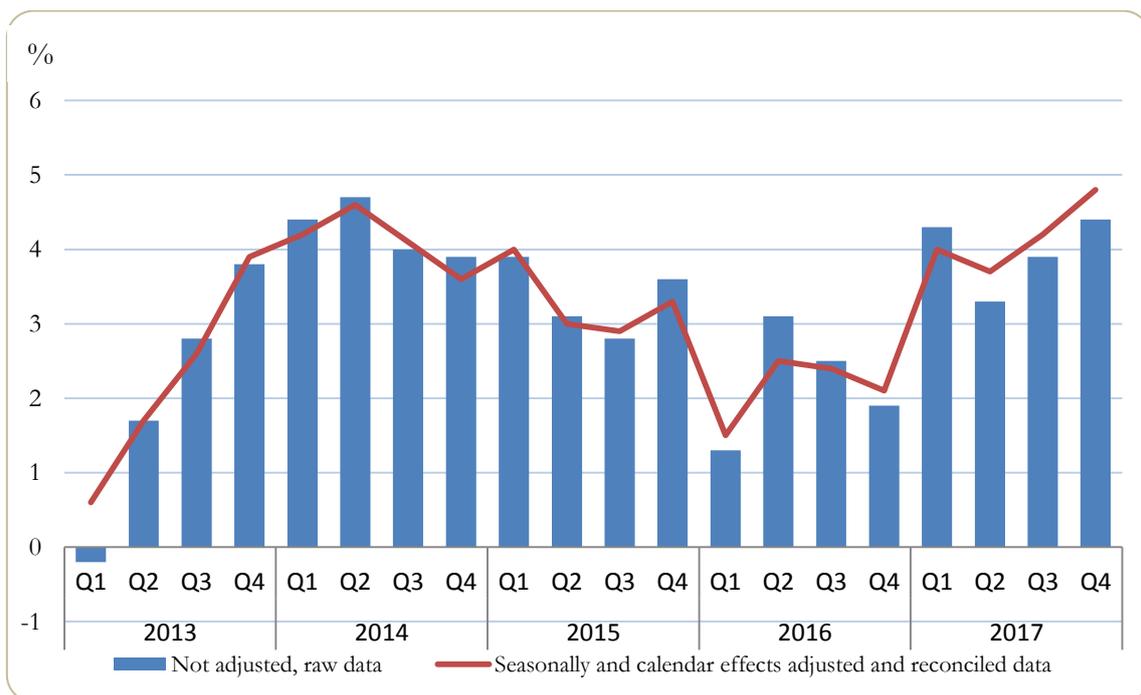




### *The Hungarian economy closed the year 2017 with outstanding performance*

The Hungarian economy put up a great performance in the last quarter of 2017. According to the flash report of the Hungarian Central Statistical Office (KSH), unadjusted data show that in Q4 2017 the volume of Hungary's GDP rose by 4.4 percent year-on-year, while data adjusted for seasonal and calendar effects show growth of 4.8 percent in the observed period. The pace of growth was higher than prior analyst expectations but it was in line with the figure formerly predicted by the Ministry for National Economy. The last occasion when a similar growth rate had been figured by the KSH was in Q4 2005, twelve years ago.

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



*Source: Hungarian Central Statistical Office (KSH)*

Following a transitory slow-down in 2016, the Hungarian economy has been placed on a track of faster growth last year: in light of raw and seasonally adjusted data, the volume of GDP grew by 4.0 percent and 4.2 percent, respectively, in the year 2017. The Government's stimulus measures – the reduction of the rate of corporate income tax, pro-competitiveness incentives announced



