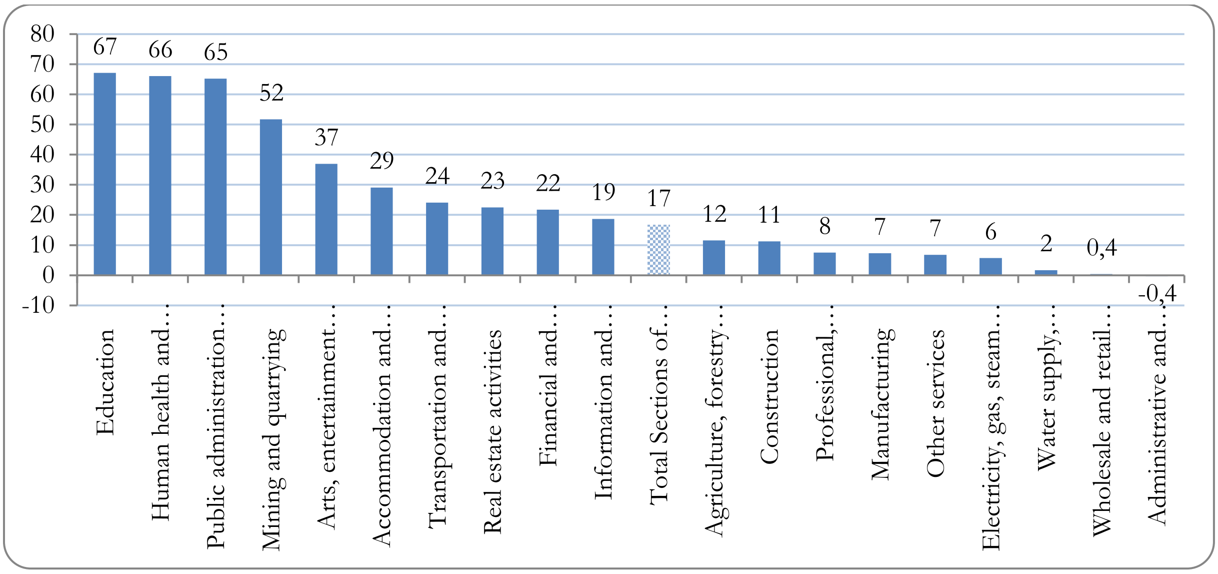
The investment volume-to-GDP ratio increased from 15.1 percent in the prior year to 16.9 percent.

The largest investment growth of 59 percent was observed at budgetary units as a result of the new EU-funded development programmes which were made available last year. Within that, the volume of investment by central budgetary units and local governments rose by 85 percent and 38 percent, respectively, year-on-year. Regarding the former category, the majority of projects were related to public order and border control, in-patient hospital care, tertiary education, while in the latter projects mainly in the field of cultural and public road network development, sports, social services and public education were implemented.

Albeit of a lower rate, investment growth was also remarkable within the private sector. The volume of investment at enterprises with at least 50 employees increased by 14 percent; within that, large enterprises posted growth of 22 percent, while small and medium-sized enterprises registered increases of 8 percent each. The fact that the National Bank of Hungary continued in 2017 the Market-based Lending Scheme designed to ease borrowing conditions for Hungarian SMEs has had a favourable effect on the enterprises of the latter category. The volume of investment by households, thanks to a large extent to housing construction and refurbishment activities, was up by 22 percent compared to the corresponding period of the previous year.

Investment volume was higher in all but one of the sectors of the national economy. The largest increases were registered in education (67 percent), healthcare services (66 percent) and public administration (65 percent), where the main factors were EU funds and a low base.

