MINISTRY FOR
NATIONAL ECONOMY

MACROECONOMIC AND BUDGET OUTLOOK

2016-2020

December 2016

EXECUTIVE SUMMARY

The Hungarian economy has been growing dynamically, following a balanced and sustainable path since 2013. The average growth rate was more than 3% over the last three years. Although the increase of the gross domestic product temporarily slowed down this year, it is mostly due to the cyclical nature of EU funds. However, it is promising that despite the moderate absorption of EU funds, the Hungarian economy is likely to have grown by more than 2% in 2016, mainly due to the strong domestic demand. In international comparison, Hungary's GDP growth rate was higher than the EU average in 2016, thus the Hungarian economy continued to converge to the more advanced EU countries. Nonetheless, the external and internal balance indicators remained favorable. Due to the sustained fiscal discipline, in 2015 the budget deficit amounted to 1.6% and the debt-to-GDP ratio dropped to 74.7%. The debt structure continued to improve in 2016, significantly contributing to the reduction of external vulnerability. Due to the sustained fiscal discipline, the shrinking debt-to-GDP ratio and the recognition of the performance of the Hungarian economy, the three large credit rating agencies acknowledged the markets' assessment when they improved the rating of Hungary to a category recommended for investment in 2016.

Looking forward, in order to strengthen the growth potential of the Hungarian economy, it is especially important to stimulate companies to improve productivity, which can further strengthen the competitiveness and the income generating and job creation abilities of the Hungarian economy. In order to achieve that goal, the Government proposed a six-year wage agreement at the Permanent Consultation Forum of the Private Sector and the Government, which includes an increase of the minimum wage and the guaranteed wage minimum in 2017 and 2018, in parallel with a substantial reduction of employers' social security contribution and lowering the corporate income tax rate to one digit. The agreement also indicates further reduction of employers' social security contribution in the subsequent years (after 2018) depending on the increase of real wages. The agreement will have a major impact on the performance of the main macroeconomic indicators over the subsequent years, establishing a higher growth path of the Hungarian economy. It will boost consumption and thus GDP growth as well primarily through the increase in wages. At the same time, the lower employers' tax burden will help maintaining the strong labor demand, while the rising wages will increase the labor supply, hence, the employment is expected to increase further. The growth enhancing effect of the corporate income tax reduction comes directly through the increase in private sector investments. This strengthens existing production capacities and results in building up new export capacities as well, which can raise the income generated in Hungary. Furthermore, households' consumption is also expected to rise due to higher wages and increasing employment. Consequently, not only households' income will grow significantly, but also the companies will improve their profitability due to the expanding domestic demand, the more effective production and lower tax burden entailed by the agreement.

The macro fundamentals of the economy establish a stable, balanced and sustainable growth path. GDP growth will accelerate over the forecast horizon and is expected to exceed the 4% rate both in 2017 and 2018. Beside the six-year wage agreement concluded at the Permanent Consultation Forum of the Private Sector and the Government, the absorption of the EU funds and the increasing number of dwelling constructions, supported by the Family Housing Subsidy Programme (CSOK), will also contribute to economic growth. The robust labor demand will support further increase in employment, decrease in unemployment rate and rising wages. Accordingly, the financial position of households continues to improve. The domestic drivers of Hungarian economy are stable; however changes in the external environment could pose a risk to growth. Nevertheless, the Government is committed to maintaining sustained fiscal discipline and keep the general government deficit below 3% of GDP over the forecast horizon.

RECENT MACROECONOMIC DEVELOPMENTS

External environment

In the first three quarters of 2016, global economic growth was more subdued than last year. The growth of global trade also decelerated, it increased at a lower rate than the global GDP, just like in 2015. The developments of the first six months of the year were influenced by the concerns about the potentially strong deceleration (hard landing) of the Chinese economy, the unfavorable impact of low oil and raw material prices on exporting countries. The stricter financing terms and conditions even for the emerging economies played a role, which was partly due to the start of the interest rate increasing cycle in the US. By the second half of the year, the fiscal and real economic difficulties of the exporting countries were eased slightly as a result of a correction in oil and raw material prices. All in all, the growth of the United States and Japan, reported so far, was clearly lower than previously projected and the economic trends in Europe also turned out to be moderate. The growth within the European Union was supported by internal demand mainly due to the increasing consumption, while investments contributed to GDP growth only to a small extent. As a result of that and the moderate external environment, net exports contributed negatively to growth of the EU 28 Member States over the last four quarters on an annual basis. The uncertainties related to Brexit had further unfavorable impact on the European growth prospects.

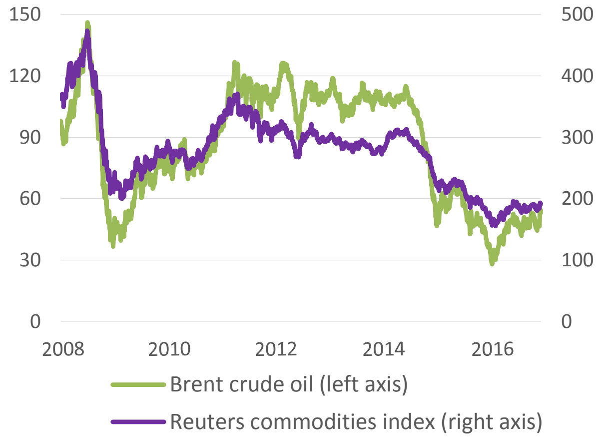
Macroeconomic overview

GDP and its components

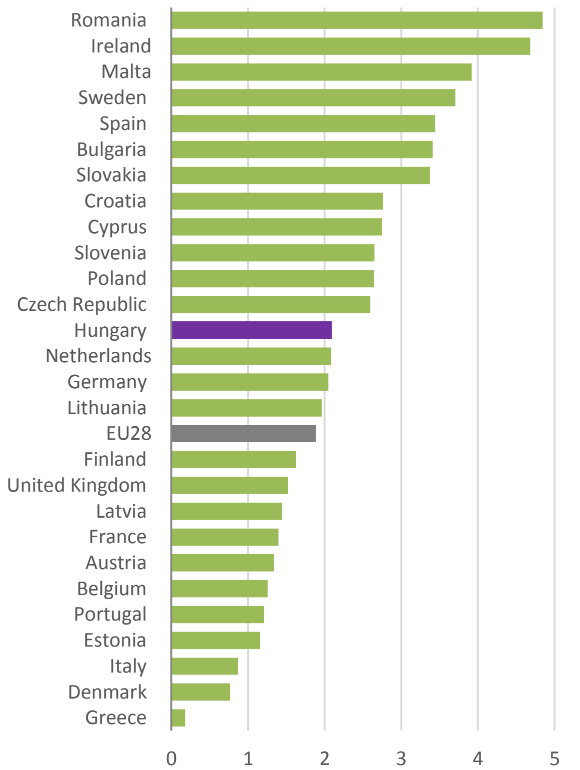
Following the 4% growth rate in 2014, the Hungarian economy grew by 3.1% in 2015. In the first three quarters of 2016 GDP grew by 2.1%. The growth rate slowed down temporarily this year, which was mostly due to the cyclical absorption of EU funds. The stable growth of the Hungarian economy in 2016 driven by strong domestic demand – despite the moderate absorption of EU funds – was a promising sign. In an international comparison, Hungary's growth rate was again higher than the EU average in 2016, which means that the convergence of the Hungarian economy to the EU average continued. In parallel with the GDP growth dynamics, the external and internal balance indicators have also remained favorable.