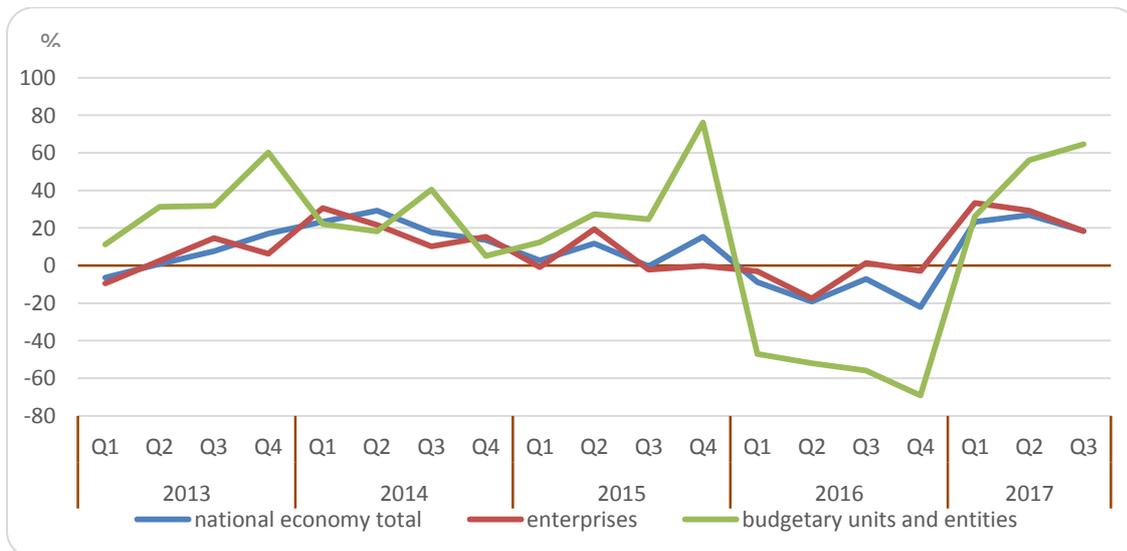
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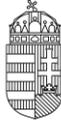
last spring and favourable borrowing conditions – coupled with the accelerating absorption of the funds from the EU programming period 2014-2020 have caused the Hungarian economy to expand in a stable and balanced manner.

On the **production side**, with the exception of the agricultural sector, where adverse weather conditions had led to sluggish performance, every sector contributed to GDP growth. According to the KSH report, market-based services and the construction sector saw the largest growth in the fourth quarter. In 2017, trends were also favourable within the industrial sector, output of which accounts for more than one-fifth of GDP. Output in the automotive sector picked up after a period of stagnation seen in the previous year, while other smaller sub sectors (e.g. rubber products, plastics, metal products and pharmaceuticals manufacturing) posted substantial output growth.

On the **expenditure side**, domestic consumption – the sum of investment volume and household consumption – have contributed to growth. Last year, the volume of both private and public sector investment grew dynamically parallel to the announcement of calls for bids for funds of the EU programming period 2014-2020 and also as a result of favourable borrowing conditions. Currently available statistical data show that in Q1-Q3 2017 the total volume of investment was up by 22.8 percent compared to the low base in the corresponding period of 2016. Within that, the volume of investment carried out by budgetary institutions grew one-and-a-half times in comparison to 2016.

*Fig. 2: Change in the volume of investments, Q1 2013 - Q3 2017  
(corresponding period of the previous year = 100.0%)*





