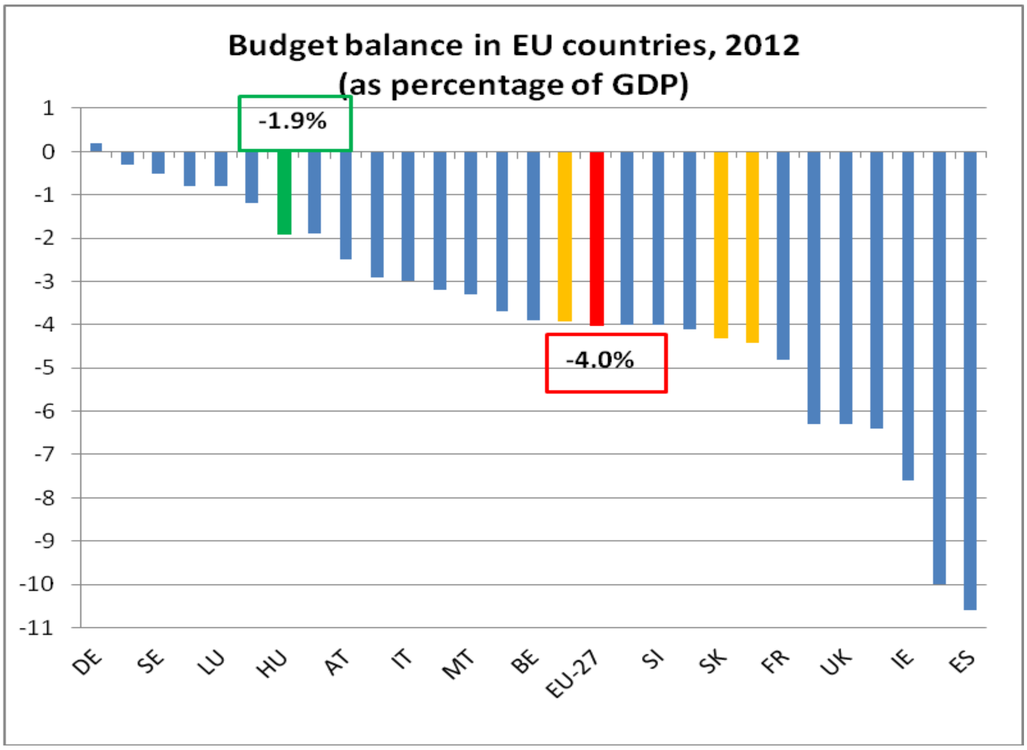
MINISTRY
FOR NATIONAL ECONOMY

# *European Commission prognosis on Hungary's economic prospects improves*

The European Commission has recently published its Spring Forecast for 2013. This contains key macro-economic data, including facts for 2012 and estimates for 2013 and 2014, as well as short evaluations on each European Union member state.

According to data published by the Commission, **in 2012 11 member countries could meet the below 3 percent of GDP fiscal deficit target stipulated by Maastricht criteria**. It was only Germany's budget which closed the year with a surplus, while **Hungary's fiscal deficit equalled 1.9 percent of GDP. Only five other countries had a more favourable indicator than this**: that of Estonia, Sweden, Bulgaria, Luxembourg and Lithuania.




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

**Hungary's fiscal deficit figure of 1.9 percent is far more favourable in comparison to the average fiscal deficit-to-GDP ratios of 4 percent in the EU 27 and 3.7 percent in the Euro-zone,** which are weighed down mainly by the fiscal deficits of the countries of the Mediterranean (10.6 percent in Spain, 10 percent in Greece and 7.6 percent in Ireland). Among the Visegrád countries, **deficits for 2012 were 4.4 percent, 4.3 percent and 3.9 percent in the Czech Republic, Slovakia and Poland, respectively**.

In its latest Spring Forecast, the Commission prognosticates a fiscal deficit of 3 percent for Hungary in 2013. This figure is better than the 3.4 percent predicted in the Commission's former Forecast in February, but still high in comparison to the deficit figure of 2.7 percent anticipated by the Government of Hungary.

