

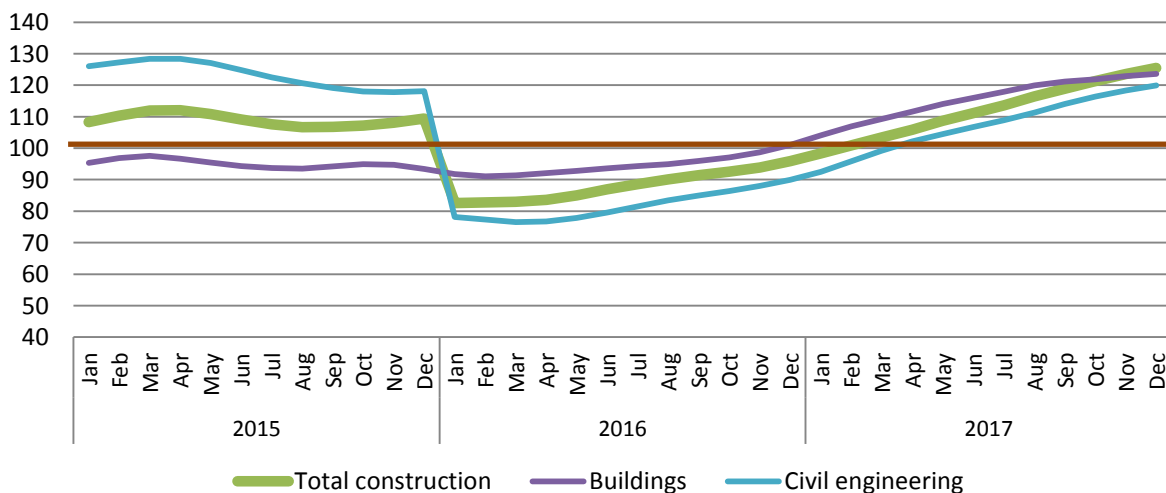


### *2017 was a strong year for the Hungarian construction sector*

According to the latest report of the Hungarian Central Statistical Office (KSH), the volume of construction sector output grew by 29.6 percent year-on-year in 2017. Output was higher in each construction sub sector, and the rate of growth is remarkable even from an EU perspective, despite the low base.

Statistics show that while in 2016 the sector had failed to achieve the output figures of 2010 since the third month of 2017 it has steadily exceeded the levels seen in that year. In addition, the pace of growth has picked up during the course of the year: in December, output was up by as much as 35.0 percent year-on-year, while it has increased by 25.5 percent since 2010. Accelerating output growth was clearly visible month after month: the total volume of construction sector output rose by 3.9 percent compared to November. The sector with the largest growth was the construction of buildings with output increase of 23.6 percent compared to the monthly average of 2010. However, in the category of the construction of civil engineering works output has also picked up after the second quarter, and by the end of December 2017 it has gained 19.9 percent compared to 2010.

**Fig.1: Trend of construction output**  
(monthly average of 2010 = 100 percent)



Source: Hungarian Central Statistical Office (KSH)

Thanks to dynamic growth, which has gained strong momentum after sluggish performance in 2016 and the first two months of 2017, the pace of output growth (34.8 percent) in the construction of civil engineering works exceeded that of the construction of buildings (27.0



