



HUNGARIAN CHEMICAL INDUSTRY IN 2015

GLOBAL AND NATIONAL MACROECONOMIC TRENDS¹

In 2015 the economic processes were unfolding favorably in most of the developed countries. According to the estimates of the International Monetary Fund the performance of the world economy (after a 3.4% expansion in 2014) increased by 3.1% in 2015 in comparison with the previous year. Beside the changing oil prices the expansion was affected by the slowing-down of the growth of the Chinese economy. In 2015 the joint performance of the member states of the European Union (EU-28) grew by 1.8% as compared to previous year. In most of the member states the economic performance increased in 2015: as for the bigger economies, in Germany by 1.7% and in Great Britain by 2.2%.

In 2015 the Hungarian economy kept on growing, the gross domestic product rose by 2.9% in comparison with the previous year. At the production side the expansion was basically generated by the growth of the performance of industry, trade and hotel/accomodation services; at the same time the performance of agriculture restrained somewhat the overall growth of the economy which surpassed the EU average of 2015 (1.8%).

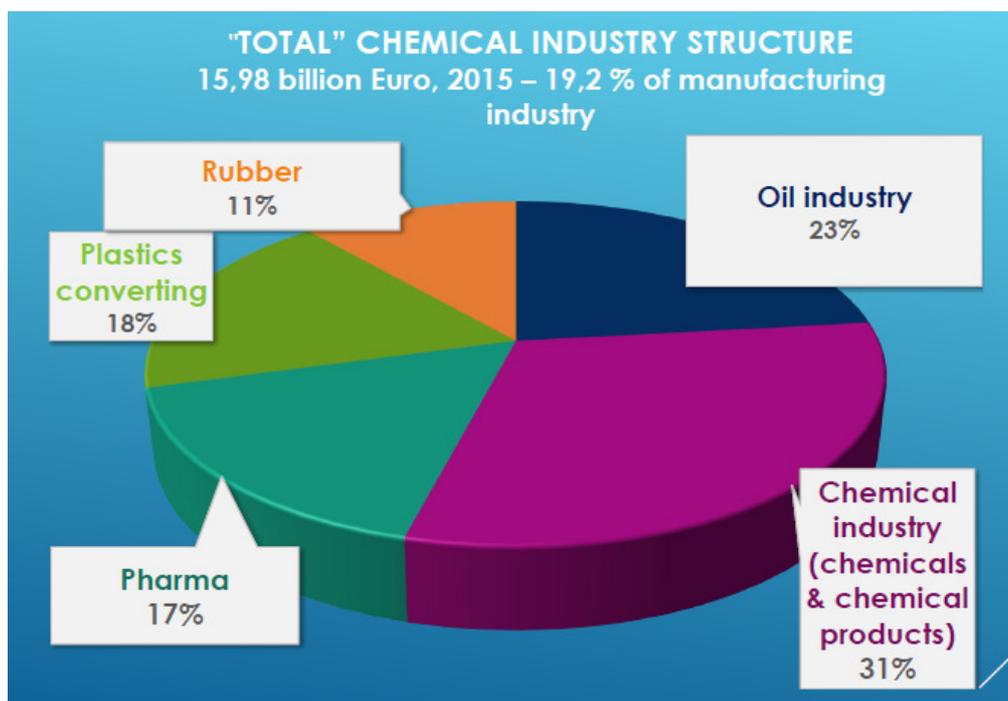
In 2015 the production volume of the Hungarian industry was 7.5% higher than in 2014 (with a permanent expansion during the year). The sales increased in both directions: the volume of the export representing nearly two third of the realization grew by 9.9%, and that of domestic sales representing more than one third of the realization by 2.8%. Out of the industrial sectors the production grew by 6.2% and 8.1% in the energy sector and the processing industry, while in the mining industry (representing little importance) the production decreased by 14% in comparison with previous year. The output expanded in most subsectors of the processing industry, in the largest measure (by 17%) in the automotive manufacturing (the most important subsector representing 30% of the production value of the processing industry). The outcome of other subsectors of the processing industry, the production of rubber and plastic products as well as the building industry grew considerably too, by 15% in each case (surpassing the average of the processing industry). The manufacturing of electronical products (producing for export almost to the full) increased by 6.4%; the production of the food industry grew by 4.3%. The production decreased somewhat in only two subsectors (by reason of the set-back of foreign trade in both cases): the performance of the production of machineries as well as the oil processing and coke were 1.4% and 2.6% lower than in previous year.

¹ Source: Report of the Central Statistical Office: Economy and Society in 2015/12.

As for the foreign trade of the country, in 2015 the euro value of the export (90.7 billion euro) grew by 7.4%, and that of the import (82.6 billion euro) by 5.6% as compared to previous year. The balance of foreign trade reached a surplus of 8.1 billion euro in 2015 which is an improvement of 1.8 billion euro in comparison with previous year.

