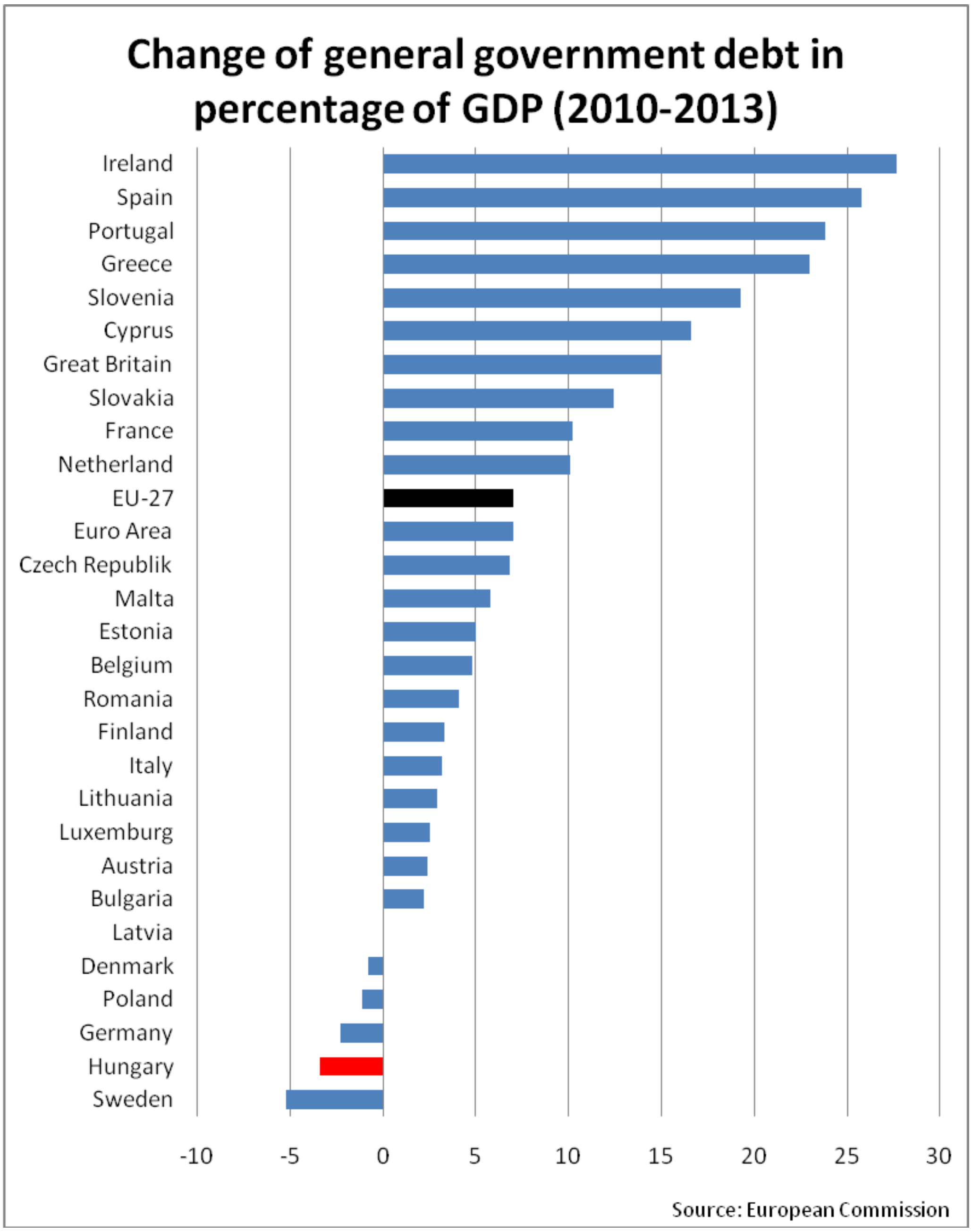
Good news on the Danube

Hungary has delivered an unprecedented achievement and managed to reduce government debt-to-GDP ratio since 2010. According to the the European Commission it is apparent that between 2010 and 2013 only five countries could reduce this ratio, and Hungary has achieved the second best figure of 3.4 percent.



This positive development - besides the one-off impact of the pension fund reform – comes from the recent fiscal consolidation. It is widely regarded as a trend reversal carried out by the Government of Hungary. The deficit-to-GDP ratio declined to 4.2 percent in 2010, which would have reached 7 percent without the prompt measures of the government inaugurated in June 2010. In 2011, having continued to pursue a prudent fiscal policy, Hungary achieved a surplus of

4.3 percent of GDP which result proved to be excellent in the EU. This figure puts Hungary into a significantly more favourable fiscal position in comparison to both the EU 27 and the Visegrád countries (allowing that this achievement was due to some unconventional measures). In 2012 we expect a deficit-to-GDP ratio of 2.5 percent, which figure has also been acknowledged by the EU, and which is an outstandingly positive figure in comparison to prior Hungarian or current EU statistics.

GDP growth in the first quarter was indeed disappointing. However, it has to be emphasized that no one would make long-term estimates on the basis of data of a single quarter. The last quarter of 2011 Hungary had one of the best growth figures, high above prior expectations. The initial two quarters of this year may indeed deliver unfavourable data, but in the second half of the year one can expect further stabilization and for the coming year strong GDP growth figure.

Sweeping labour market reforms have been implemented which will achieve that the Hungarian regulation will be one of the most flexible systems in Europe. Furthermore, Eurostat data signal already the first results: employment rate among the population aged 15-64 years since the change of government, from Q2 2010 to the end of 2011 for which period comparative data are available, increased by 1.2 percentage points. This achievement puts Hungary among the frontrunners of the EU 27, especially as the average increase of the rate in the EU 27 was only 0.1 percent.

Further statistics also prove that Hungarian economic structure and outlook have been improving. The Switzerland-based IMD published some weeks ago its latest competitiveness ranking. Instead of suffering a setback, Hungary has advanced in the ranking by two places, by the greatest degree among the countries of the region. At the end of the term of the first Fidesz government, in 2002, Hungarian economy ranked as the 30th.

Parallel to the transformation of the internal structures of the economy, the external balance of Hungary has also improved outstandingly due to the competitiveness of the Hungarian export sector. Foreign trade has been running huge balance surpluses and Hungarian current account balance position has also been the best in the region.

All these data seem to indicate that Hungary is significantly exposed to European trends, but they also obviously prove that from the aspect of economic consolidation and with regard to key fields there was a trend reversal in the past two years.

Ministry for National Economy