Development of global economy and world trade
(year-on-year percentage changes, volume index)

World commodity prices
(USD)



GDP growth in the European Union
(average of Q1–Q3 data of 2016, percent)

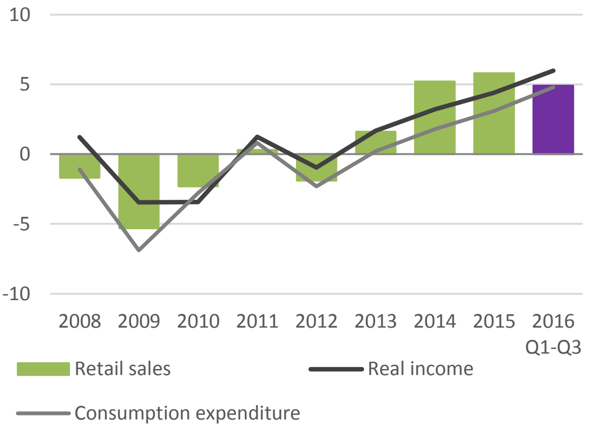


In the first three quarters of 2016, households' consumption expenditure rose by 4.8%, which has been the highest value in the recent years. The consumption increase stemmed from a dynamic increase in the disposable income of households, which was the result of the continuously rising employment, outstanding wage dynamics, one percentage point reduction in the personal income tax rate and the moderate inflationary environment. The easing of households' precautionary motives also contributed to the higher consumption rate, because their previously high level resulted in persistently high savings ratio and slower dynamics of consumption and housing investments.

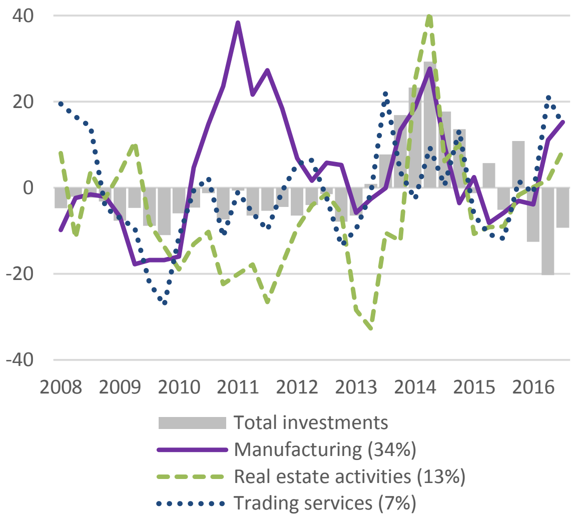
Over the first three quarters of 2016, more than HUF 3,000 billion has been invested in Hungary, yet the investment activity was 14% lower compared to the previous year. This decline is primarily attributable to the high basis of public projects related to the previous EU budgetary cycle, while the performance of the private sector reflects improving dynamics. The 8.2% increase in manufacturing investments and the 12.2% rise in investment in trading services confirm that the decline of investments is not related to the performance of production branches. The investment activity of households also picked up along with the subsidies provided within the Family Housing Subsidy Programme. Its results are clearly reflected in the number of dwelling permits which more than doubled y-o-y and the 14% increase in the number of dwelling constructions in the first three quarters of 2016. With respect to the public investments coming to a halt, it should be stressed that by the beginning of December 2016 more than HUF 1,000 billion had been paid out from the new 2014-2020 EU budget. However, since those payments were mostly dedicated to advance payments, their effect on investment performance will appear only in the coming period.

In parallel with the moderate development of the industrial output this year, the export growth also shrank compared to the outstanding performance of last year. Due to the growing consumption of households and the needs of export suppliers, import also picked up, moreover, its y-o-y volume index exceeded the export growth rate during the first three quarters of the year. The external trade surplus grew steadily and reached a record high figure in the first three quarters. As a result, external trade has contributed positively to GDP growth so far.

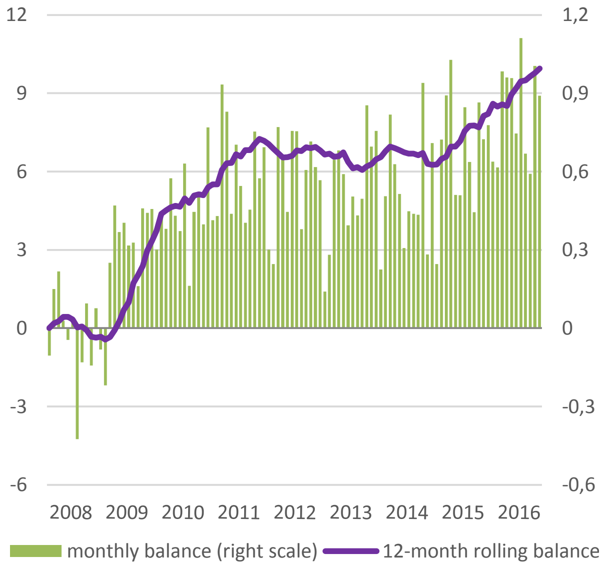
Retail sales, real income and consumption expenditure
(year-on-year percentage changes)



Development of main investment branches
(year-on-year, percent, weight of branch is in legend)



Balance of external trade in goods
(current prices, billion euro)



Production-side processes

In the first three quarters of 2016, the agricultural sector significantly contributed to GDP growth. The growth of industrial output slowed down due to capacity constraints on the supply side and the weak momentum of the global economy on the demand side. The decline of the construction output was mainly attributable to the cyclical nature of EU funds. The main pillar of this year's growth is the increase in services. The performance of the service sector is primarily due to the dynamically increasing internal demand. At the same time, not only trade and tourism increased, which were closely related to consumption, but also logistics and information technology and communication.

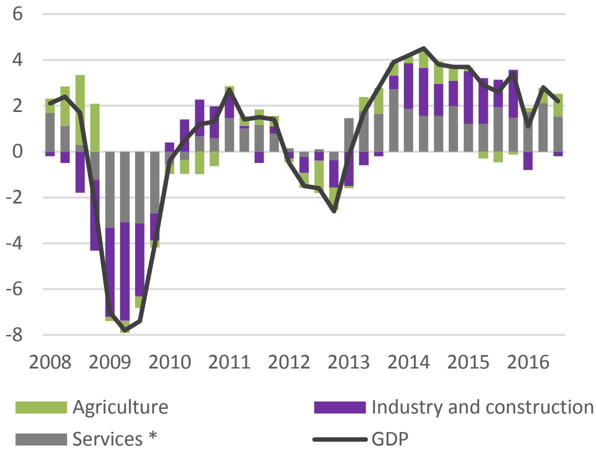
Labor market

The favorable labor market trends continued to prevail during the first three quarters of 2016. Following the 3.3% growth in the first nine months, the number of employees exceeded 4.4 million at the end of October, mainly as a result of the increasing employment on the domestic primary labor market. As a consequence of the continuously high demand, the unemployment rate dropped to 4.7% at the end of October. The number of economically active persons grew by 1.4% (+65,000 people). Wages rose dynamically as labor market conditions became tighter and employers started to compete through paying higher wages to acquire and retain workforce. In the first nine months of 2016 average gross wages rose by 5.4% in the private sector. As a result of low inflation and the one percentage point reduction of the personal income tax rate, average net real wages grew even faster, by 6.9%.