THE PERFORMANCE OF THE HUNGARIAN CHEMICAL INDUSTRY²

In 2015 the production of *the whole Hungarian chemical industry* – oil processing, production of chemical materials and products, pharmaceuticals, production of rubber and plastic products – expanded by 5.1%, in a higher degree than in previous year (4.6%). The production of chemical materials and products (i.e. the sector manufacturing the highest production value of the whole chemical industry – 1522 billion HUF) increased by 2.3% which indicates a permanently significant performance with regard to the prominently high base data of the previous year (growth of 9.2%). The production volume of pharmaceutical sector (822 billion HUF) expanded by 4.4% and the production volume of rubber and plastic products (1448 billion HUF) increased by 16.2%, while the production volume of oil processing having great importance within chemical industry (1446 billion HUF) decreased by 2.6% in comparison with previous year.



The production value of *the four subsectors of chemical industry* was 4938 billion HUF in 2015 at current prices which amounted to 19,2 % of the production of the whole processing industry. The latter shows a 2% lower rate as compared to previous year – first of all by reason of the set-back in oil industry.

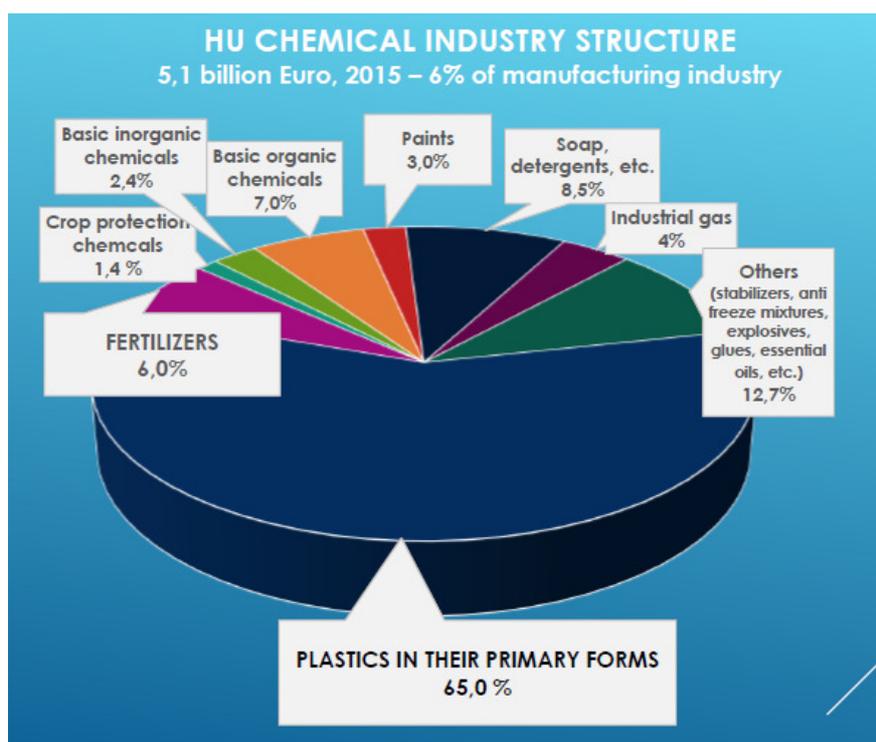
² Source: Production and realization data of the chemical industry in 2015, Central Statistical Office

In 2015 the realization of chemical products was 31% of domestic sales of the whole processing industry and 15.1% of its export.

The performance of the single sectors of chemical industry shows considerable differences.

Oil industry, coke (NACE 19) In 2015 the production value of the sector decreased by 2.6% in comparison with previous year (at comparative prices). The amount of realization (1553 billion HUF) implied a 3.6 % set-back; the export fell back seriously (by 27.4%) which could not be counterbalanced by the 10% growth of the domestic sales.

Overall chemicals (NACE 20) In 2015 the production volume of the sector (the chemical industry in „narrow” sense) increased by 2.3%, and its realization by 2.5% (at comparative prices); its total realization amounted to 1523 billion HUF (at current prices) which indicates the great importance of the sector within the national economy. The production of the key sector of plastic raw materials increased by 14.2%, and its realization by 14.5% amounting thereby to 983 billion HUF. The growth of the production of inorganic and organic basic chemicals (21.1% and 9.2%), agricultural chemicals (14.2%), and perfumes (16%) was significant as well.