MINISTRY  
FOR NATIONAL ECONOMY

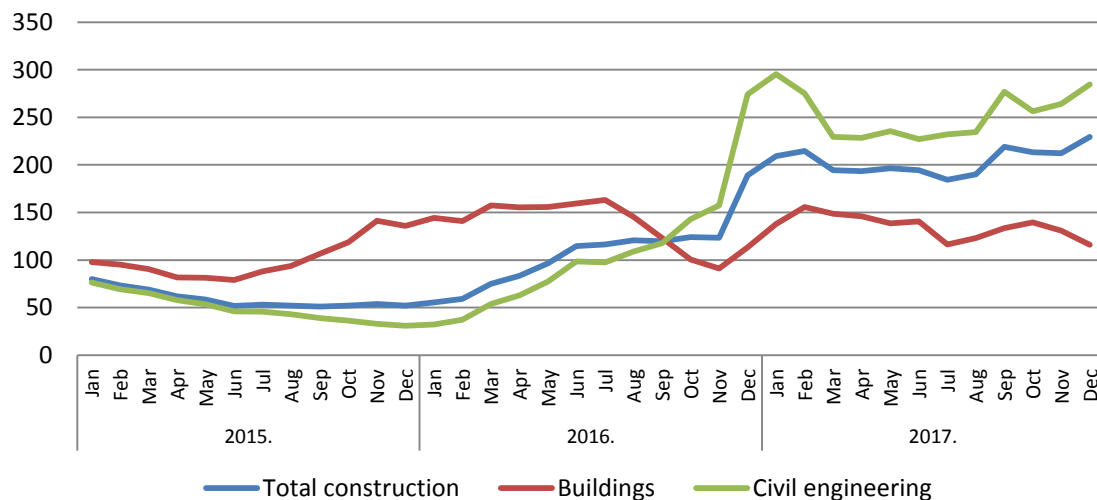
percent). In the case of civil engineering works, typically large-volume road construction and railroad modernization projects have generated dynamic growth (e.g. certain stretches of motorways M2 and M3, the South Balaton railroad). Growth in the construction of buildings has been more broadly based: it was driven by higher demand for industrial buildings, residential property, R&D and educational facilities.

Data of hitherto concluded contracts give reason to expect that robust growth will persist this year. The volume of new contracts was up by 124.7 percent year-on-year. Within that, the volume of contracts for the construction of buildings grew by 4.0 percent, while that of civil engineering works increased by 170.1 percent.

As a whole, the stock of contracts at construction enterprises rose by 129.5 percent year-on-year. Within that, the volume of contracts regarding the construction of buildings rose by 16 percent, and that of civil engineering works was up by 184.5 percent.

**Fig.2: Volume of contracts**

*(Stocks of orders at the end of the reference month, same period of the previous year = 100 percent)*



*Source: Hungarian Central Statistical Office (KSH)*

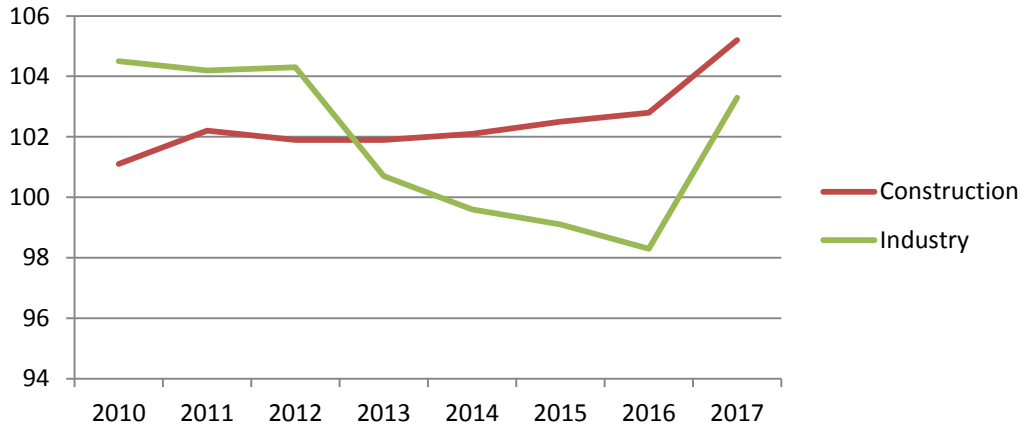
Producer prices in the sector have been on the rise since 2010. In 2017, growth has accelerated: producer prices gained on average 5.2 percent year-on-year. Compared to price increases in the industrial sector since 2013, the construction sector's growth has been more marked. In Q4 2017, prices were up by 1.6 percent quarter-on-quarter and by 6.8 percent year-on-year. The largest increase, 9.8 percent, was registered in the construction of buildings, while prices grew by 4.1 percent year-on-year regarding civil engineering works.



