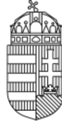


MINISTRY
FOR NATIONAL ECONOMY

The European Commission acknowledged budget deficit to be below 3 percent in 2012 and 2013

The previous Government submitted the Budget Bill for 2010 on the basis of entirely unsubstantiated data. Without the extraordinary measures of the Government headed by Prime Minister Viktor Orbán and the greater than anticipated economic growth central budget deficit would have exceeded 7 percent in 2010. Economic growth, which was almost 2 percent higher than in the submitted macro outlook, improved fiscal balance by almost 0.7 percent. The combined net effect of the two action plans reduced deficit by another 2 percent, whereas the measures of December improved the central budget position by almost 0.5 percent in 2010.

The Hungarian central budget closed the year of 2011 with a surplus of 4.3 percent, which has been an outstanding achievement from both an international and a long-term Hungarian perspective and unprecedented since the regime change. The deficit figure calculated according to European methodology, however, included several well-known one-off proceeds, but even so the final 2.43 percent of GDP figure, adjusted for formerly unplanned one-off items, was also better than expected.

According to the Autumn Forecast of the European Commission, in Hungary the central budget deficit-to-GDP ratio will stay below 3 percent in 2012 and 2013 as well**. Thus the Commission has acknowledged the efforts of the Government aimed at keeping the budget deficit below 3 percent as required by the EU.** These efforts include the two programmes of balance-improving measures announced by the Minister for National Economy in October, which improve central budget balance by 397bn HUF and 367bn HUF, respectively. It can also be considered a positive development that within the EU general government debt will decrease to the largest extent in Hungary concerning the periods of 2011-2013 and 2011-2014.

The country report by Brussels has been **a proof of the effectiveness of Government measures targeting fiscal stability**:

2012 Autumn Forecast of the European Commission

	2011 (fact)	2012	2013	2014
Central budget balance (as percentage of GDP)	4,3	-2,5	-2,9	-3,5
General government debt (as percentage of GDP)	81,4	78,4	77,1	76,8

Source: European Commission, NGM

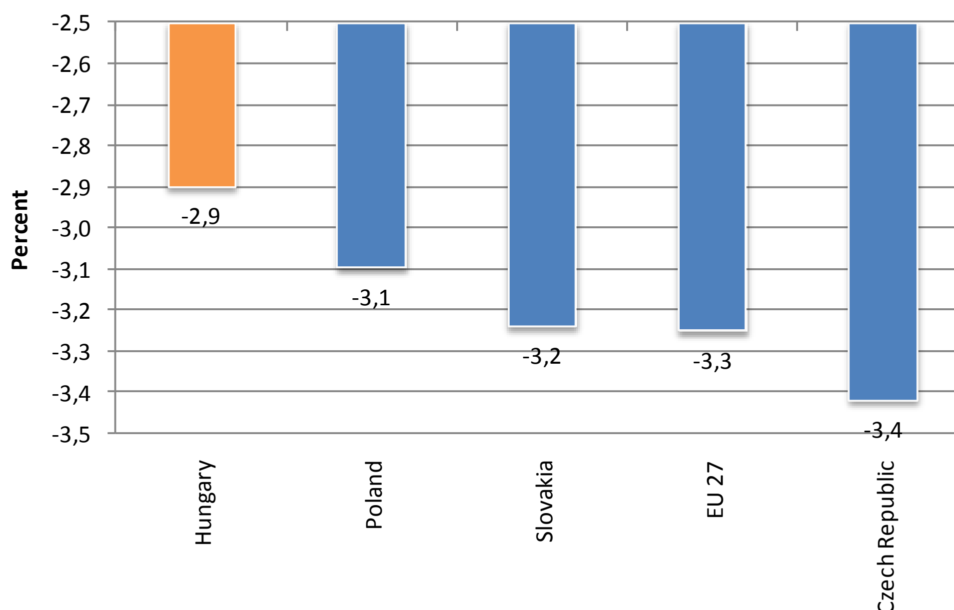
According to the assessment of the European Commission on Hungary, central budget deficit can be 2.5 percent of GDP in 2012. The forecast takes into consideration adjustments totaling 133bn HUF for 2012 announced with the first round of measures in October, which will result in balance improvement amounting to 0.4 percent of GDP. Thus, the deficit estimate of the Commission for 2012 is more optimistic than the Government prognosis of -2.7 percent. The Commission forecasts a budget deficit figure of 2.9 percent for 2013. The estimate takes into account fiscal adjustments announced in October: the raising of financial transaction levy and delaying the halving of bank tax in 2013. The net effect of the measures may amount to approximately 1.5 percent of GDP, including the impact of factors from negative economic growth.

