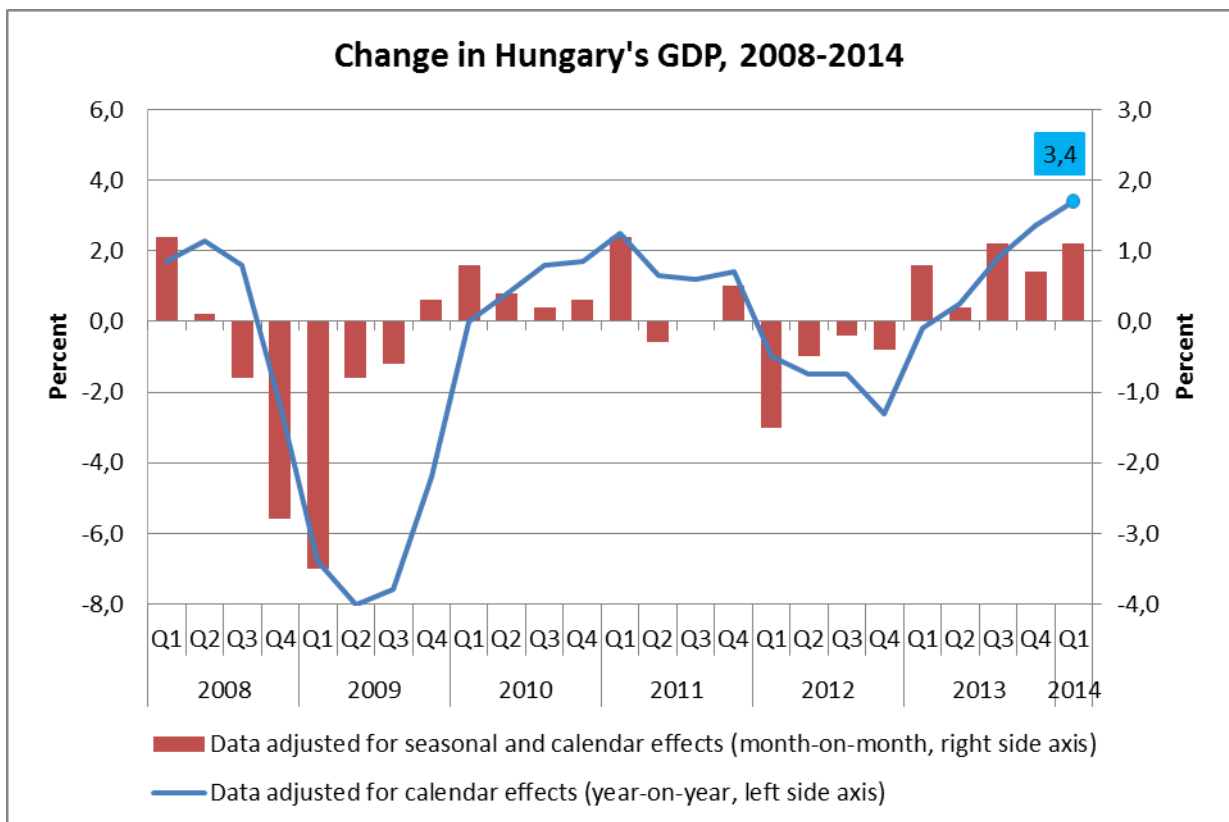




Hungarian economic growth in European top league again

In light of preliminary data, the pace of Hungarian economic growth gained momentum in Q1 2014. In January-March 2014, GDP was up by 3.5 percent in comparison to the corresponding period of the previous year, an unprecedented increase since 2006. Data for Q3 and Q4 2013 were already above prior expectations, but this year's first quarter figure significantly exceeded the 2.7 percent growth forecast of analysts. In light of first quarter GDP data, it can be reasonably expected that for the entire year of 2014 GDP growth will be above the 2.3 percent estimate prognosticated by the Government.

According to calendar-effect adjusted data, GDP grew by 3.4 percent, while data adjusted for seasonal and calendar effects show an increase of 3.2 percent year-on-year. Compared to Q4 2013, GDP was up by 1.1 percent.



Source: Hungarian Central Statistical Office (KSH)



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Productive sectors continued to be the main factors fuelling the outstanding rebound, as the industrial sector expanded by 4.8 percent in Q1 2014 and the output volume of the construction sector gained 27.6 percent year-on-year. **In addition to these, the weight of the services sector as driver of growth has increased.** Higher services demand and consumption were the drivers of strengthening sales. Favourable tourism data lifted the hotel and catering sector, while the increase of industrial output had a positive effect on the transportation sector. The lending schemes of Eximbank and the National Bank of Hungary significantly improved the performance of the long-suffering financial sector.

Growth that has re-emerged over the past two quarters is more and more indicating that the economy' structure is increasingly balanced and sound. This is also confirmed by the fact that the increase in domestic demand has joined soaring exports as a significant growth factor. It has to be noted that parallel to accelerating growth, **other key indicators have improved further:** the current account shows a massive surplus and general government debt remains below 3 percent.