In the case of the realization of chemical materials and products an export-oriented expansion could have long since been seen. In 2015, therefore, the amount of the export (cca. 910 billion HUF) increased by 5.6 % as compared to previous year, while the amount of domestic sales (cca. 613 billion HUF) was nearly 2% lower than in 2014. It is now a decennial average rate that 60% of chemical products is realized in foreign markets (and above all in the joint market of the EU).

Pharmaceuticals (NACE 21) The production of the sector increased by 4.4% as compared to 2014. Its domestic sales decreased by 1.7% (at comparative prices), while its export expanded by 5.8%, so the volume of its realization as a whole (817 billion HUF) surpassed by 4.6% the level of previous year.

Rubber and plastic products (NACE 22) The production data of rubber and plastic products indicate dynamic expansion in 2015. The production of the sector increased by 16.2% in comparison with previous year. As for the realization, beside a 3.9% growth of domestic sales the expansion of the export shows a prominently high rate (22.6%). The realization of the subsector amounted to 1448 billion HUF.

EMPLOYMENT / PRODUCTIVITY OF LABOUR

The chemical industry is classified among the less *labour-demanding* sectors of the whole industry. In 2015 the number of full-time employees in all subsectors of the chemical industry amounted to 80.000 people. In the area of oil processing and pharmaceuticals some decrement was registered, while in the field of production of chemical materials and products as well as rubber and plastic products an advancement was observed in comparison with previous year. In the field of the production of chemical materials and products (i.e. the production of the chemical industry in sense of statistical classification) the number of employees fixated over 13.000 persons in past few years. In 2015 the number of full-time employees was 13.734 persons, which is 6 % higher than in previous year. In 2015 the gross average wage of full-time blue-collar workers was 248.818 HUF (+3.1%), and that of white-collar workers was 500.321 HUF (+3.0%). In 2015 the gross average wage of the full-time employees in the chemical industry was 351.319 HUF, which is 2.5% higher than in 2014.

According to the comparative data of EUROSTAT, in respect of the productivity of labour the Hungarian chemical industry stands at the midfield of EU member states in the area of the production of chemical materials and products; in case of the average personal costs it stands at the lower third of EU member states.

DEVELOPMENT PROSPECTS OF THE NEAR FUTURE

The development prospects of the chemical industry as the manufacturer of the products used by every other sector of the national economy are fundamentally and directly influenced by the general European and Hungarian economic trends as well as the forms of the regulatory milieu.

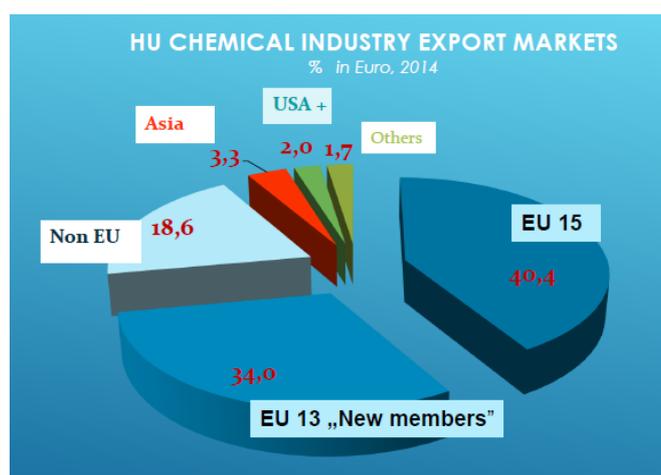
The prospects of Hungarian chemical industry (and in particular the manufacture and realization of chemical materials and products) can be favorably affected by the possible domestic expansion of agriculture, building industry and certain sectors of processing industry. In the past few years, the domestic sales of chemical products were in particular disadvantageously affected by the recession of building industry since a large quantity of building materials as well as insulating compounds, paints and glues and other plastics required for building-engineering and doors and windows are produced by the chemical

industry. It is to be particularly regretted that in the case of the energetic modernization of out-of-date prefabricated houses and the buildings in general the subvention was little or has even ended in the past few years. With these programs a real and durable reduction of costs could be attained by the modernization of heating, the exchange of doors and windows and the application of efficient methods of thermal insulation. Besides they provided jobs for the small and medium sized enterprises in the building industry as well as the Hungarian chemical companies (by the transport of basic materials and products).



The impact of the regulatory environment on the chemical industry as well as a number of factors causing competitive disadvantage in certain areas such as energy prices are topics not discussed in this report although they are critical for the development of the industry.

Setting out from the economic realities, in the case of Hungarian chemical industry the export will keep its importance in the development of the sector's net income in the following period too.



The foreign markets are playing an important role in point of the stability of chemical companies as well as the ability to raise their income and efficiency. In 2016, the continuous evolution of the economic performance of eurozone and Central Europe (the latter serving also as an important market outlet for the Hungarian chemical products) will remain a peculiarly crucial factor in this respect.