Inflation

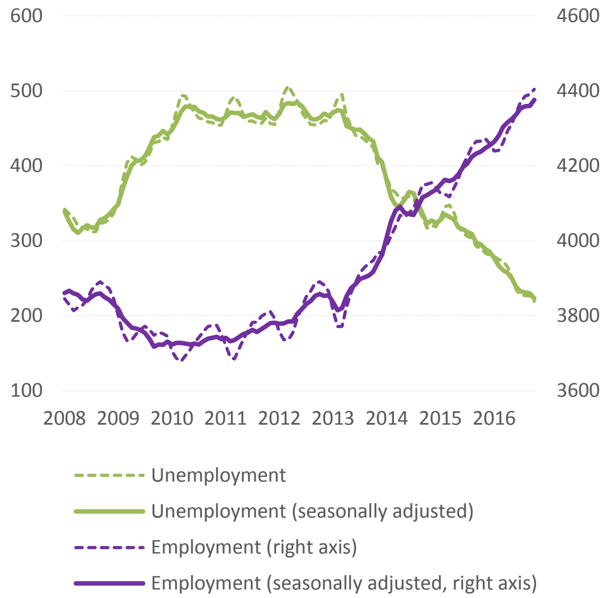
The increase of consumer prices remained historically subdued in the latest years and this year as well. This disinflationary pressure is driven by both external and domestic factors. Food and fuel prices remained at a relatively low level reflecting the excessive global supply, while, due to the moderate globaldemand, the prices of imported industrial products did not rise much either. Nonetheless, the higher domestic demand and the steady increase in wages were reflected in the price increases only to a limited extent, to which the spillover effect of the favorable energy prices could also contribute. The reduction of the VAT rate of pork, which was followed by the proportional decrease of the consumer price of pork, also lowered the inflation rate.

GDP growth contributions: production approach
(year-on-year, percentage points)

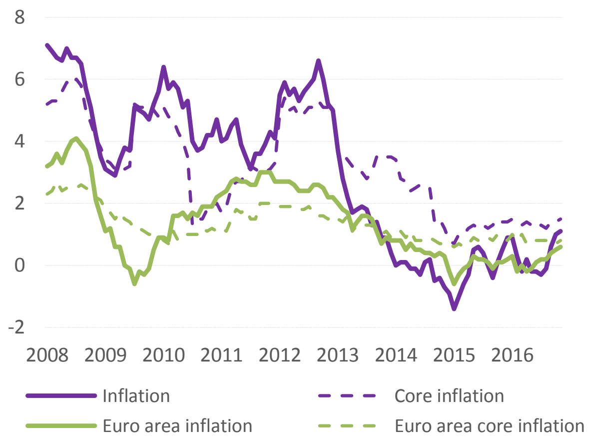


* including net taxes on products

Unemployment and employment
(three-month average, thousand people)



Inflation and core inflation
(year-on-year percentage changes)



General government balance

As a result of increasing wages and employment, accelerating consumption and the measures whitening the economy (e.g., electronic road traffic control system and online cash registers), revenues from taxes and contributions rose dynamically over the first ten months of 2016. In addition, the payments from the so-called growth tax credit and land auctions also generated additional revenues for the budget. The cyclical nature of EU funds also influenced the expenditure side of the government sector: as a result of the lower absorption of the 2014-2020 EU transfers, the government investments decreased and, simultaneously, the intermediate consumption also turned out to be lower than last year. Due to the lower yield environment, net interest expenses also decreased on accrual basis. At the same time, the career models introduced in the public sector led to an increase of the budget expenditure. As an overall result of the revenue and expenditure developements in the first half of 2016, the general government sector deficit dropped to 0.7% of GDP.

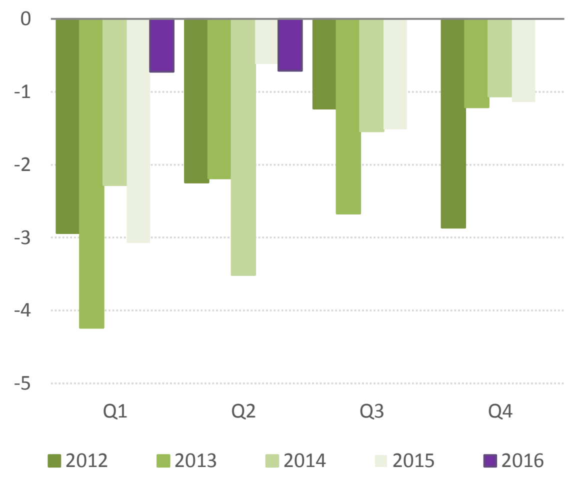
The public debt structure continued to improve in 2016, contributing to the reduction of external vulnerability. In the first ten months of the year, the ratio of debt held by foreigners decreased to 39%, and the foreign currency ratio of central government debt declined to 26%.

The lower exposure also reduced the yields through the lower country risk premia. Short-term yields fell by 60-70 basis points over the year and, excluding the effects of the sudden jump in US yields in November, the long-term yields fell by 30-50 basis points.

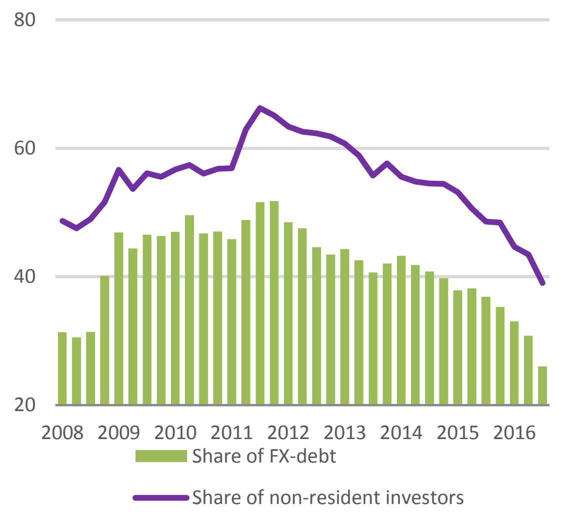
Financial markets

Debt financing costs became even more favorable after the three large credit rating agencies upgraded Hungary in 2016 to investment category, finally acknowledging the country's strongly improving performance, which had been recognized long before by the markets. First Fitch in May, then S&P in September and finally Moody's in November upgraded Hungary's rating.

