



OECD also predicts improving economic output

The OECD has revised upward its growth estimate for Central and Eastern European countries. As far as Hungary is concerned, the organization prognosticates growth of 1.2 percent for 2013, 2.0 percent for 2014 and 1.7 percent for 2015. The OECD's positive outlook revision concerning Hungary is not an extraordinary phenomenon, as the European Commission has also upped its economic growth estimate for Hungary.

In the autumn of 2013, the European Commission became more optimistic in its prognosis both on Hungary's fiscal deficit and growth figures. At that time Brussels predicted a fiscal deficit of 2.9 percent for 2013 in Hungary, **which figure – in light of the latest data and thus also of the Government's expectations – may be as low as 2.3-2.7 percent.** In autumn last year, it was another positive development that the Commission modified economic growth from the former 0.2 percent to 0.7 percent (in line with the Government's estimate), **however, it has to be stressed that the 1.8 percent year-on-year growth figure recorded in the third quarter also augurs that economic expansion may even exceed 1 percent in 2013.**

Brussels forecast a fiscal deficit of 3 percent for 2014 and 2015 as well as economic growth of 1.8 percent and 2.1 percent, respectively. As far as 2014 is concerned, estimates made by the Commission for 2014 have also improved in comparison to data published in the spring forecast, and thus the Government's 2.9 percent deficit target and about 2.0 percent GDP growth figure do not differ much any longer from those of Brussels. In 2014 and 2015, the further gains in exports and enhanced domestic demand are expected to drive GDP growth.

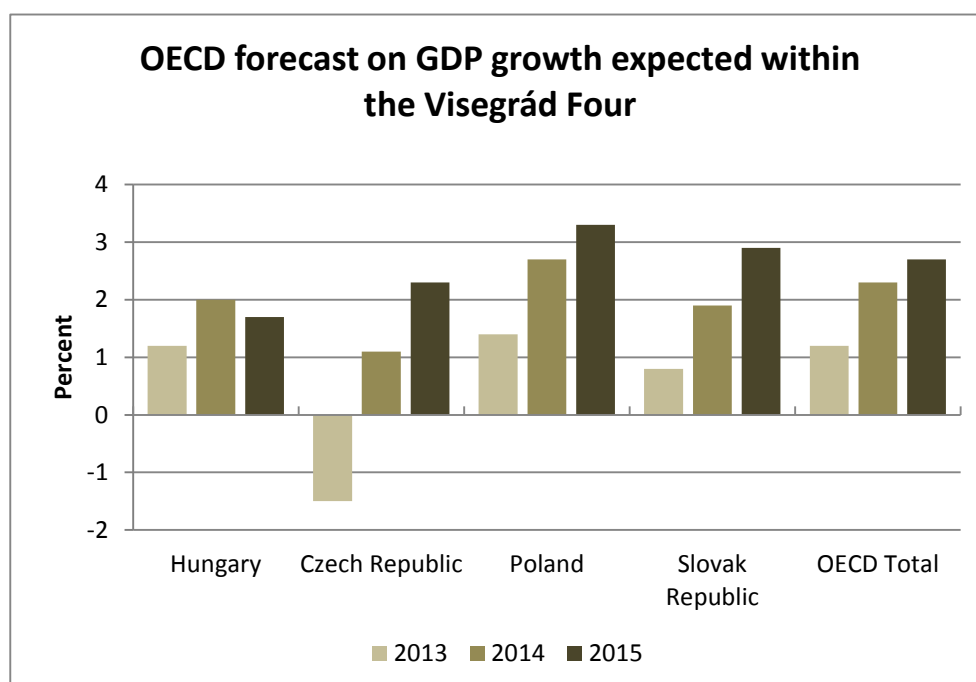
The 2013 spring and autumn forecasts of the European Commission for economic growth and state budget deficit

| | spring | autumn | spring | autumn | spring | autumn |
|---|--------|--------|--------|--------|--------|--------|
| | 2013 | | 2014 | | 2015 | |
| State budget surplus/deficit (in percentage of GDP) | -3 | -2.9 | -3.3 | -3 | - | -2.7 |
| Growth | 0.2 | 0,7 | 1,4 | 1,8 | - | 2,1 |

Source: European Commission

The European Commission has revised upward its growth estimates regarding the Central and Eastern European countries, among them that of Hungary. The organization's Economic Outlook study predicts **2013 economic growth to average 1.2 percent in OECD countries.**

In this forecast, the OECD is of the opinion that Hungary's economic expansion may be around the same figure, which is considerably higher than of the Commission and exceeds even the about 1 percent GDP growth expected by the Government. According to the OECD, economic growth may even reach 2.0 percent by 2014, while for 2015 they anticipate growth of 1.7 percent, lower compared to the estimate of the European Commission. Economic output is also expected to improve in the other Visegrád countries: although in the **Czech Republic** the economy is seen to contract by 1.5 percent in 2013, in 2014 and 2015 it may expand by more than 1 and 2 percent, respectively. In **Slovakia**, economic growth of 1.9 percent – below the figure expected for Hungary – is prognosticated for 2014. Among the Visegrád Four, it is only **Poland** where GDP growth is expected in 2013-2015 to exceed the average of the OECD countries.



Source: OECD, Ministry for National Economy (NGM)

In the study, the OECD also voices its opinion that, parallel to accelerating economic output, the countries of the Central and Eastern European region shall embark on tapering monetary



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stimulus. This, in case of Hungary, would result in the easing or even terminating of the accommodative interest rate policy of the National Bank of Hungary.

In the view of the Monetary Council, the Hungarian economy is characterized by very low capacity utilization and **inflationary pressures may stay steadily benign**. Achieving price stability in the medium term points to monetary easing. **As the global financial environment has remained accommodative, in the future the manoeuvring room of monetary policy is expected to be restrained by only a persistent and significant shift in the perception of country risks**. On the basis of inflation outlook, depending on the changes regarding country risks and on strengthening economic growth, the base rate may still be lowered cautiously, but it is justified to slow down the pace of easing. **Accordingly, at its latest session, on 21 January 2014, the Hungarian notebank decreased the base rate only by 15 basis points, a cut lower than on previous occasions, to 2.85 percent.**

The revision of growth outlook estimates may take place after GDP data of countries for the fourth quarter of 2013 have been published. **In Hungary, the first preliminary estimate for Q4 2013 is scheduled to be published on 14 February 2014 by the Hungarian Central Statistical Office.**