



European Commission sees improved Hungarian economic outlook

According to the European Commission's Winter Forecast, Hungary's real GDP growth is estimated to be 2.1 percent both in 2014 and 2015, which is an upward revision of the former prognosis. Expectations regarding growth in the EU 28 are 1.5 percent and 2.0 percent, respectively, for these two years, while for the eurozone the related estimates are 1.2 percent and 1.8 percent.

	Autumn Forecast 2013 (5 Nov)			Winter Forecast 2014 (25 Feb)		
	2013	2014	2015	2013	2014	2015
GDP growth (percent, year/year)	0.7	1.8	2.1	1.1	2.1	2.1
Inflation (percent, year/year)	2.1	2.2	3	1,7	1.2	2.8
Unemployment (percent)	11	10.4	10.1	10.2	9.6	9.3
Budget deficit (in percentage of GDP)	-2.9	-3	-2.7	-2.4	-3	-2.9
General government debt (in percentage of GDP)	80.7	79.9	79.4	77.8	79.1	78.9
Perception change compared to the previous year's report: green (positive), black (unchanged), red (negative)						
<i>Source: ec.europa.eu</i>						

(The Commission's forecast on Hungary)

On the basis of the table it can be concluded that in comparison to the estimate of the Commission's Winter Forecast **the latest, end-of-February projections show expectations that each important Hungarian economic indicator is set to improve.** In comparison to spring 2013, estimates were revised upward already in the Autumn Forecast, while this year's report is predicting a downward trend also for the general government debt level. Fiscal shortfall is also anticipated to be lower in 2015 compared to this year. These assumptions are indicating that the Government's economic policy is reliable and thanks to that even in the middle term the country can safely avoid the risk of getting back under an excessive deficit procedure.



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The Commission Forecast is predicting that in the coming years rebounding domestic demand will be the growth engine of Hungarian economic expansion. This expectation is also confirmed by the latest data published in the KSH flash report: in December 2013 the volume of retail trade increased by 1.8 percent compared to the corresponding period of 2012. In comparison to 2012, annual retail trade growth was 0.9 percent. **Household consumption is expected to revive this year and reach growth of 1.5 percent in 2014 and 1.6 percent in 2015,** thanks partly to disposable and real income growth, utility price cuts and public sector wage hikes. In the next two years, construction sector investment is also expected to pick up.

In the opinion of the Commission, **the steady extension of public work programmes, the growing number of commuters and anti-shadow economy measures has positively influenced the state of affairs on the labour market.** In light of the Commission Forecast, the unemployment rate will be around 9.6 percent this year and 9.3 percent next year. These figures are both below the rate for the eurozone (12 percent and 11.7 percent, respectively) and for the EU28 (10.7 percent and 10.4 percent).

The gross government debt-to-GDP ratio is expected to increase to 79.1 percent in 2014, but next year it is anticipated to decline again to 78.9 percent. In comparison to the Autumn Forecast, this February the Commission revised downward by 3 percent the general government debt figure, and they are also predicting debt levels lower than formerly prognosticated for 2014 and 2015. This year, the state budget deficit will be at the Maastricht threshold of 3 percent, while in the coming year it is forecast to be 2.9 percent. Consequently, **the stable, above 2 percent economic growth will be accompanied by diminishing state debt and declining fiscal deficit.**

As far as inflation is concerned, the report states that it reached a low point in the last quarter of 2013 in Hungary – due to the state-initiated cuts in charges of energy and public utility service providers – but it is expected to near the 3 percent notebank target in 2015. In the view of the Commission, due to the gradual acceleration of economic growth and improving confidence inflation expectations are unlikely to change and deflation will pose no threat within the European Union.



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