INSTITUTE OF WORLD ECONOMICS
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PUBLIC FINANCE CONSOLIDATION IN HUNGARY

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22 May 2015

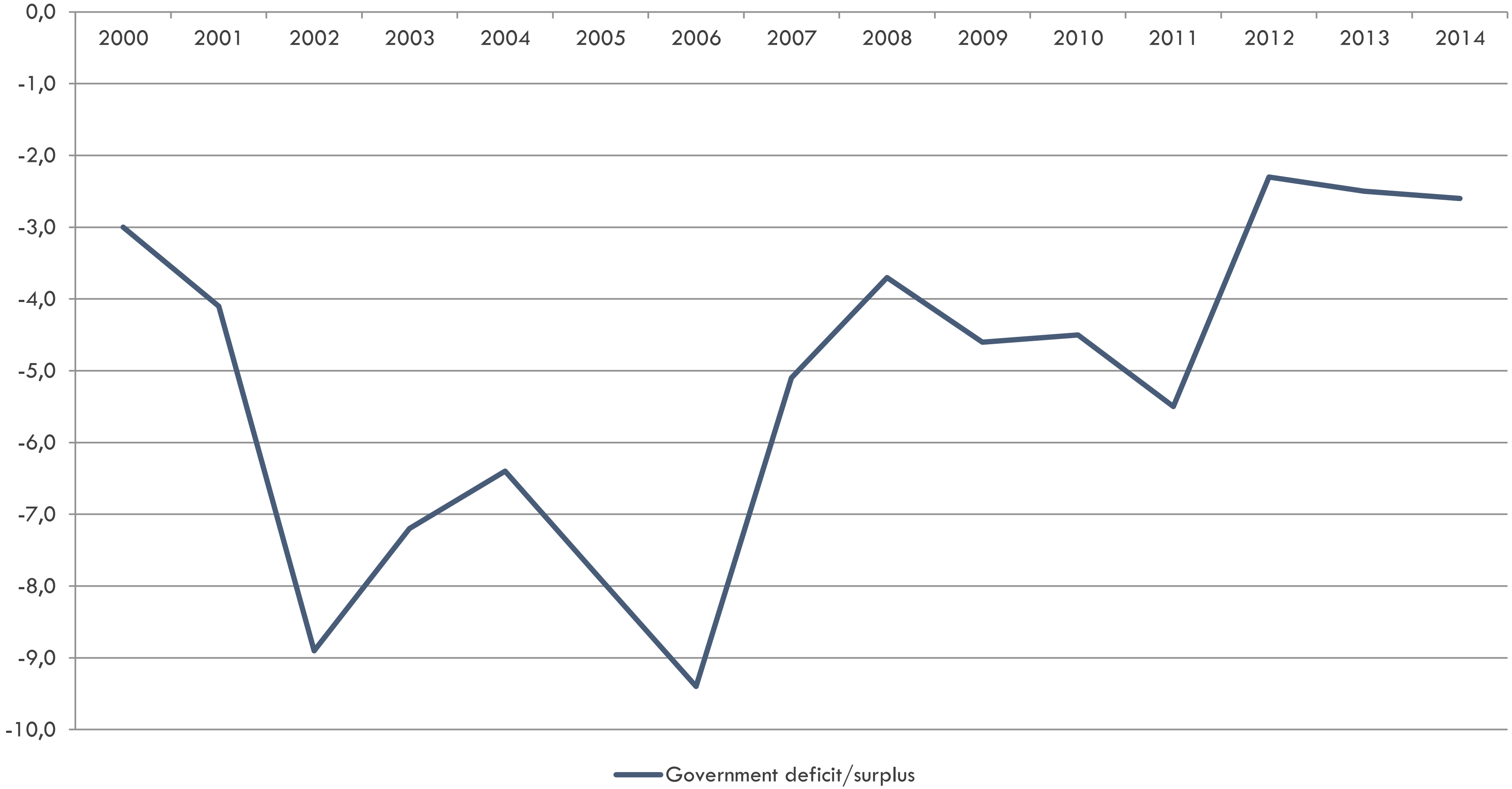
Layout

- Background – before the crisis
- Public finance balance
- Public debt
- Current challenges

Background

- Fiscal consolidation started before the outbreak of the crisis (2006 – deficit level 9.4% of GDP)
- EDP 2004-2013
- 2008: Stand-By Arrangement (-7% growth rate)
  - IMF: € 12.3 billion,
  - EU: € 6.5 billion,
  - World Bank: € 1.0 billion
- 2012: deficit level below 3% threshold (successful consolidation)

