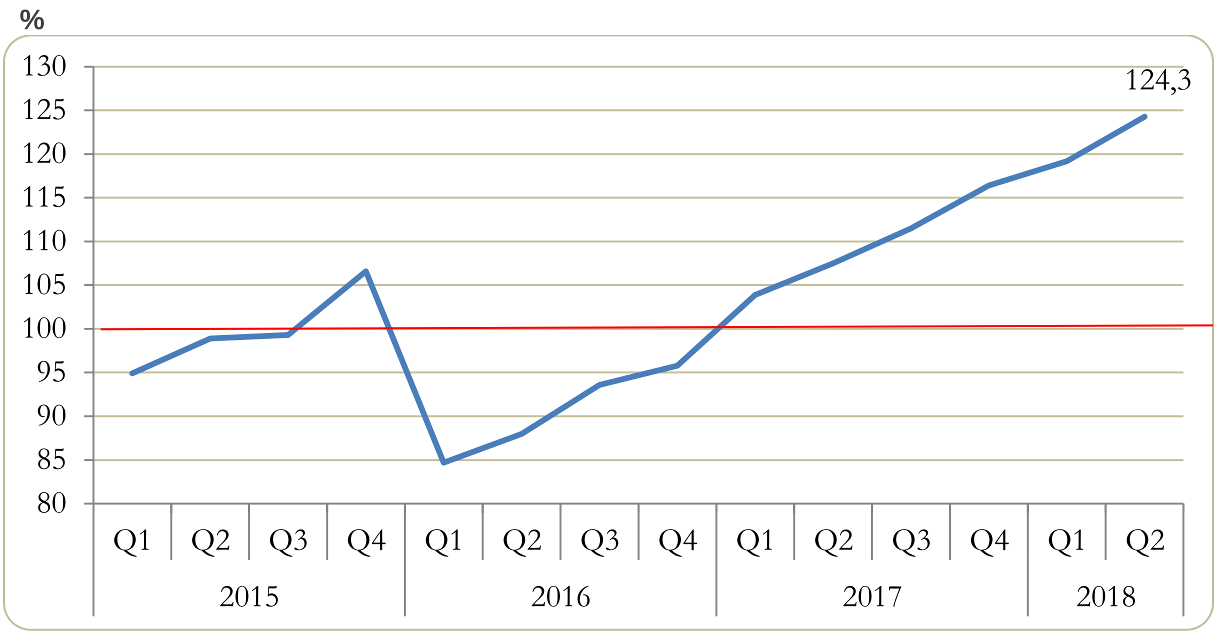
MINISTRY OF FINANCE

Hungarian economy continues to be characterized by robust investment activity

According to a flash report published by the Hungarian Central Statistical Office (KSH) last week, in Q2 2018 the volume of investment within the national economy continued to increase: it gained 15 percent year-on-year. The altogether 13 percent increase registered in the first half of 2018 resulted in a total investment volume of HUF 3113bn in the observed period. Investment was higher across almost the entire Hungarian economy.

In 2017, thanks to robust investment activity fuelled by EU funds and an economic upturn, the volume of investment has hit an unprecedented, historic high. The positive trend observed last year continued this year: in Q1 and Q2 2018, the volume of investment was up by 11 percent and 15 percent, respectively, compared to the corresponding period of the previous year. In the middle of 2018, the volume of investment was nearly 25 percent higher compared to the quarterly averages of the year 2015.

