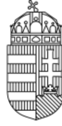


MINISTRY
FOR NATIONAL ECONOMY

The European Commission believes the performance of the Hungarian economy is improving

According to the autumn forecast of the European Commission, Hungary's major economic indices are signalling improvement for the coming years. The differences between the opinion of the Government and that of Brussels on growth and the government budget deficit are narrowing; the forecast of the Commission has adopted a more positive stance compared to the spring prognosis. The Commission anticipates higher employment, lower unemployment, decreasing general government debt and a fiscal deficit which will not exceed 3 percent and thus conforms to Maastricht criteria.

In the latest forecast for autumn, the European Commission revised upward the former prognosis regarding Hungary's fiscal deficit and growth outlook. Brussels prognosticates fiscal deficit of 2.9 percent for 2013 in Hungary, which is more favourable that the 3.0 percent deficit projected in the spring forecast but falls short of the 2.7 percent deficit figure predicted by the Government. It has been another positive factor that **the Commission has upped GDP growth for 2013 from the former 0.2 percent to 0.7 percent, the figure which the Government has also been anticipating.** The expansion of the economy will be the result of the upswing on export markets and – primarily – stronger domestic demand. The increase of real disposable income – partly a consequence of Government-mandated price cuts – has led to a surge in household consumption.

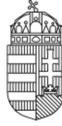
Brussels predicts fiscal deficit to be below 3 percent in 2014 and 2015 and economic growth of 1.8 percent and 2.1 percent, respectively. With regard to 2014, data as projected by the Commission have also been revised upward compared to the spring forecast, and thus the Government's deficit figure of 2.9 percent and GDP growth of about 2 percent do not much differ any more from the expectations of Brussels. In 2014 and 2015, continuing export gains and improving domestic demand will be the drivers of GDP growth. As a result of the extension of the Funding for Growth Scheme launched by the National Bank of Hungary (MNB) the volume of private investment is expected to turn positive. Further gains concerning the amount of real disposable income – owing mainly to regulated price cuts, increasing public sector wages and looser lending conditions -- will fuel household consumption.

The forecast of the European Commission on economic growth and government budget deficit

	2013		2014		2015	
	spring	*autumn*	*spring*	*autumn*	*spring*	*autumn*
Government budget deficit/surplus (as 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

In light of the forecast of the European Commission for the year 2014 and 2015, fiscal deficit as percentage of GDP in the Visegrád countries will be about 3 percent. **It is only Hungary, however, which will be manage to stay below the 3 percent threshold in both years: in 2014 the deficit target will be near the limit, but for 2015 a deficit of only 2.7 percent is to be expected which is anticipated to be accompanied by economic growth exceeding 2 percent.** Poland's fiscal surplus in 2014 is a remarkable piece of data, but it will be due to a one-off item thanks to the nationalization of private pension fund assets. The Government in Warsaw anticipates a deficit figure above 3 percent for the year after that. While the Czech Republic will manage to keep the deficit target below the threshold in 2014, it will fail to do so in 2015 – along with Slovakia. According to the Commission forecast, in the next two years the deficit target within the EU 28 will be below 3 percent.



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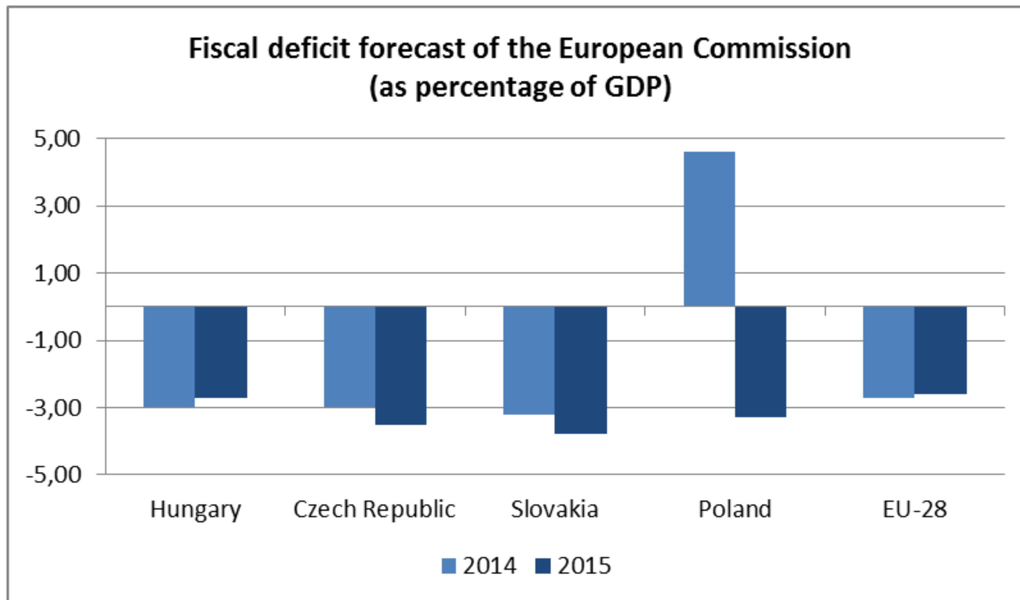