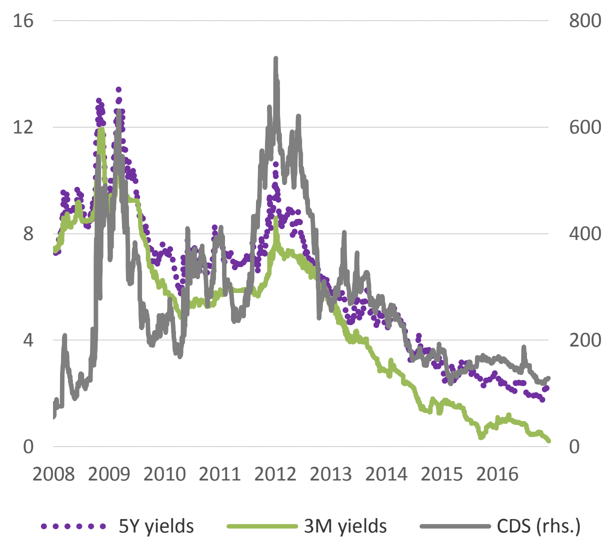
General government balance
(percent of GDP)



Public debt held by non-residents and the FX ratio of public debt
(percent)



Yields and CDS premium
(percent, bps)

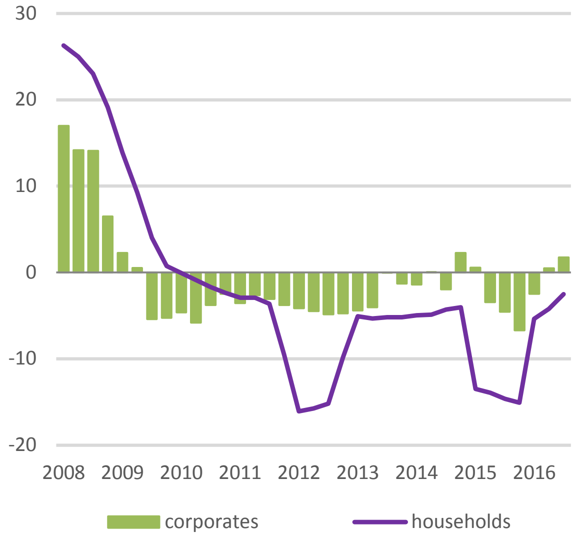


Although the reduction of the bank levy raised the profit of the banking system by approximately HUF 65 billion this year, the lending processes still do not sufficiently support economic growth. An important factor to highlight in this regard is that in a Central European comparison Hungarian households face the highest and companies the second highest interest rate spreads. Nevertheless, favorable developments are evolving in the household sector, as the volume of new loans has continuously increased in 2016, reaching a level which was last reported in 2008. In addition, in the third quarter of 2016 the household loan transactions increased for the first time since 2013. Corporate loan transactions have increased slightly in the second half of 2016, while the annual increase in SME loans reached 5-10%.

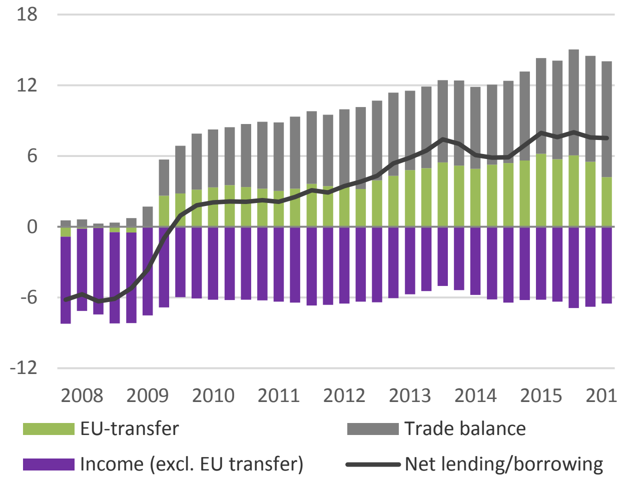
External balance

Despite the fact that Hungary obtained less EU funds than in the previous year, its foreign financing capacity continued to be outstanding and, primarily due to the performance of its foreign trade, its current account balance reached a record high figure. Thus in terms of external developments relating to the balance, Hungary is the best performer within the region, due to the significant surplus in the trade of goods and services and the historically low income outflow. As a result of the favorable development, the net external debt and the external vulnerability of Hungary continued to further decrease.

The annual credit growth rate of the household and corporate sectors
(percent)



Net lending vis-a-vis RoW
(as % of GDP, four quarters cummulated)



MACROECONOMIC FORECAST

Main factors affecting the forecast

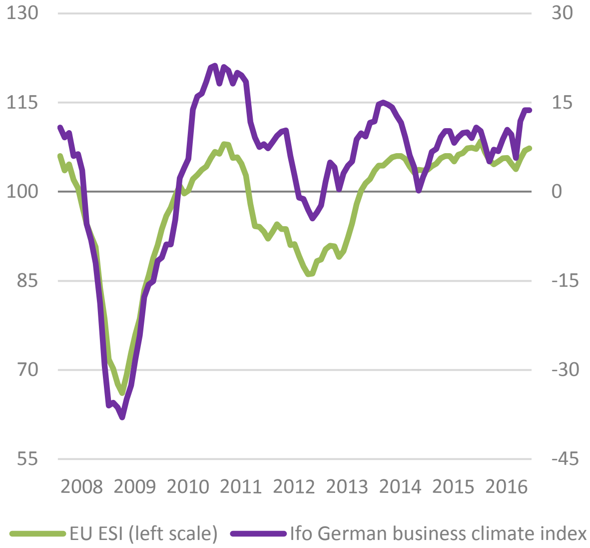
External environment

Looking forward, the overall moderate global economic growth is still accompanied by mostly negative risks. The supportive monetary policy instruments reached their limits in the advanced economies, where the low yields represent an additional financial risk. The uncertainties evolved around the United Kingdom leaving the EU also increase the risks primarily in the European Union. Although the fears about the hard landing of the Chinese economy slightly eased as a result of the recently implemented economic policy measures, the still increasing loan to-GDP ratio and the high indebtedness of the companies in the country still represent certain risks. The challenges resulting from global migration and other geopolitical tensions are also added to those factors. The planned expansionary fiscal policy of the new American administration is considered as a positive risk since it is expected to have a favorable impact on the global economy according to projections of international organizations such as the OECD among others. In the short term, the European confidence indicators also reflect an improving business environment.

Six-year wage agreement concluded at the Permanent Consultation Forum of the Private Sector and the Government

The labor market reforms as from 2010 successfully spurred employment and participation. After a period of labor intensive growth, the growth capacity of the Hungarian economy can be boosted by raising labor productivity which, apart from technology development and improved work organization, requires a high-quality and well-motivated workforce. In order to achieve this objective, based on the proposals developed by the Ministry for National Economy, the participants of the Permanent Consultation Forum of the Private Sector and the Government agreed on and signed a six-year program. This contains a significant increase of the minimum wage and the guarenteed wage minimum, as well as that of real wages, and also a major cut of the corporate income tax rate and the reduction of employer's social security contribution, partly depending on wage dynamics. The purpose of the agreement is to encourage the efforts improving productivity of companies and to spur the increase of the number of jobs generating high value-added, and to improve the competitiveness of the Hungarian economy.

