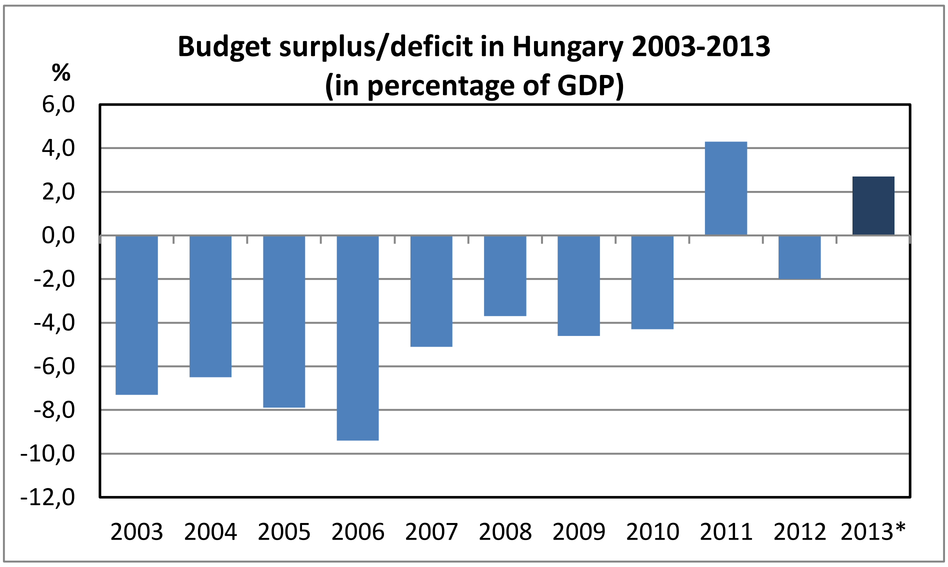
MINISTRY
FOR NATIONAL ECONOMY

Hungary's 2013 fiscal deficit expected to be below prior estimate

The preliminary fiscal deficit estimate for 2013 totals HUF 929.2bn, some HUF 200bn below the deficit figure projected in the budget act. Preliminary cash-flow data on revenues and expenditures also confirm expectations **that the deficit target, calculated in line with EU methodology, will be below 3 percent of GDP in 2013, while in percentage of GDP it may even be 2.7 percent, or – under auspicious conditions – as low as 2.3 percent.** The Government's determination to get the excessive deficit procedure abrogated and to place the Hungarian economy on a steady growth path has been instrumental in achieving better-than-anticipated data.



**preliminary data* *Source: Eurostat, Ministry for National Economy (NGM)*

Cash-flow data for the end of December from the central budget show an even more favourable situation than the Government has expected. Within the central sub sector of the state budget, the central budget closed the year 2013 with a deficit of HUF 979.7bn, while extra budgetary state funds posted a surplus of HUF 50.5bn and Social Security Funds broke even, which altogether resulted in the preliminary fiscal deficit figure of HUF 929.2bn for last year.

Government measures brought about changes which markedly influenced revenues and expenditures this year and last. On the revenue side, several revenue estimates of certain taxes were revised downward, certain types of taxes were abolished or modified and new taxes were introduced.

In 2013, certain tax revenues were higher than formerly anticipated, for example those from value added tax, personal income tax, vehicle registration tax and the extra tax for financial institutions. In addition, the amount paid for the prolongation of frequency usage rights was also a significant item within the revenue category for state assets.

On the expenditure side, the integration of some duties of local governments and their respective financing into the central sub sector of the state budget has resulted in additional expenditures. Consequently, at the end of December the expenditures of the central state budget were higher than last year. This year, expenditures relating to healthcare, welfare and other institutions taken over by the state – such as hospitals, institutions treating disabled people, childcare facilities – as well as to wages of teachers within public education will be booked as state expenditures.

Two items will influence the final deficit figure of the state budget. First, the Ministry for National Economy is expecting that – due to the taking over of debt in 2013 -- **the local governments sector will record extra revenues of HUF 90bn for last year**. Second, the EU may make a decision in March-April this year on **the accounting of an asset transfer of HUF 135bn for the government body responsible for the integration of savings cooperatives**. However, **last year's deficit will be maximum 2.7 percent even in case the way this item is calculated will differ from the Government's expectation** as the so-called ESA gap, the difference between the figure according to the EU's accounting method and cash-flow based accounting, is **predicted to be plus HUF 41bn**.

Provided the HUF 135bn of asset transfer for the integration body of savings cooperatives will be calculated in the way the Government is anticipating, **the 2013 budget deficit may decrease to 2.3 percent of GDP.**

The Government's effort not to utilize resources -- as long as possible -- from the HUF 400bn Country Protection Fund has played a key role in achieving a stable fiscal balance.

Two further measures were also instrumental in posting a better deficit figure: on the expenditure side, funds of HUF 92.9bn were frozen in May and in June the Government introduced some revenue-improving measures which **added as a whole HUF 128bn to the budget balance**.

The fact that **the Hungarian economy was placed on a steady growth path in the second half of 2013** after the slump seen in the first half has contributed to the favourable fiscal situation. **Economic growth even accelerated in the third quarter of last year** and agricultural, industrial and construction sectors have all been behind the better economic output figure, while in the second half of last year **domestic consumption also joined in as a driving force**. Accordingly, the formerly distorted growth driven only by exports and related industrial sectors has become more balanced. In addition, the more intensive utilization of EU resources also contributed to economic expansion.

Last year's deficit figure put **Hungary among those few countries within the European Union which were able to keep the fiscal deficit below 3 percent of GDP over the past three years** and this fact is signalling that Hungary's budget has been on a steady deficit-narrowing path. As a whole it can be concluded that the Government's objectives for 2013 – such as achieving economic growth of some 1 percent and stabilizing the budget balance -- have been fulfilled.