Source: Ameco

As the below table shows, the forecast of Brussels predicts that the general government debt-to-GDP ratio will increase regarding the 28 EU member states: it will exceed the 2012 level by 3.7 percent in 2014 and 3.5 percent in 2015. General government debt has been on the rise in two-thirds of EU member states[1], while **by 2015 government debt as percentage of GDP is thought to exceed 100 percent in seven countries.** The Commission's forecast predicts, however, that by 2014 Hungary's general government debt will only marginally increase, by 0.04.percentage points, compared to 2012, and that it will decrease by 0.4 percentage points to 79.4 percent by 2015. **Accordingly, Hungary will be among those few member states in which – according to the Commission forecast – favourable processes will take place with regard to general government debt.**

[1] The largest increase of debt was recorded in Cyprus; 2014-2012: +37.8 percentage points; 2015-2012: +40.8 percentage points

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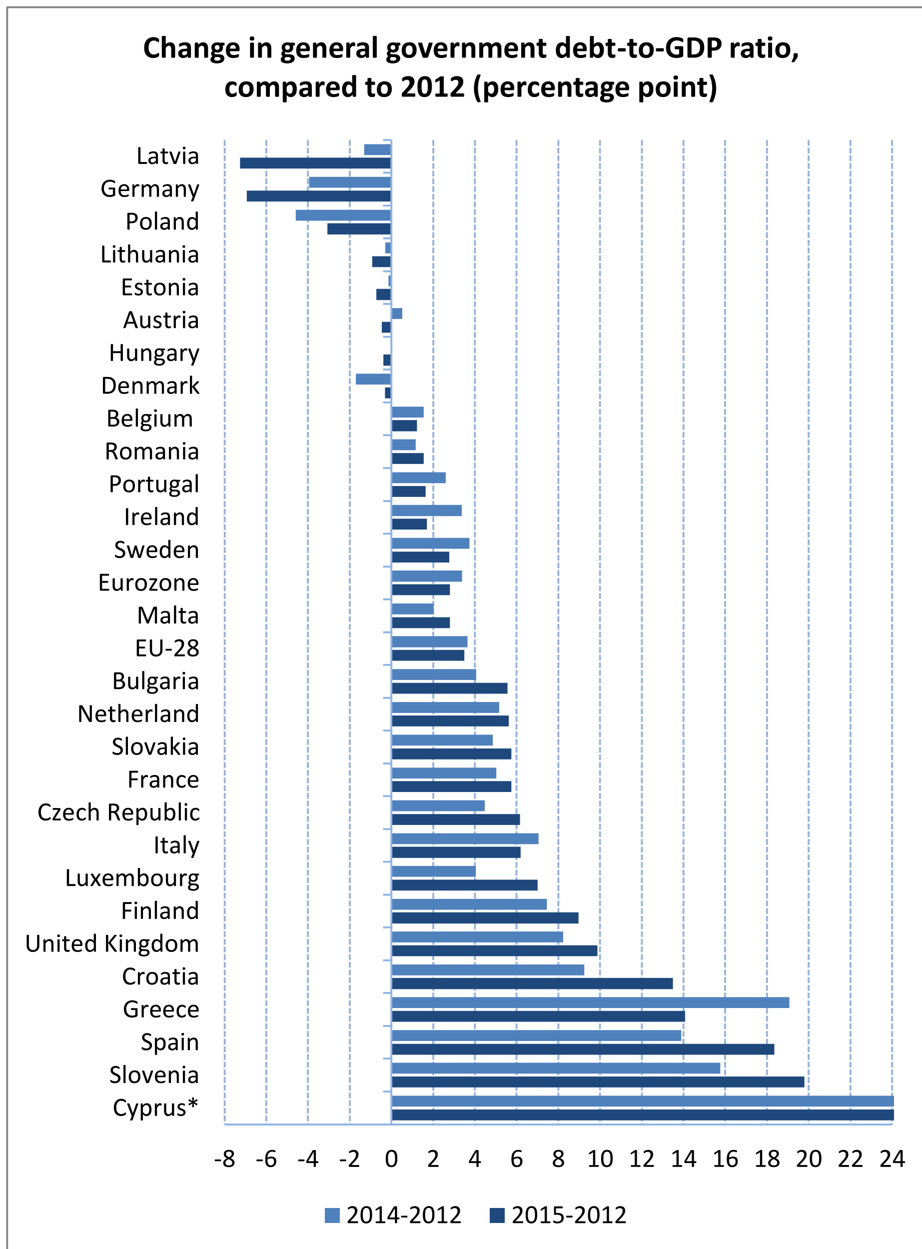

Source: Ameco