Figure 1 General government deficit/surplus in Hungary 2000-2014

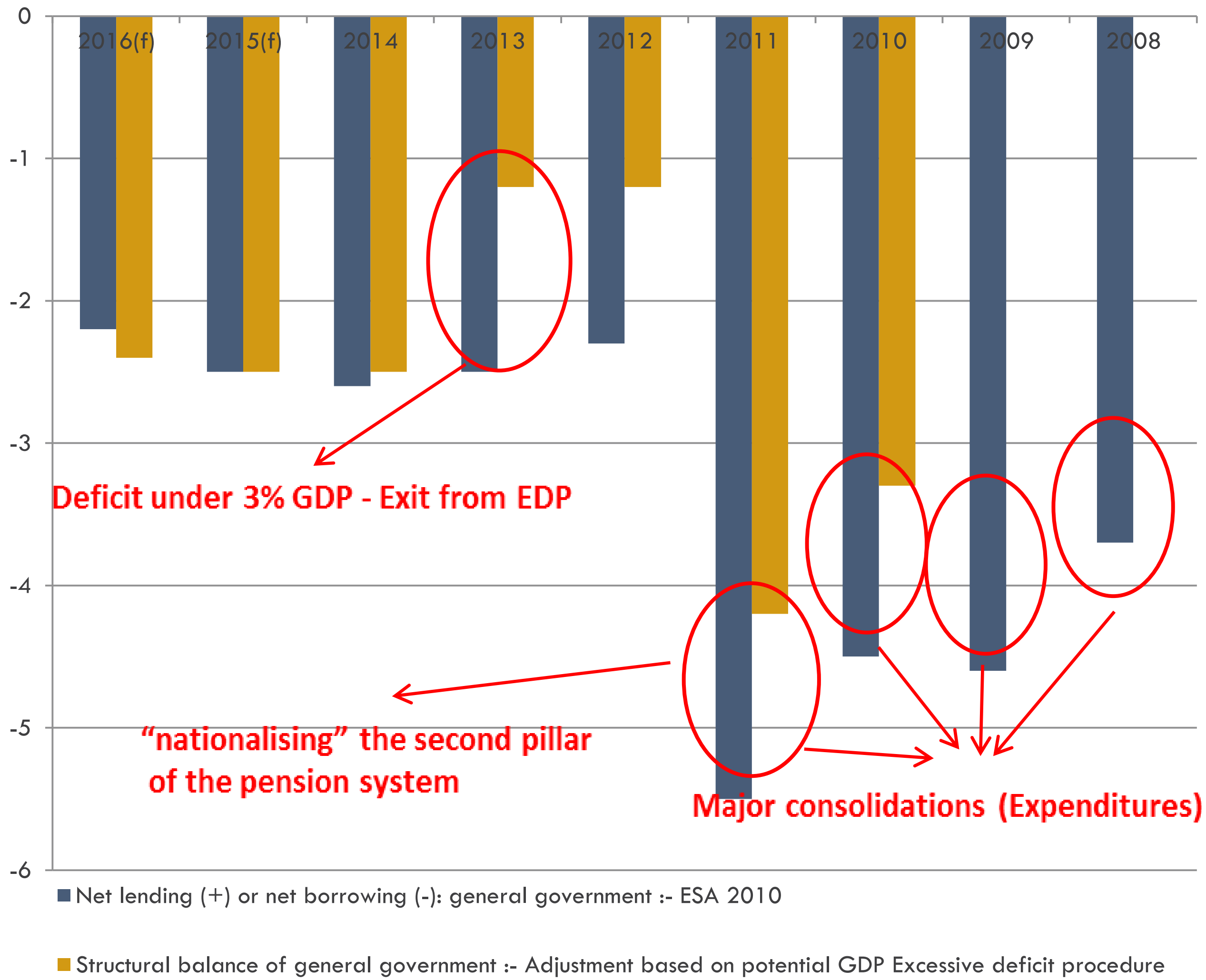


Forrás: Eurostat

Public finance balance

- Hungarian public finance balance performance has been among the worst ones in the EU before the crisis
- 2008: successful consolidation but! the outbreak of the crisis
- Several consolidation packages
- Since 2012 general government deficit below 3% threshold (2018 forecast: 1.6%)

Figure 2 Public finance balance in Hungary (% GDP)



Forrás: AMECO database

Consolidation packages

- 2008: expenditure-side (pay cuts for public-sector employees, elimination of the 13th monthly pension for early retirees and a cap on the 13th monthly pension for other pensioners, other spending cuts)
- 2009-2010: expenditures were reduced by the equivalent of 1.6% and 3.6% of GDP, respectively (cuts in social benefits,
- 2010: 2010 the government reduced the personal income tax effective to a flat rate system at 16 percent (revenue-side, but no increase)

Consolidation packages cont.