Fig. 3: Volume indices of investments in sections of the national economy (percent, 2017)

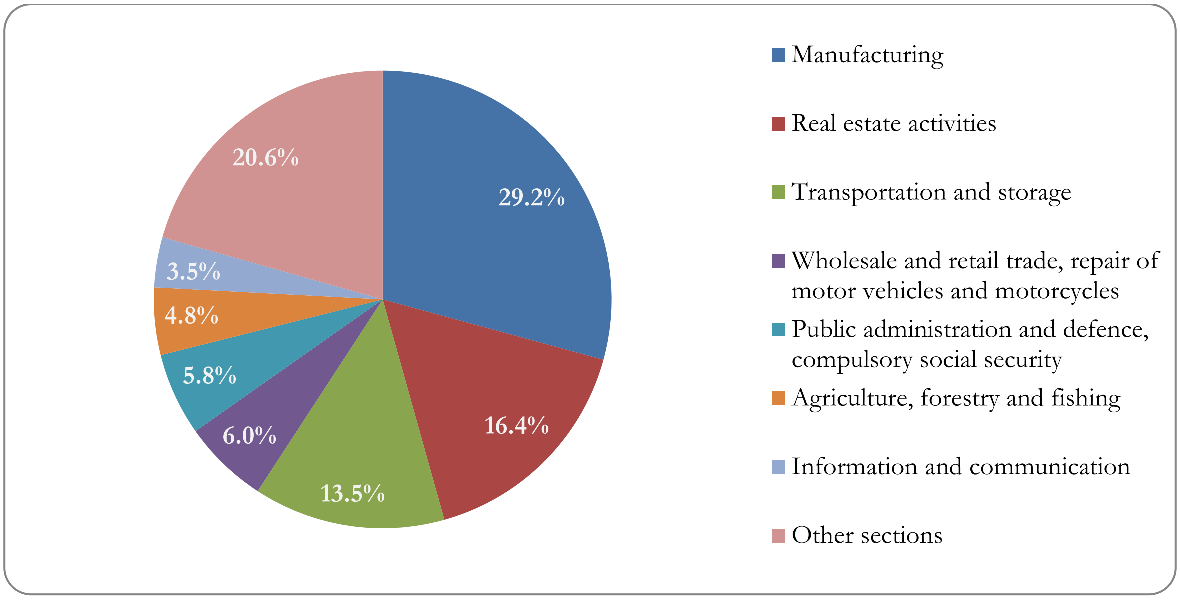


Source: Hungarian Central Statistical Office (KSH)

In 2017, the share of the three sectors of the national economy with the largest weight (manufacturing, transport and storage as well as real estate activities) was 59 percent within investment. In the case of the manufacturing industry, which accounts for some one-third of total investment volume, growth of 7.3 percent was observed.

Within the manufacturing industry, the most significant increases in the volume of investment were seen in the automotive industry, at manufacturers of coke and refined petroleum products as well as at computer, electronic and optical product manufacturers.

Fig.4. Distribution of investments by sections of the national economy (percent, 2017)



Source: Hungarian Central Statistical Office (KSH)

In the two other major sectors of the national economy, real estate activities as well as transport and storage, the rate of growth was 23 percent and 24 percent, respectively.

Within the category transport and storage, enterprises markedly increased investment in the fields of motorway, road and railroad construction activities, air freight and postal services.

Within the category real estate activities, investment in commercial real estate development was sharply higher along with housing construction and refurbishment. On the other hand, the volume of investment at retailers, one of the large-weights, was only slightly higher (by 0.4 percent) as some large-scale store development projects had been completed earlier.

Hungarian and international analysts are expecting the current favourable trends to persist in 2018. The Government predicts GDP growth of 4.3 percent for this year and further, albeit slower, investment growth. The European Union's spring Economic Forecast outlines a similar growth path, noting that the main driver of growth may be domestic demand in Hungary. The fact that the International Monetary Fund (IMF) and the European Bank for Reconstruction and Development (EBRD) have recently both upwardly revised Hungary's GDP growth estimate by 0.4 percentage points to 3.8 percent for this year shows rising confidence by international actors. Economic stakeholders are also upbeat about the outlook. The latest Economic Sentiment Index by GKI Economic Research published in May shows the indicator remained at a near-peak level and business expectations improved further compared to the previous month.