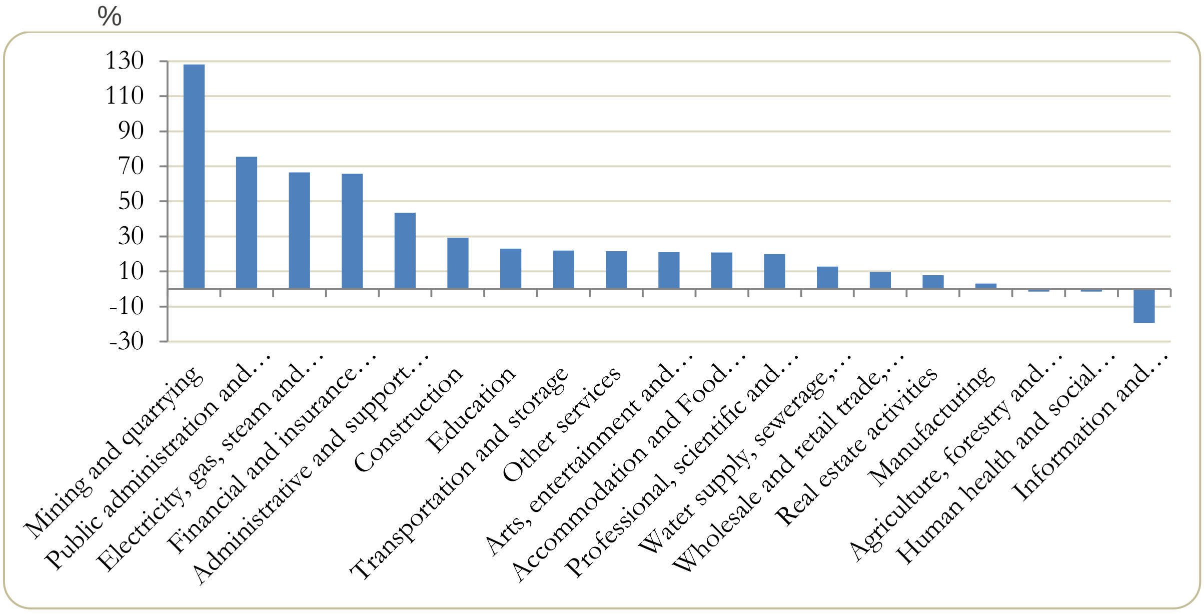
Fig.1: Volume indices of investment of the national economy (Seasonally adjusted, quarterly average of 2015 = 100%)



Source: Hungarian Central Statistical Office (KSH)

The Hungarian economy has been expanding in a stable manner for a long time now; data adjusted for calendar and seasonal effect showed GDP growth of above 4 percent in the last four consecutive quarters. According to currently available Eurostat data, the 4.6 percent rate of growth registered in the second quarter is more than double the EU28 average of 2.2 percent, and only Poland has managed to post an even higher growth rate of 5.0 percent within the Visegrad Group. Domestic consumption, powerful investment activity in almost every economic sector and rising household consumption have been the main drivers of growth.

Fig. 2: Volume indices of investments in sections of national economy in Q2 2018 (same period of previous year=100%)



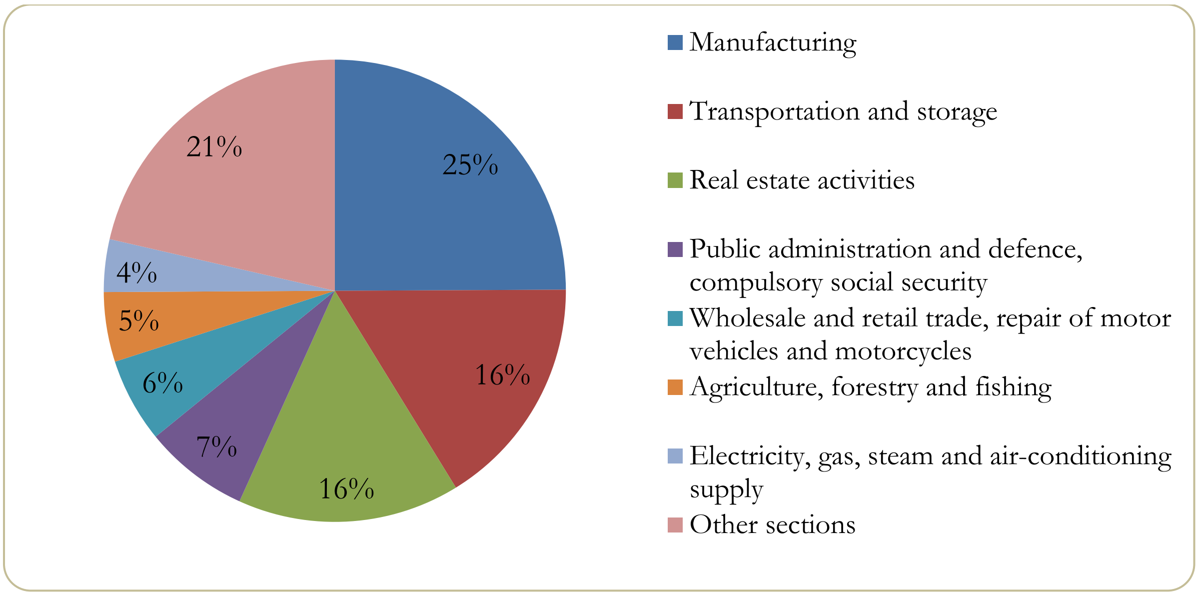
Source: Hungarian Central Statistical Office (KSH)

