Hungarian industrial sector as a major growth engine

The Hungarian industrial sector has seen massive output growth in recent years – the rate of growth exceeded the average of the European Union, and, concurrently, the sector output-to-GDP ratio has also increased. The Growth Report of the National Bank of Hungary (MNB), published on 9 December 2016, highlights the gradual increase of output within the Hungarian industrial sector, and it also outlines potential future trends. The performance of the Hungarian industrial sector is considered to be impressive even from a European perspective, as it has become a major growth engine in recent years. The volume and value of output has soared in the past couple of years, while hiring has risen sharply. Industrial sector output and value added growth was mainly observed parallel to surging production capacity increases related to large car industry investment projects, but the evolving networks of suppliers have also contributed to favourable data.

According to data compiled by the Hungarian Central Statistical Office (KSH), while gross value added by the industrial sector had constituted 24.7 percent (HUF 5 903.0bn) of total produced by the national economy in 2011, this ratio rose to as much as 26.8 percent (7 635.1bn) by 2015. The largest growth was registered between 2014 and 2015, as in this period value added by the industrial sector gained 1.2 percent (HUF 651.7bn).

**Fig. 1: Share of industrial sector output within total GDP in Hungary**

Source: Hungarian Central Statistical Office (KSH)
Thanks to the rapid development of motor vehicle supplier networks, Hungary’s machinery manufacturing sector has seen massive growth in past decades (Fig. 2). While the share of output by machinery manufacturers within total industrial sector output was 29 percent at the beginning of the 2000s, in 2015 this indicator showed more than 40 percent. The main factor behind this development has been the motor vehicle manufacturing sector, concerning which value added rose by 7.2 percent between 2000 and 2015. Concurrently, the largest decrease of some 10 percent was recorded at the food and light industry, where gross value added fell from 23 percent in 2015 to 13 percent in 2015.

**Fig. 2: Industrial sector value added by sub sectors (percent)**

![Pie charts showing industrial sector value added by sub sectors](image)

Source: MNB Growth Report, Eurostat

The Hungarian industrial sector is predominantly export-focused; therefore increasing the growth of value added is a major objective. The relatively large weight of industrial products within exports is also characteristic of other countries of the Visegrad Four, but domestic production facilities typically contribute more to total output than those in Hungary. The share of value added within exports is a primary indicator of industrial sector competitiveness and the extent of exposure to external shocks.

**Figure 3** shows Hungary’s industrial output and export volume indices in 2011-2015. The value of industrial output rose by 19.8 percent, HUF 4 706bn, in the observed period. The largest
annual increase of 9.8 percent was recorded between 2014 and 2015. In the past five years, the volume of exports was up by 33.9 percent, i.e. HUF 5 172bn. The volume of domestic sales, on the other hand, has in this period declined steadily, altogether by HUF 656bn, i.e. 5.3 percent.

**Fig. 3: Industrial output and exports volume indices (left hand side axis: percent, corresponding period of previous year = 100%, right hand side axis: at current prices, bn HUF)**

As far as manufacturing sector exports are concerned, domestic producers contributed only 42 percent to the value of end-products, a figure below the average of countries in the region. The Hungarian motor vehicle manufacturing sector, which has expanded substantially in recent years, added only 39 percent to the overall value of exported goods.

**Recently, the industrial sector has undergone a major structural overhaul** – the MNB Report points out. This process has led to a production structure that generates, as a whole, lower value added. Value added per output unit at motor vehicle manufacturers has not reached 20 percent in the observed period, while the pharmaceuticals and light industries were top performers from this aspect.
Placing more emphasis on boosting value added may improve the competitiveness of the domestic industrial sector. One of the ways for accomplishing this goal could be through the creation of more intellectual property. A larger volume of R&D or innovation input at the early stages of a product’s life cycle could add considerably to the value added throughout the entire production process and, eventually, increase value added in exported goods. As higher value added production requires and normally results in better quality services, ultimately the performance of the services sector would also improve. Hungary’s policy blueprint, the so-called Industry 4.0, which addresses challenges posed by the fourth industrial revolution through information technology innovations, is expected to play a major role in reaching these objectives.