The discrepancy between the forecast of the Commission and that of the Government for 2013 (2.7 percent) can be the consequence of the following:

- The economic growth estimate of the Commission (0.3 percent) is more unfavourable than that of the Government (0.9 percent);
- Instead of a revenue increase of 0.5 percent of GDP resulting from greater efficiency in tax collection the Commission reckons with an increase of 0.1 percent;
- Due to the uncertainty hanging over the EU-IMF agreement, the Commission does not price in lower expenditures resulting from that;
- The Commission puts execution risks at 0.5 percent of GDP adding that the Government does not calculate certain expenditures either.

Nonetheless, **the Government continues to insist on a central budget deficit estimate of 2.7 percent for 2013:** on the one hand it reckons with greater economic growth, due mainly to new motor vehicle investment projects, on the other hand it will once again review the effects of measures which the Commission has failed to price in and which, however, may be relevant.

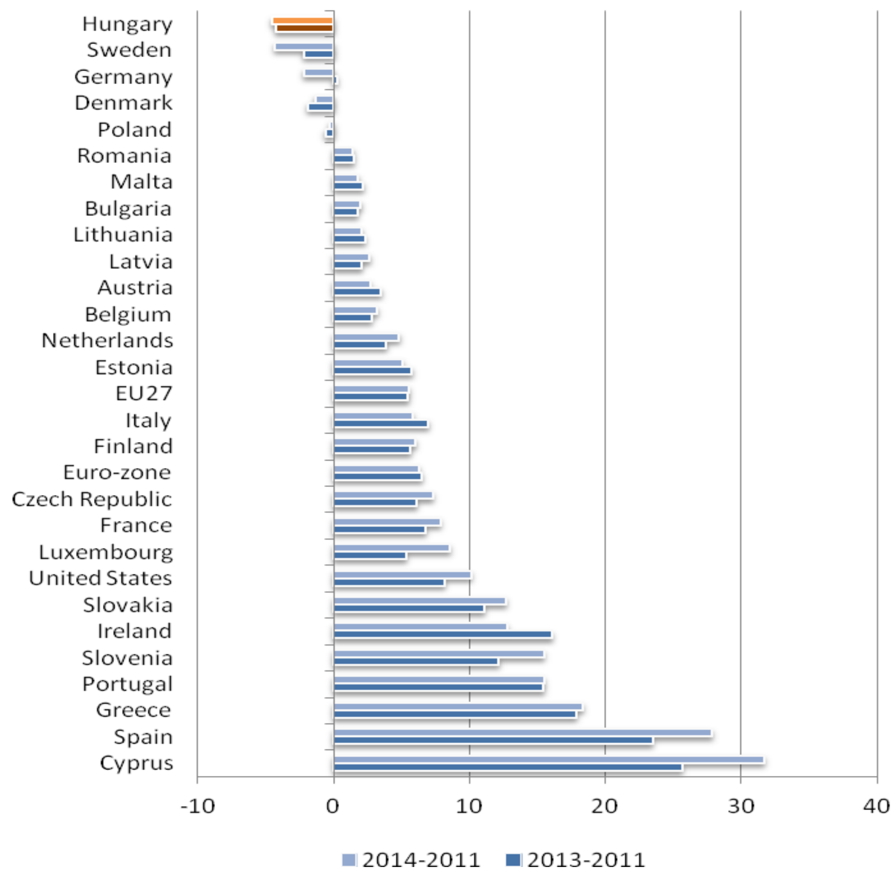
According to the assessment of Brussels, in 2014 the central budget deficit-to-GDP ratio may increase to 3.5 percent, which figure has been defined on the grounds of the new compensation scheme in education and higher interest payments, and the forecast does not take into consideration the compensation in 2014 of the National Bank of Hungary for losses incurred in 2013 and totaling about 0.5 percent of GDP. The Commission is of the opinion that presumably these negative impacts can only partly be offset by the positive effect of an economic upturn and benefits resulting from structural reforms.