- 2011: nationalising private pension funds, drifting away the Hungarian mixed pension system from private insurance, reinstalling the pay-as-you-go scheme (9% of GDP), Szell-Kalman Plan
- 2012-2013: mainly expenditure-based consolidation (areas: health, education, social transfers, pensions, local administrations, and transport)
- 2013: two additional fiscal consolidation packages, one targeting the expenditure side and the other mainly raising and redesigning sector-specific taxes (bank, telecommunications)

Consolidation packages cont.

- 2015-2018: gradually improve the headline deficit to 2.4% of GDP in 2015 and further to 1.6% in 2018 (MTO as well)
- broadly plausible macroeconomic scenario until 2016 and becomes favourable thereafter

Figure 3 Relationship between consolidation efforts and change in social expenditure

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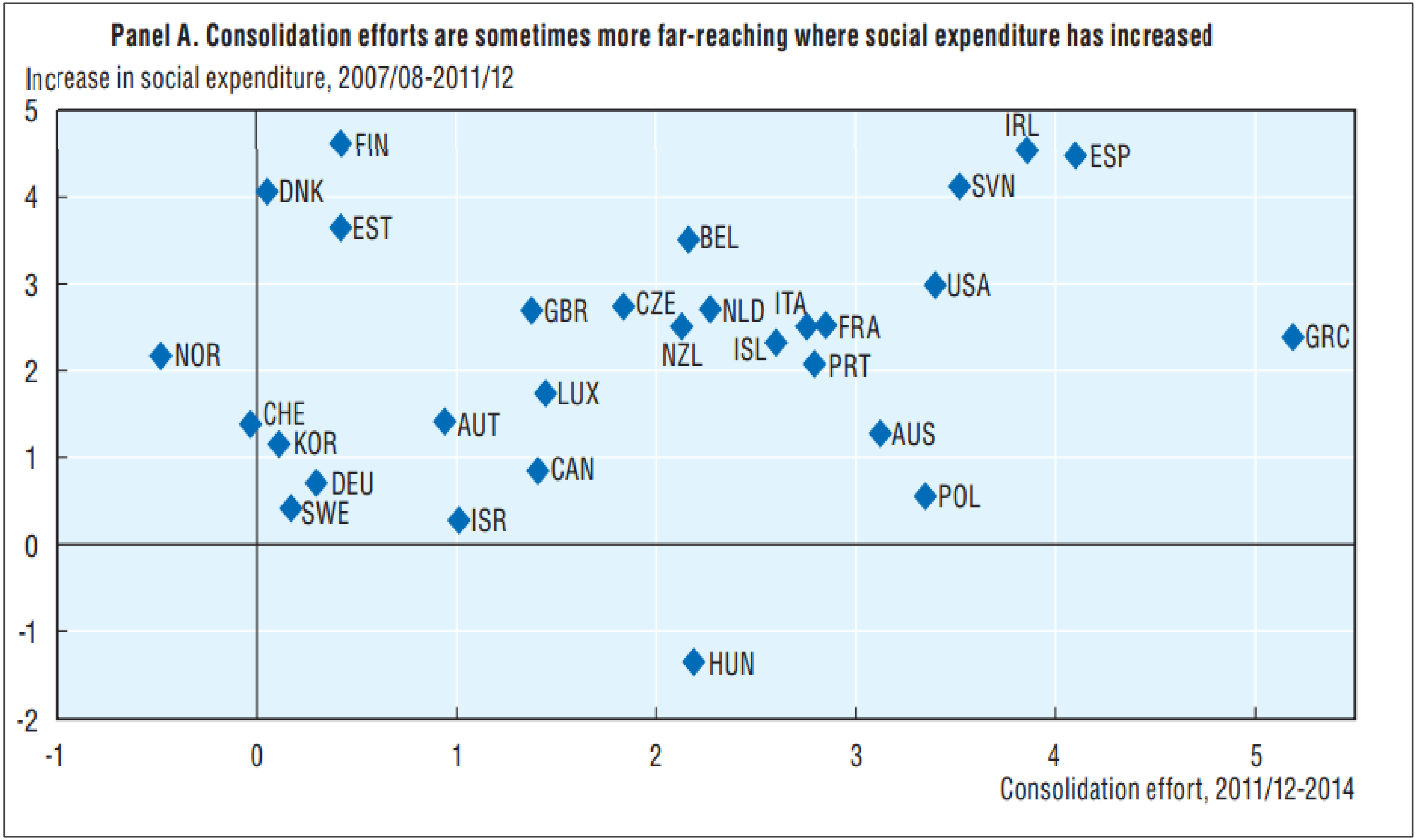
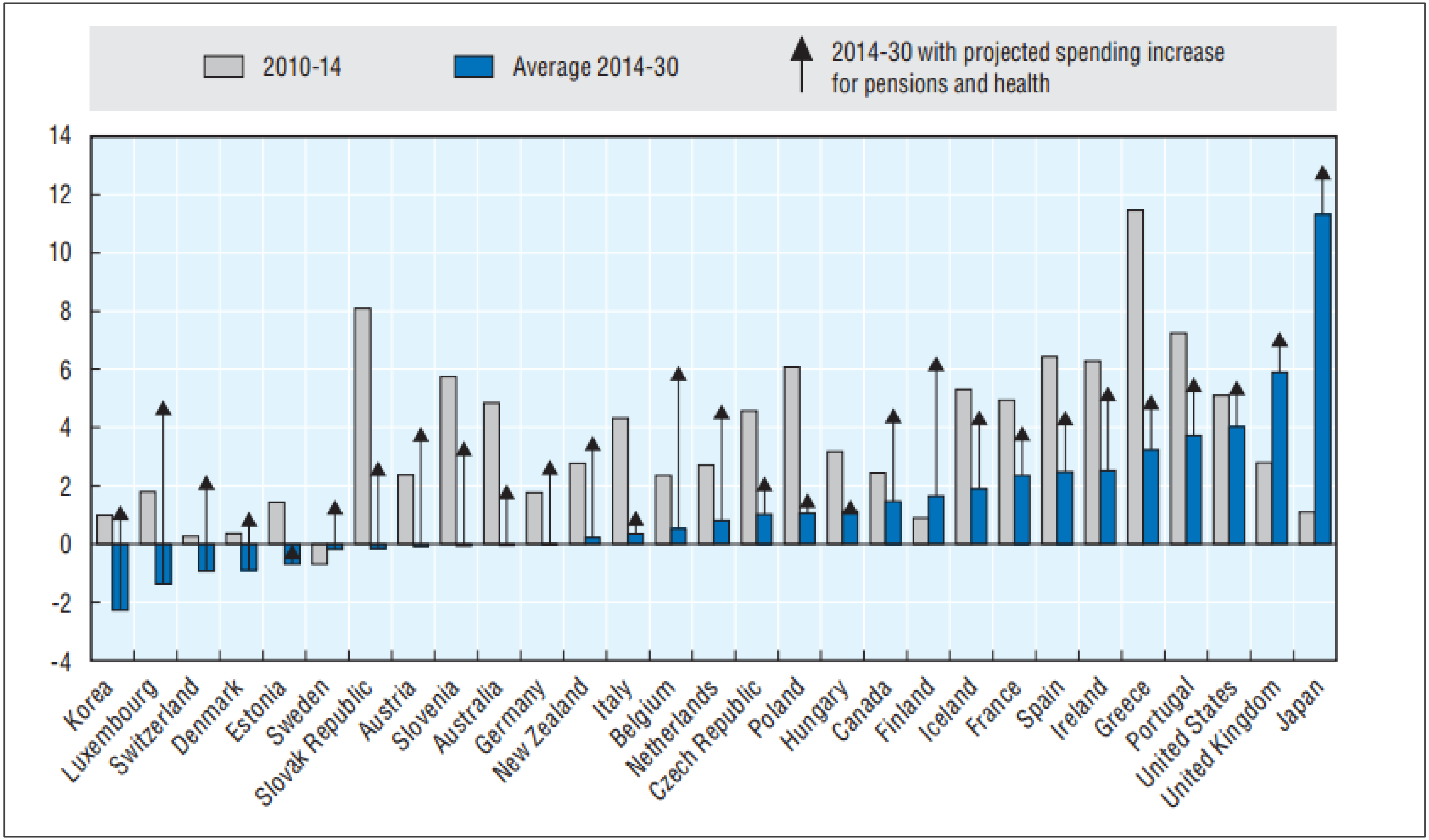


Forrás: OECD (2014) pp. 41.