European and German confidence indicators
(index signaling expansion if above 100 or 0)



Elements of the Six-year Wage Agreement

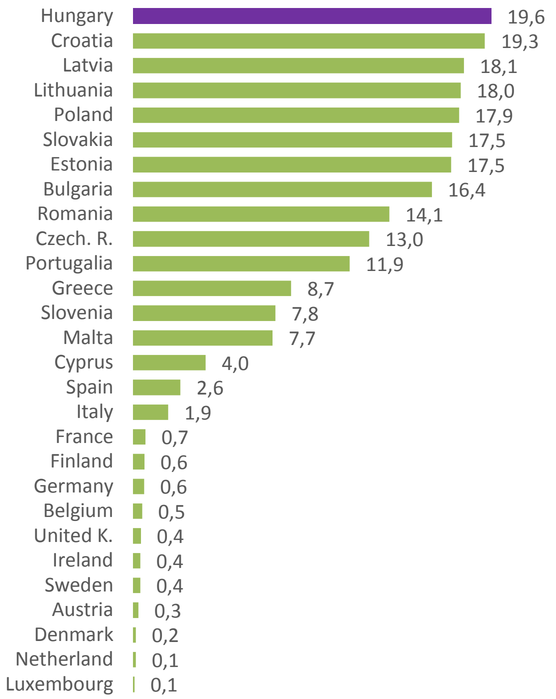
	2016	2017	2018
Minimum wage	111 000 HUF	+15%	+8%
Qualified minimum wage	129 000 HUF	+25%	+12%
Social contribution tax	27%	22%	20%*
Corporate Income Tax	10% 19%	9% 9%	
Social contribution tax from 2019	Additional 4x2 percentage point decrease subject to the rate of change of real wages		

* Social contribution tax will be 19.5% if wages increase in 2017 faster than the stated pace in the six-year wage agreement

Absorption of EU funds

The timing of the absorption of the EUR 21.5 billion structural funds available for Hungary during the 2014-2020 EU budget period is a major factor in the macroeconomic forecast. The priority of the current 7-year cycle is the development of the economy, therefore corporate investments financed from EU transfers are expected to support the long-term growth of Hungarian economy too. According to the Government's objectives, by the end of 2018 or beginning of 2019, all EU funds available in the 2014-2020 period will be allocated in order to boost Hungary's growth dynamics through faster build-up of capacities.

Available amounts of EU funds in multiannual financial framework for 2014-2020
(in percentage of GDP at 2015 current prices)

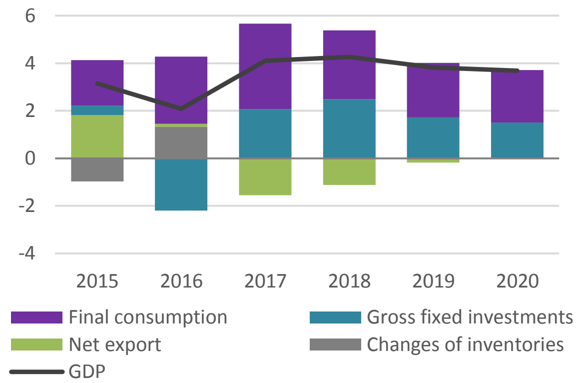


Macroeconomic prognosis

GDP and its components

The Hungarian economy is likely to have grown by 2.1% in 2016; however, significant acceleration of growth is projected over the forecast horizon. Accelerating growth dynamics are substantially supported by the six-year wage agreement – concluded at the Permanent Consultation Forum of the Private Sector and the Government –, which is expected to improve competitiveness of the Hungarian economy, boost consumption, increase investments and exports through generating new export capacities. In addition, the accelerating absorption of the EU funds will also contribute to the higher growth dynamics. The underlying fundamentals of the economy are strongly supporting stable, balanced and sustainable growth trends.

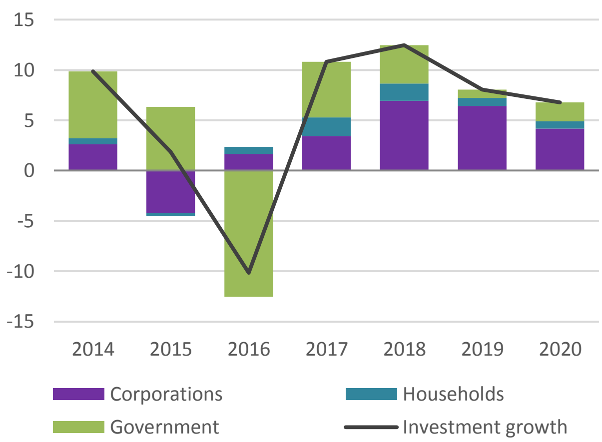
GDP growth contributions: expenditure approach
(percentage points)



In the forthcoming years, the increase of households' consumption will continue, which is supported not only by the continuous easing of the precautionary motives, but also by the favorable labor market trends and by the increase of the minimum wages and the guaranteed wage minimum. The gradual extension of the tax allowance of families with two children and the reduction of the value added tax on certain basic foodstuffs, restaurant services and internet will also give a boost to consumption.

In the years subsequent to 2016, a major increase is projected in investments, to which all three sectors will contribute. Consequently, Hungary's investment rate will rise continuously over the entire forecast horizon and will be steadily above 20%. This is considered favorable since the new development projects following capacity buildup will continue supporting the economic growth after the start of production.

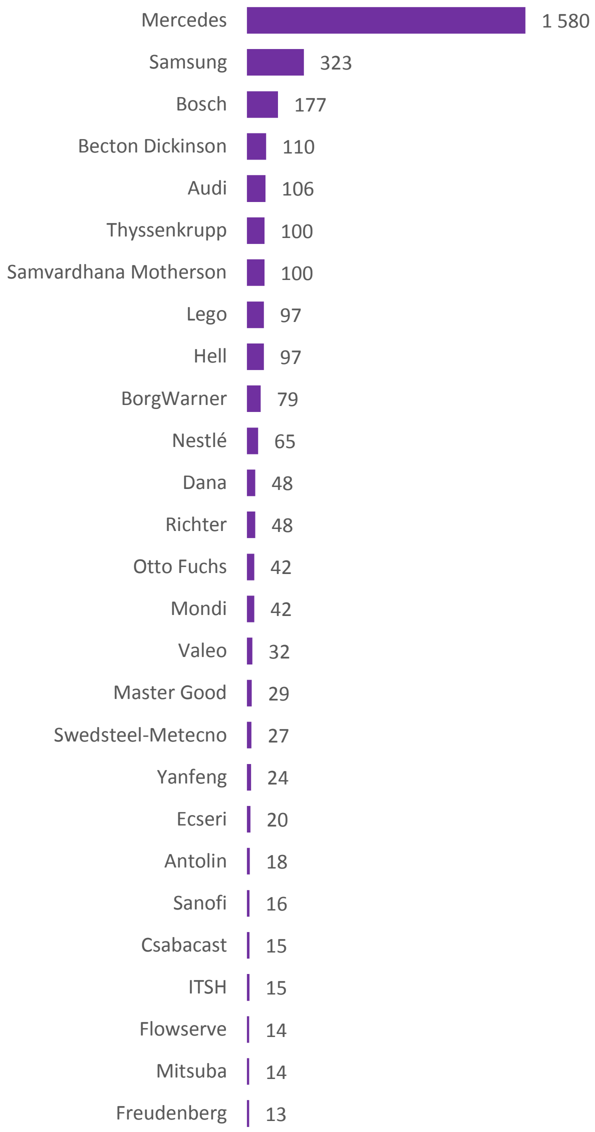
Contribution of sectors to gross fixed investment growth
(percentage points)