Source: European Commission, Ministry for National Economy (NGM)

Comparing the forecasts of Visegrád countries for 2013 it can be observed **that the central budget deficit-to-GDP ratio will be below the 3 percent threshold only in Hungary.** The deficit ratio in other countries of the region (V4) is expected to breach the 3 percent level, and the Commission forecasts that central budget deficits as of GDP will average 3.25 percent in the European Union.

The report paints a favourable picture also about the change in Hungarian general government debt. The prognosis expects general government debt-to-GDP ratio to improve by 3 percentage points in 2012 and thus to slip below 79 percent. In 2013 and 2014 further improvement is anticipated, bringing the indicator down to about 77 percent from 81.4 percent in 2011.



Source: European Commission, NGM

According to the forecast of the European Commission, only five countries out of the 27 EU members will manage to reduce their general government debt in the next couple of years. Within these (Poland, Denmark, Germany, Sweden and Hungary) compared to the figure of 2011 **Hungary is expected to record the largest percentage decline in 2013 and 2014**: debt is anticipated to moderate from 81.4 percent in 2011 to 77.1 percent in 2013 and 76.8 percent in 2014. While in the next two-three years debt levels may rise significantly in several countries, In Hungary general government debt will decrease, proving the fruitfulness of relevant policy.

The Government has successfully fulfilled the requirements which had been formulated as a precondition for a positive assessment. The first and second fiscal adjustments announced in October (totaling 397bn HUF and 367bn HUF, respectively), have been acknowledged by the EU and Hungarian calculations and estimates aimed at shoring up fiscal balance next year have been, as a whole, welcomed.

Effects of the first measures for 2012:

Measure	**Positive fiscal effect (billion HUF)**
Freezes on the expenditure appropriations of central budgetary institutions and chapter administered appropriations	**49**
Freeze on part of the general reserve for covering costs of extraordinary government measures	20
Freezes on PPP and EU Own Resource Fund appropriations	**23**
Savings on expenditures at State Property chapter and National Land Fund	5
Balance improvement at National Employment Fund	**16**
Balance improvement at the National Cultural Fund and the Research and Technological Innovation Fund	4
Bringing forward the date of excise tax hike on tobacco products to 1 December	**2**
Changes in innovation contribution rules	15
Total	**133**

For 2013:

Measure		Gross effect (billion HUF)
1. Increasing the EU co-financing rate of projects		**55**
2. Reduction of bureaucracy		30
3. More efficient wage controls in the public sector		**73**
4. Improved targeting of social benefits		8
5. Eliminating regressing rates for social security contributions		**51**
6. Financial transaction duty		60
	a. Increased payment obligation of the State Treasury	**30**
	b. 0,3% financial transaction duty on cash withdrawal	30
7. Increasing transparency in the economy		**120**
	a. Combating tax avoidance: extending reverse charge VAT to swine trade	10
	b. Combating tax avoidance: connecting cash registers to NAV (National Tax and Customs Administration)	**95**
	c. Altering regulation of small business tax	15
Total		**397**

Effects of the second measures:

Measure	Effect (billion HUF)
1. Delaying the halving of bank tax beyond 2013	72
2. Raising financial transaction tax to 0.2 percent	90
3. Raising financial transaction tax to 0.2 percent for Hungarian State Treasury transactions	40
4. Introducing a minimum tax base for local business tax	35
5. Extension of building tax on wires and pipelines	30
6. Raising healthcare contribution tax for fringe benefits to 27 percent	40
7. Further measures aimed at greater economic transparency	60
Total	**367**

Thus the Government has proven its commitment to sustaining the fiscal deficit-to-GDP ratio below 3 percent and safeguarding a downward trend in general government debt-to-GDP ratio. In order to establish the proper regulatory background of formerly announced measures, the Parliament adopted amendments for taxation regulation. The Government measures and programmes aimed at fiscal stability demonstrate its determination regarding the abrogation of the – still ongoing -- excessive deficit procedure against Hungary.