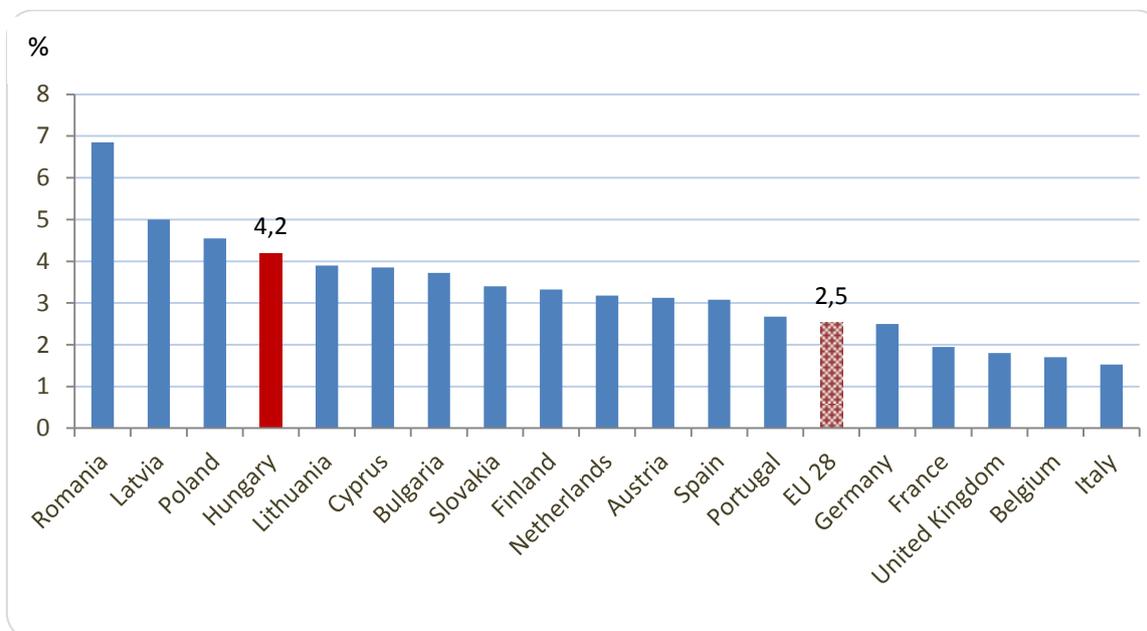
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*Source: Hungarian Central Statistical Office (KSH)*

Household consumption growth, fuelled by job and real wage growth, has also boosted the economic upturn. Commenting on GDP data, Minister for National Economy Mihály Varga noted that one-fourth of the 4 percent GDP growth of the year 2017 was attributable to the stimulating effect of the six-year tax and wage agreement concluded by social partners and the Government in November 2016. Compared to the previous year, the number of people in employment rose by some 70 thousand, and thanks to the economic policy based on wage hikes and tax reductions the standard of living of Hungarians has improved. The 12.8 percent wage growth generated extra income of HUF 1100bn (EUR 3.54bn) for employees. The fact that the volume of retail sales, according to calendar-adjusted data, gained 4.8 percent year-on-year also signals rising household purchasing power. The sector with the largest sales growth of 8.3 percent was non-food retailing. The improvement in the standard of living has also had a visible impact on the construction of new dwellings. Owing to the Government's housing incentive scheme, in Q1-Q3 2017 the number of new dwellings was up by 51.5 percent, while the number of building permits issued increased by 32.7 percent year-on-year.

The rate of the Hungarian economy's growth last year is outstanding even from an EU perspective. According to currently available Eurostat data, Hungary's GDP growth, along with that of some of our regional peers, is among the best within the European Union. Hungary's rate of growth beats not only the EU28 average but it is also higher than the growth posted by our number one economic partner, Germany (both 2.5 percent).

**Fig. 3: Change in the volume of GDP, year 2017**  
*Seasonally adjusted data, (previous year=100%)*



*Source: Eurostat*

The prognoses of analysts and authoritative international economic institutions are all upbeat concerning the performance of the Hungarian economy in 2018, albeit the pace of growth is predicted to be slightly lower than last year's. The **Winter Economic Forecast**, published by the European Commission in the middle of February 2018, displays yet another sign of growing optimism: the estimate of Hungary's GDP growth for the year 2018 has been revised upward in comparison to the prior figure predicted in November 2017, from 3.6 percent to 3.7 percent.

Although **Standard & Poor's** has left Hungary's sovereign debt rating unchanged in the latest review – as expected in a pre-election period – the outlook of the Hungarian economy was also perceived to be positive.

Besides global economic conditions, the growth of the Hungarian economy is expected to be augmented in 2018 by domestic consumption, thanks to investment growth driven by the absorption of EU funds and growing household consumption fuelled by real-term wages rising in the wake of the six-year wage agreement.