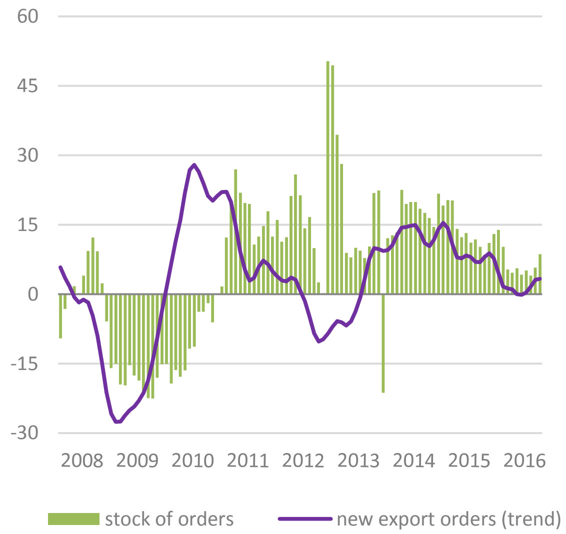
Numerous large investment projects announced recently primarily in the automotive industry and its supply chain are projected to boost the activity of large companies. In case of small and medium-sized enterprises, investment activity will be supported not only by the low yields and favorable business climate but also the accelerated allocation of EU funds dedicated to economic development. Furthermore, Hungary's investment attracting capability will become stronger, as the corporate income tax rate is reduced to 9% from 2017, which is the lowest rate in regional comparison. It provides an incentive for both new companies to invest in Hungary and the incumbent companies to expand their already existing capacities. With respect to households' investments, the favorable tendencies that started on the housing market are likely to continue over the next few years. Along with the steadily low interest rates and increasing real income, also the measures adopted by the Government can give a major boost to the demand and supply sides of the housing market. As an overall result, at the end of the forecast horizon the annual number of dwelling constructions can exceed 25,000, in parallel with the continuous increase in construction capacities. The dynamics of public investments will be predominantly influenced by the allocation of funds from the new EU budget cycle. The allocation has already picked up in the second half of 2016 and further acceleration is projected in the next few quarters.

The previously announced and implemented investment projects will further increase the export activities of the companies, thus supporting the growth of export. The lower corporate income tax rate also points to the same direction, as it is likely to give a boost to the buildup of new export capacities over the next few years. The volume of manufacturing orders that has been increasing steadily over the last couple of years also suggests stable export growth in the short term. As a result of high domestic demand, i.e., increasing households' consumption and private investments, import can grow at a faster pace than export. Consequently, the contribution of external trade to GDP growth could temporarily fall into a negative range over the forecast horizon.

Main investment decisions of recent period
(EUR million)



Manufacturing orders
(year-on-year percentage changes)



Production-sidedevelopments

Primarily owing to a major increase in investments, the higher industrial output can become one of the basic pillars of GDP growth again over the next few years. The EU budget cycle, government investments and other supportive measures are expected to drive the construction sector. The projected increase in households' consumption promotes a rise in services which thus will make a positive contribution to GDP growth in the next few years too.

Labor market

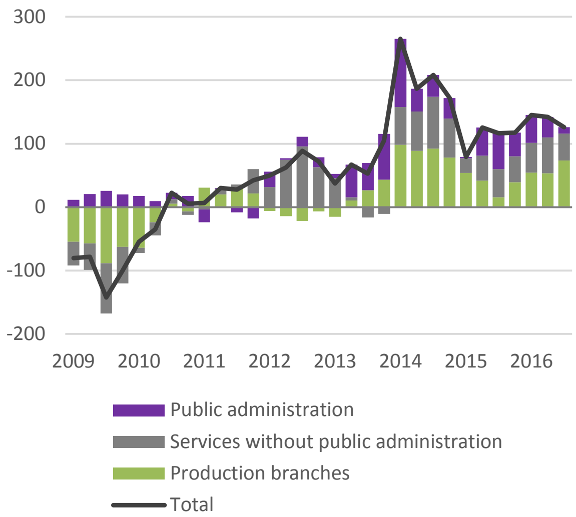
Given the strong labor demand, employment expansion and the fall of the unemployment rate may continue. As a result of the hike of the minimum wage and the guarantedd wage minimum wage hike as well as the reduction of employer's social security contribution, wages can rise significantly which trend may continue for a longer period of time as a result of strong labor demand. Higher wages may increase labor market participation, while the stabilization or the decrease of the number of foreign workers may also contribute to the domestic labor supply. The number of fostered workers may gradually decline due to their successful integration into the primary labor market.

Inflation

As a result of external and domestic factors, an increase of the very low price dynamics – observed previously – is foreseen in the forthcoming years. In terms of the imported factors, the rising oil prices and the increase of the European price level also drive inflation. Regarding the domestic processes, the supportive monetary policy, the tightening labor market and the recently announced minimum wage increase are all raising inflation. However, taking into account the historically low inflationary expectations and the indirect tax reductions in 2017, price increase may remain subdued in 2017, too. As the output gap is closing in the near future, inflation will be close to 3% reflecting the medium-term target of the MNB.

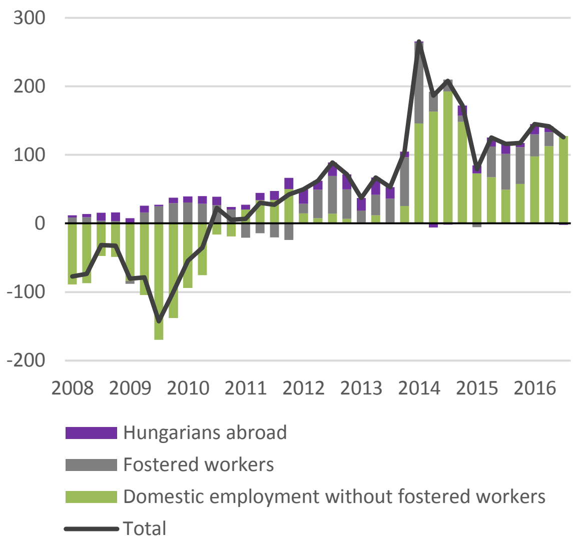
Composition of employment growth by main economic branches

(year-on-year, thousand people)



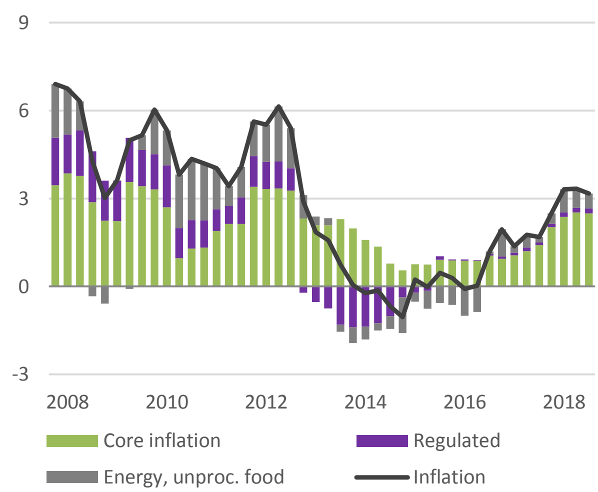
Composition of employment growth

(year-on-year, thousand people)



Main contributors to inflation

(contribution to the year-on-year change)



General government balance

In the forecast horizon the general government deficit will be persistently and substantially below 3%; however, the fiscal policy will support aggregate demand to a larger extent. The increase of households' disposable income is supported by the recently announced wage agreement, while the reduction in the corporate tax rate and employer's social security contributions will improve the profitability of companies. The economic policy measures adopted previously, including the career paths gradually introduced in the public sector, support of dwelling construction, reduction of the banking tax, Modern Cities Programme and the reduction of the VAT on certain products and services also support growth. The accelerating absorption of EU funds also strengthens the demand boosting effect of the fiscal policy. However, the fiscal position is projected to improve, while the general government debt to GDP ratio will continue to decrease on the forecast horizon.