**The forecasts of the European Commission and the Government of Hungary regarding economic growth and general government budget deficit**

| | **2013** | | | **2014** | | |
|---|---|---|---|---|---|---|
| | *European Commission* | | *Government* | *European Commission* | | *Government* |
| | *Winter* | *Spring* | | *Winter* | *Spring* | |
| **Government budget deficit/surplus (as of GDP)** | -3.4 | -3 | -2.7 | -3.4 | -3.3 | -2.7 |
| **Growth (%)** | -0.1 | 0.2 | 0.7 | 1.3 | 1.4 | 1.9 |

*Source: European Commission, NGM*

**The discrepancy between the Government's estimate of 2.7 percent for 2013 and that of the Commission may be caused by several factors** on the basis of a comparison between the Commission's short study on Hungary and the Convergence Programme for 2013-2016:

- The Commission's growth estimate for 2013 is less favourable (0.2 percent) than that of the Government (0.7 percent);
- Under the current supportive yields, fairly lower interest expenditures can be anticipated even in the absence of an IMF and EU loan agreement;
- Investments are expected to increase mainly due to higher EU funding;
- In 2013, the state will assume the debt of (certain) cities with 5000+ populations which will result in a surplus of more than 2 percent of GDP this year regarding the local government sub chapter of the government budget.

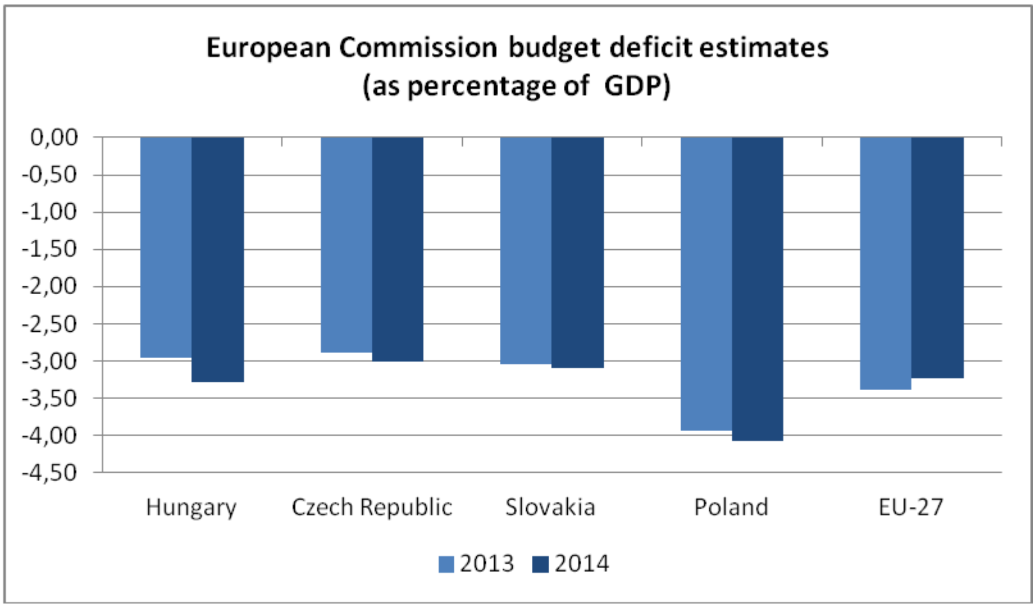
In light of the Government's calculations, slightly more than half of macro-economic risk reserves suffice to cover costs of contingencies which are currently estimable concerning the entire general government budget. The Government is of the opinion that the remainder of the this appropriation, totalling 0.6 percent of GDP, provides an efficient buffer to neutralize other potential macro-economic risks.

**The Government continues to adhere to its general government deficit-to-GDP ratio of 2.7 percent for 2013**: on the one hand, the Government assumes **higher economic growth** resulting from stimulus measures; on the other hand it believes that **the Converge Programme has not been thoroughly and fully evaluated by the Commission**. The Cabinet is also cautious about introducing further fiscal corrective measures, as in 2012, as a consequence of previous adjustments implemented under Brussels' pressure, the budget deficit was far lower than it had been prognosticated by the Commission. Furthermore, **excessive adjustments are likely to adversely affect growth.**

According to the Commission's estimation**, in 2014 the general government deficit-to-GDP ratio may increase to as much as 3.3 percent**. This assumption is based on the following factors:

- introduction of the new compensation scheme in the public education sector (in excess of 0.5 percent of GDP);
- increasing fiscal impact of the Job Protection Action Plan (0.25 percent of GDP);
- effect of growing public sector investment and consumption (0.5 percent of GDP).