Figure 4 Short-term consolidation efforts (2010-14) and medium-term consolidation scenarios (2014-30)

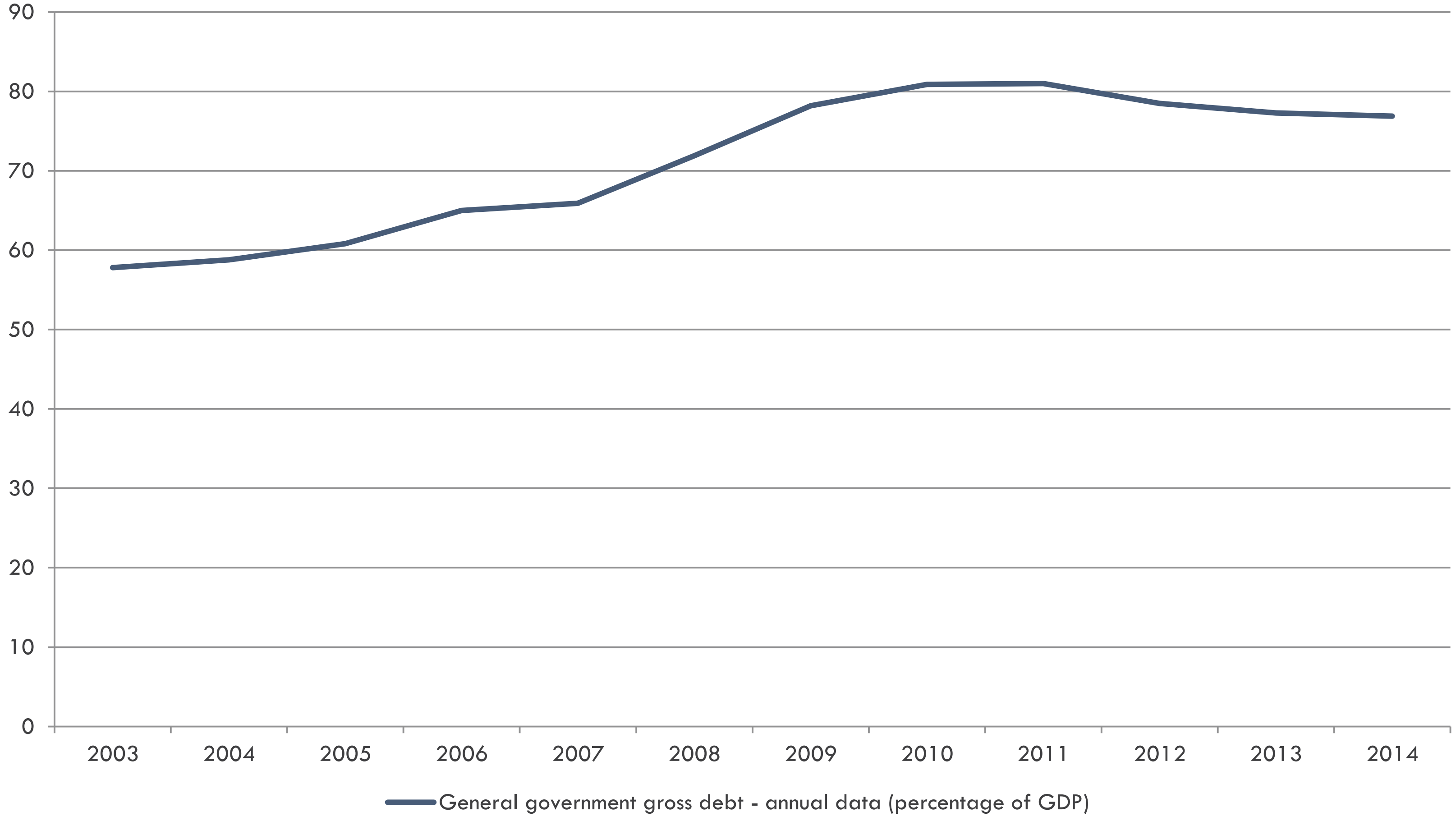


Forrás: OECD (2014) pp. 42.

Public debt

- Exceptional high initial level – 2008 – (within ECE)
- Modest recovery – debt level around 80%
- preventive arm of the Stability and Growth Pact
- government plans to gradually reduce the debt-to-GDP ratio to 74.9% in 2015 and to 68.9% in 2018
- Broadly plausible macroeconomic scenario

Figure 5 General government gross debt for Hungary



Forrás: Eurostat

Current challenges

- No risk of fiscal stress in the short term
- low risks to fiscal sustainability in the medium and long term perspective
- Future challenge: reducing government debt
- Sustainability of PAYG pension system in the long run
- Debt brake not in practice (implementation when?)

Thank you for your attention!