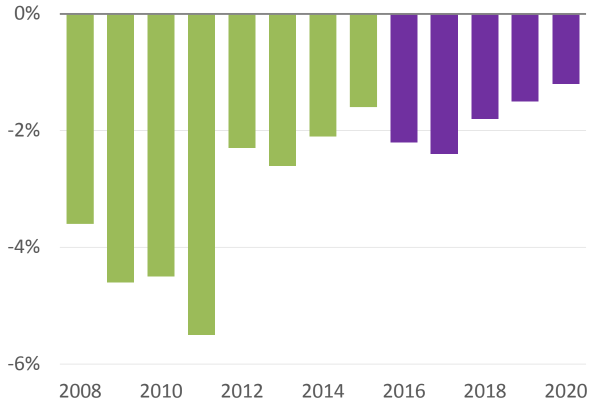
Financial markets

Due to the disciplined fiscal policy and the improving economic performance, market perceptions on Hungary has become more and more favorable, as was also reflected in the upgrading of the country into investment grade category. Market assessments suggest that credit rating could improve further.

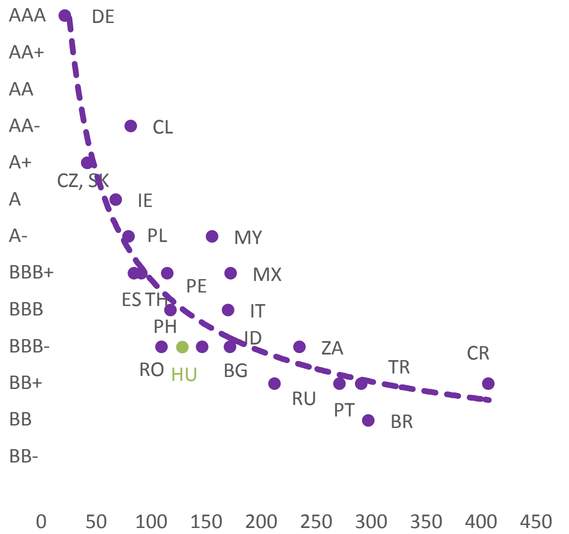
Although the profitability of the Hungarian banking sector is supported by the further reduction of the bank levy and the growth dynamics in the short and medium term, sustainable profitability requires more cost effective operation from the banks and a boost in their lending activity. Increasing consumption and an intensifying use of CSOK should fuel lending developments. CSOK is likely to give a boost not only to housing loans but also to corporate lending, due to the financing need relating to the capacity expansion of the construction sector. In addition, the reduction of the corporate income tax and social contribution tax rate coupled with the minimum wage increase will stimulate investments and induce additional demand for loans in Hungary. Furthermore, the new EU funds and the loans at 0% available at MFB points support lending to the corporate sector.

General government balance

(percent of GDP)

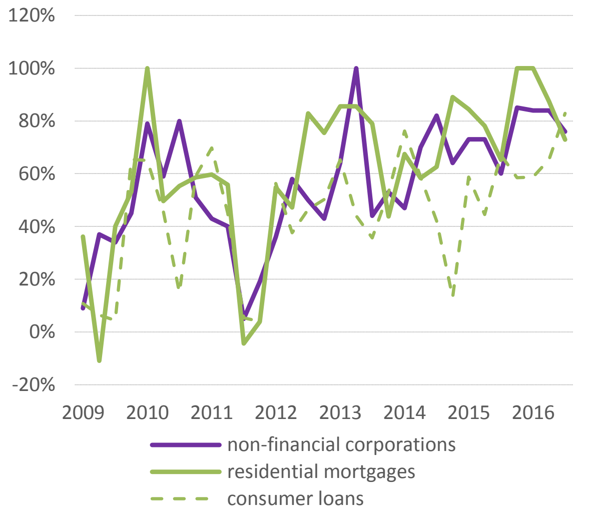


Relationship between average credit rating and 5 year CDS spread



Share of banks expecting credit growth

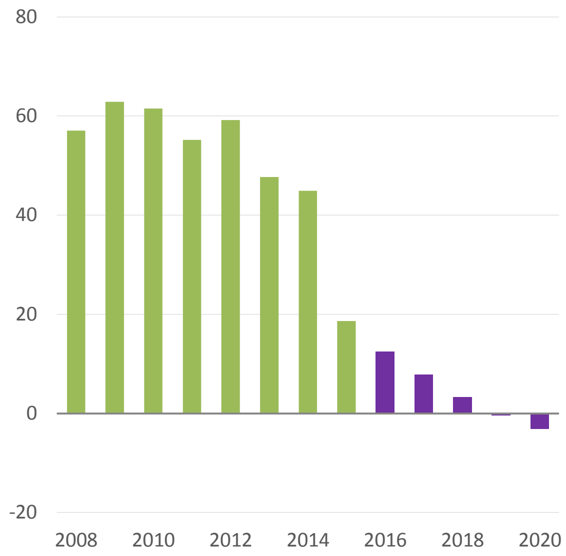
(The difference of share of banks expecting increase and decrease in lending activity, percent)



External balance

Looking ahead, with the accelerated absorption of EU funds, the net external financing capacity is expected to continue to show a high surplus. Nevertheless, due to the considerable proportion of import content, the minimum wage increase and the rise in domestic demand, driven by tax reduction, can lower the current account surplus, and thus the reduction of the external debt can also slightly decelerate compared to what was observed in the past. However, the higher import may be compensated by higher export resulting from the capacity expansion in manufacturing and, in the medium term, from the Government's industrial strategy. With the expansion of foreign companies, the investment income outflow may increase, although it is partly compensated by the decrease in interest payments related to shrinking foreign debt and low yields. With the continuation of the high financing capacity, Hungary can become a net lender following fifty years of debtor's position by the end of the forecast horizon.

Net external debt
(as a percent of GDP)



BUDGET OUTLOOK

Deficit path

The winter prognosis for the medium-term budget outlook projects the same path of deficit – calculated according to the EU methodology – as described in the 2017 Budget Act, i.e. deficit is projected at 2.4% of the GDP for 2017, 1.8% for 2018, 1.5% for 2019 and 1.2% for 2020.