Household consumption growth, one of the factors behind the impressive increase, was bolstered -- besides favourable inflationary processes and employment growth -- by the increase of wages in real terms. Another positive phenomenon is the **revival of investment** thanks mainly to rebounding private sector activity and the speeding-up of the utilization of EU resources.

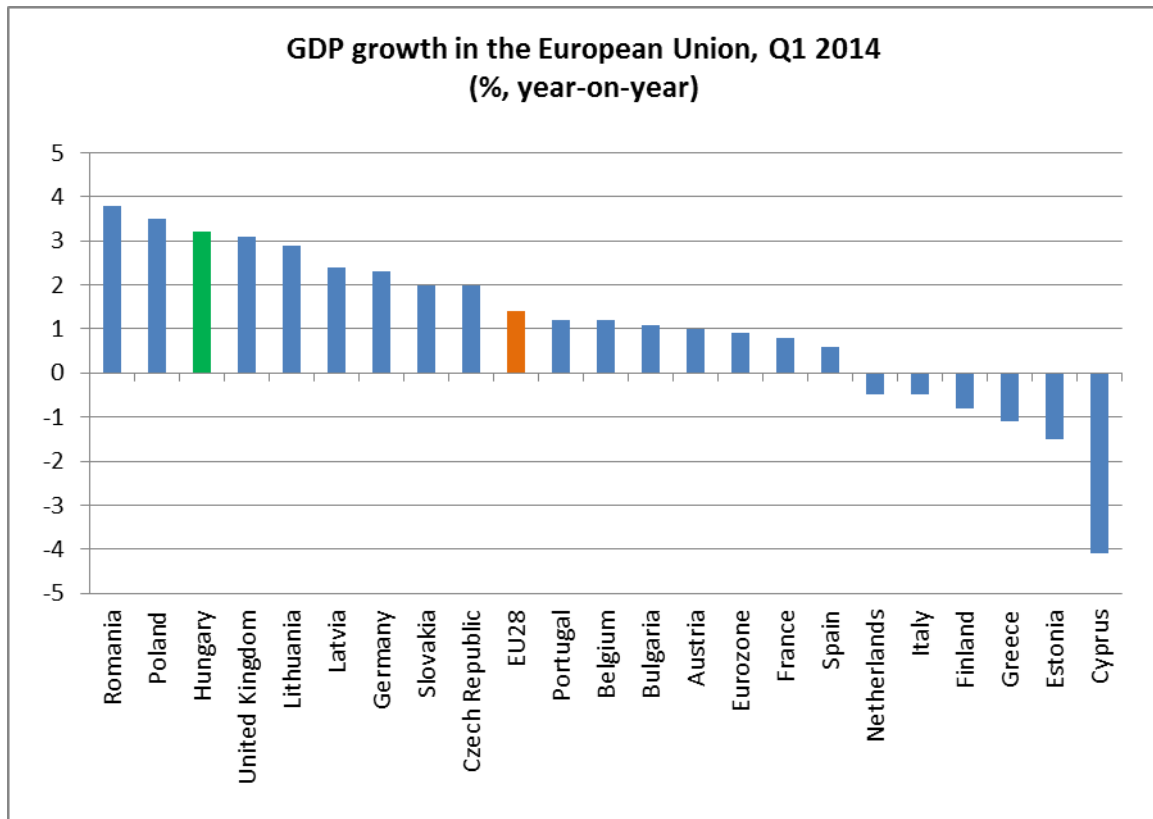
Eurostat has also published the latest data with regard to the EU 28 member states. On the basis of these, quarter-on-quarter GDP growth averaged 0.2 percent and 0.3 percent in the eurozone and the EU 28, respectively, in Q1 2014. **Economies within the eurozone and the EU 28 posted year-on-year growth of 0.9 percent and 1.4 percent, respectively, in the first quarter.** In comparison to Q1 2013 -- in light of currently available data -- GDP was up in six member states and down in 15 of them.¹ The German economy, a key factor for Hungary, expanded in Q1 2014 by 2.3 percent year-on-year and by 0.8 percent quarter-on-quarter. Hungarian GDP data are impressive even from an EU perspective. **With (seasonally adjusted) first quarter growth of 3.4 percent the Hungarian economy is among the medalists within the EU member states,** as this year-on-year increase is the third largest following that of

¹ Eurostat data are available for only 21 EU member states



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Romania (3.8 percent) and Poland (3.5 percent). On a quarter-on-quarter basis, Hungary shares the top slot with Poland. Cyprus suffered the largest slump again (-4.1 percent).



Source: Eurostat

As a whole, data from the first quarter confirm that the Hungarian economy has entered a sound and sustainable path. In light of better-than-expected first quarter data, **Hungarian economic growth in 2014 may exceed by 0.3-0.6 percentage points the 2.3 percent GDP growth figure prognosticated by the Convergence Programme.** These optimistic expectations are based on the stock of orders data within the industrial and the construction sector, the gradual improvement in business confidence as well as the upturn in investment activity.