In terms of the volume of investment implemented, activity accelerated in almost every economic field in Q2 2018. The volume of investment within the manufacturing sector, which has the largest economic weight and accounts for one-fourth of the total investment volume within the national economy, increased relatively modestly, by 3.2 percent. Within the manufacturing sector, the sub sectors with the largest investment increases were the manufacturing of electrical equipment; rubber and plastic products; construction materials; as well as machinery and equipment. On the other hand, investment at motor vehicle manufacturers, a sub sector of great weight, edged slightly lower. The volume of investment regarding transport and storage, a sub sector accounting for 16 percent of the total volume, soared by more than one-fifth (22 percent), as a result mainly of ongoing road and railway construction and reconstruction projects as well as investment projects by transport enterprises. The volume of investment in real estate activities, a sector of similar weight, increased by 7.9 percent, driven by housing projects partially financed by the Government's Housing Programme and investment in commercial property for rental purposes (office blocks, storage facilities, etc.).

The category public administration, defence and compulsory social security posted outstanding investment growth of 75 percent thanks primarily to EU-funded central administration as well as law enforcement and defence development projects.

Some sub sectors of minor weight registered markedly high investment volume increases. The energy sector (electricity, gas, steam and air-conditioning supply) posted growth of 67 percent well above the average of the national economy, thanks partly to the instalment of solar energy facilities. Tourism boom in Hungary resulted in investment growth of 21 percent regarding accommodation and catering services. The economic upturn has prompted construction sector enterprises to invest 29 percent more in tangible assets. Investment was lower in only three sectors, of which the 20 percent decrease recorded in the section of information and communication was mainly due to a high base.

Fig.3: Distribution of investments by sections of national economy in Q2 2018 (same period of previous year=100%)



Source: Hungarian Central Statistical Office (KSH)

Within the 15 percent investment growth in the second quarter, the sector which registered the highest growth rate of 44 percent generated by EU-financed projects was budgetary units, which accounts for one-sixth of total investment. The volume of investment among enterprises with at least 50 employees, which produce more than half of total volume, was up by 10 percent, another double-digit increase.

Labour shortages prevalent in a number of sectors and risings wages are increasingly leading to the implementation of efficiency-boosting projects at private sector enterprises.

Analysts are predicting double-digit investment growth for the year, albeit they expect the pace of growth to decelerate given last year's high base. The state is seen to maintain a strong role in investment through the ongoing road and railway projects, several prioritized urban development programmes, such as the Modern Cities Programme aiming to modernize cities with county rights, the Healthy Budapest Programme or the "Liget" Project. In addition, the Government has been supporting, under the Economic Development and Innovation Operational Programme (EDIOP) and through EU funds, the technological modernization of the private sector – within that primarily that of SMEs – as well as projects aiming to boost competitiveness. Minister of State for the Utilization of EU Funds Balázs Rákossy of the Ministry of Finance announced a new lending scheme of some HUF 60bn at the beginning of last week, which facilitates the updating of old and the creation of new products and services.

The high PMI published at the beginning of this week for the month of August also confirmed the impression that business sentiment in general has remained upbeat in Hungary.