MINISTRY  
FOR NATIONAL ECONOMY

**Fig.3. Producer price indices**

(Previous year = 100%)



Source: Hungarian Central Statistical Office (KSH)

Besides the favourable economic environment and the acceleration in the absorption of EU development funds, there were some other factors which have contributed to the construction sector's great performance last year. Recent Government measures, such as the reduction of VAT to 5 percent on the sale of new dwellings, have also fuelled the sector's expansion. In order to maintain the existing strong growth momentum, the Government has introduced some new instruments. The first phase of an incentive programme of altogether HUF 20bn has been launched. Under the scheme, construction sector enterprises may receive grants of altogether HUF 8 bn, helping them finance pro-productivity and technological development projects. On the other hand, labour shortage is seen as a potential impediment in the way of the sector's growth.

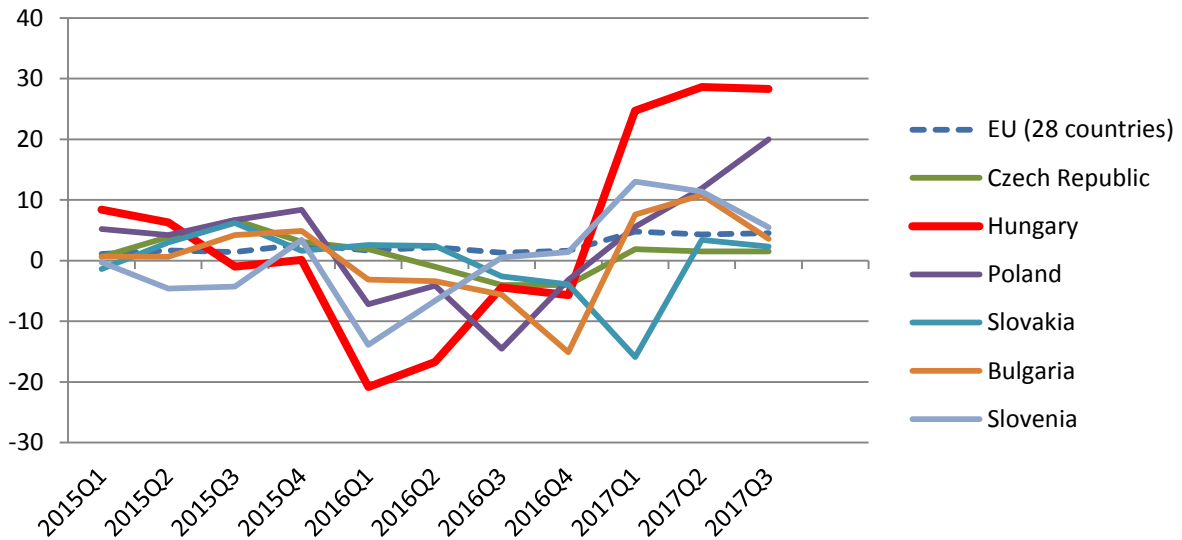
According to currently available Eurostat data, which show the sector's performance up to the third quarter of 2017, the sector posted outstanding growth in gross value added already in Q1-Q3 2017. A downturn in 2016 was followed by a dynamic recovery in 2017 which has beaten the performance of not only the EU member states' average but also the Visegrad Four (V4). In Q3 2017, within the EU28 Hungary posted the largest gross value added growth of the construction sector with 28.3 percent, ahead of Cyprus (26.7 percent) and Poland (20 percent).



MINISTRY  
FOR NATIONAL ECONOMY

**Fig.4: Volume index of gross value added in construction**

(percentage change compared to the same period of previous year)



*Source: Eurostat online database*

As GKI Economic Research has noted in the institute's economic forecast for 2018, the construction sector is unlikely to be capable of posting near-30 percent output growth once again this year. However, increase in the stock of orders, positive economic environment, the ripple-down effect of Government measures and ongoing road and railroad construction projects will nonetheless make the sector one of the most potent growth engines of Hungary's economy in 2018.