The Commission argues that **these negative factors will only partly be offset by the measures of the 2013 Convergence Programme**, further revenue-boosting reforms and the positive influence of an economic upswing (altogether 1 percent of GDP). The Government, however, believes that it reasonably expects a below 3 percent deficit in 2014.




*Source: Ameco*

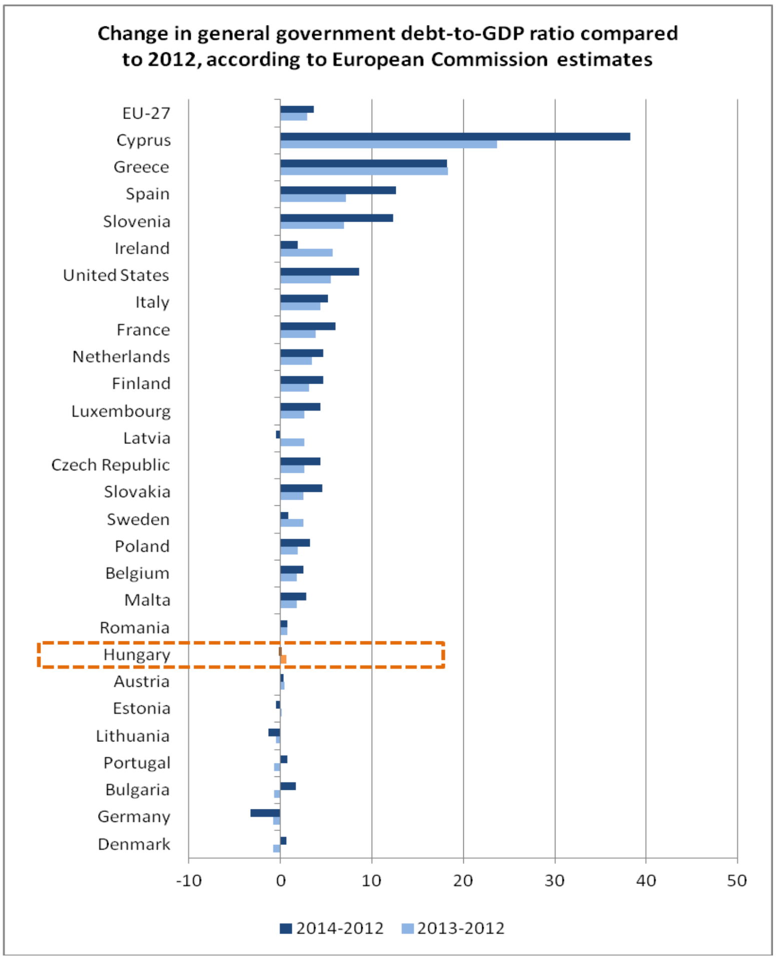
According to the Spring Forecast of the European Commission, **in 2013 it will only be the Czech Republic among Visegrád countries where the budget deficit can be lower than Hungary's**, while in Poland it will be well above that. Hungary's deficit figure for 2013 is expected to be far more favourable compared to the average of the EU 27, and in 2014 it will be on the same level.

**Compared to former prognoses, the Spring Forecast outlines a more promising economic growth path. Instead of a contraction of 0.1 percent predicted back in February, the analysis expects a positive growth of 0.2 percent for 2013**. Thus, Hungary is among those four countries with regard to which the Commission has upped its estimates. The moderate upswing is attributable to export market expansion and more stable domestic demand resulting from higher real incomes.

The Commission expects growth of 1.4 percent in 2014: further increasing real incomes and looser lending conditions will cause household consumption to rise, and investment is set to grow. Better financial conditions and a larger than anticipated agricultural output may further enhance GDP prospects, while weaker business sentiment may dent them.

Consequently, the standpoints of the Government and Brussels on growth and the government budget deficit are nearing each other. The Cabinet is committed to keeping the deficit below 3 percent in 2013 and 2014 as well. Provided Brussels acknowledges this in light of concrete data, there a real chance that Hungary will exit the Excessive Deficit Procedure.

According to Brussels' estimates, general government debt-to-GDP ratios regarding the EU 27 will increase: on average, it will be higher by 2.9 percentage points in 2013 and 3.7 percentage points in 2014 compared to 2012. At the same time, by 2012 Hungary's government debt will be 0.23 percentage points below the level of 2012, slipping thus below 79 percent of GDP. **Hungary is one among those five countries concerning which the Commission expects general government debt level to improve by 2014 compared to the year of 2012.**




*Source: Ameco*