The following factors were taken into account in the prognosis.

The budget forecast for 2017-2020 is based on the current actual winter macroeconomic path, containing significantly faster growth and slightly higher inflation, taking into account the decisions on tax reduction and minimum wage and guaranteed wage minimum increase reflected in the six-year wage agreement concluded at the Permanent Consultation Forum of the Private Sector and the Government and the currently available schedules and plans of government investments. In line with increasing wages, employee's social security contributions and consumption taxes (VAT, excise duty, duties, etc.) could increase more dynamically than projected in the budget path in the Convergence Programme.

In addition to this, the following measures were taken into account in the calculations:

- The corporate tax rate is reduced to 9% from 2017.
- The revenue from the special tax of financial institutions is likely to be the same as in 2017.
- The deadline for VAT disbursement will be shortened in two steps in 2017 and in 2018. In line with the autumn tax package, the draft also takes into consideration the increase in the limit of VAT exemption of taxpayers.
- In relation to the flat rate tax of small taxpayers and the small corporate tax, the maximum revenue ceiling of application will increase and the number of taxpayers opting for such tax types is likely to increase over the next few years.
- The tax credit available for families with two children is gradually increasing in 2018-2019. The tax credit of young married is also expected to increase.
- In line with the six-year wage agreement concluded at the Permanent Consultation Forum of the Private Sector and the Government, the social contribution tax will be reduced by 5 percentage points from 2017 and even further from 2018 in accordance with the agreement.
- The tax rate on tobacco products subject to excise tax will be raised in two steps in 2017 in compliance with the provisions of the EU regulations.
- The public works expenses may decrease significantly compared to the projections made in spring, reflecting mainly the incentive of seeking employment on the primary labor market as a result of the six-year wage agreement concluded at the Permanent Consultation Forum of the Private Sector and the Government.
- The phased introduction of the career model for teachers and law enforcement agencies will continue and the career programme was also extended to public officers on 1 July 2016. The outlook also takes into account of the effect of a major wage increase at the National Tax and Customs administration scheduled from 2017 and projected wage hike for the employees of the health cultural and social sectors. Researchers and employees who are not trained as teachers but assist education and training in the higher education and in state public educational institutions will also be able to earn an additional income, funded from the budget. The minimum wage increase and guaranteed wage minimum increase entails additional expenses both in the budget sector and in the state-owned companies, which are also included in this new projection.
- The job protection scheme will continue between 2018 and 2020, in relation to which the medium-term planning, does not expect any further increase in number of recipients
- Family housing subsidies and the tax refund subsidy are expected to be higher. In addition, the planning also counts with an increase in subsidies for housing savings as a result of the establishment of National Home Creation Communities.

- Early retirement expenditures will decrease as recipients reach the official retirement age and no new people will join the scheme.
- The pension expenses will preserve their real value as the size of expenses increases with the rate of inflation. However, due to the higher inflation than projected earlier, the amount available for pension payments will also be higher than projected in spring.
- The announced government investments financed from Hungarian resources will also be continued, although with a slightly different schedule. These projects include the construction of the Paks Nuclear Power Plant project, the Liget project, the major road construction projects and the Modern Cities Programme. Additional funds planned for the maintenance of the road network, have also been incorporated.
- The Defense Ministry budget will be expanded according to the rules pertaining to GDP-proportionate financing. The surplus also includes the expenses relating to the introduction of the career model for the law enforcement agencies.
- In respect to debt related expenditures, net interest expenses decrease in both nominal terms and calculated with the EU methodology between 2017 and 2020 due to the pass-through of lower yields. The net interest expense (in cash term) will gradually shrink from 2.4% of GDP in 2017 to 1.9% in 2020.
- A Country Protection Fund/Tax Reduction and Development Fund will also be created and - as a general reserve - an appropriation will be planned for extraordinary government measures. The stability reserve, generated in each budget chapter, will strengthen the reserve system. Such reserves can only be used in the last quarter of the year based on a government decision.
- The balance of the municipality sub-system is significantly more impressive at the beginning of the period due to the higher tax revenues than previously projected. The municipalities may receive the EU funds sooner than previously projected and the municipality development projects may also be implemented more slowly than expected.

MINISTRY FOR
NATIONAL ECONOMY

MACROECONOMIC FORECAST 2016-2020

Main macroeconomic indicators

(year-over-year, percent)

	Fact			Forecast		
	2015	2016	2017	2018	2019	2020
Growth and structure of GDP						
GDP	3.1	2.1	4.1	4.3	3.8	3.7
GDP domestic demand	1.4	2.1	6.2	5.8	4.2	3.9
Household's consumption, of which:	3.1	4.4	5.8	4.7	3.6	3.5
Consumption expenditure	3.4	5.0	7.2	5.8	4.4	4.3
Social transfers in kind	1.9	2.0	0.1	0.2	0.1	0.0
Collective consumption	0.6	2.1	0.7	1.0	0.2	0.5
Gross fixed investments	1.9	-10.2	10.8	12.5	8.1	6.8
Export of goods and services	7.7	6.0	5.3	6.6	6.0	6.2
Import of goods and services	6.1	6.4	7.7	8.5	6.7	6.7
Labor market indicators						
Gross wages and salaries	6.9	9.2	10.5	9.2	7.4	6.8
Average gross nominal wages	4.2	6.0	9.3	7.7	6.4	6.1
Average net nominal wages	4.2	7.6	9.3	7.7	6.4	6.1
Net real wages per head	4.3	7.2	7.6	4.5	3.3	3.1
Employment change [1]	2.7	3.2	1.4	1.5	1.1	0.7
Productivity [1]	0.5	-1.1	2.7	2.7	2.7	3.0
Inflation	-0.1	0.4	1.6	3.1	3.0	3.0

[1] Based on the Labor Force Survey Data.

MINISTRY FOR
NATIONAL ECONOMY

BUDGET FORECAST 2016-2020

Revenues

(billion HUF)

	Fact	Forecast				
	2015	2016	2017	2018	2019	2020
		Expected	Expected	Plan	Plan	Plan
Payment by economic units	1 505.8	1 592.6	1 557.3	1 369.2	1 426.0	1 479.1
Taxes on consumption	4 598.0	4 603.7	5 004.8	5 362.4	5 817.6	6 126.2
Payments of households	1 877.0	1 913.3	2 062.6	2 224.0	2 371.7	2 524.2
Government agencies and chapter-managed appropriations[1]	3 388.6	3 051.6	2 681.9	3 330.6	3 133.2	2 448.9
Payments from central budgetary institutions[2]	29.8	30.1	157.9	208.0	235.6	280.2
Payments from local governments	15.8	13.9	21.6	7.0	7.0	7.0
Payments from extra-budgetary funds	10.0	20.0	17.0	17.0	17.0	17.0
Revenues related to state property	170.1	213.3	110.9	195.2	103.7	98.8
Other revenues	108.9	52.2	7.9	8.0	8.1	8.2
Reimbursement of EU funds	25.7	428.4	75.2	60.0	120.0	120.0
Reimbursement of customs' and sugar levies' collection costs	13.6	13.3	12.0	12.5	13.1	13.6
Total revenues	**11 743.3**	**11 932.5**	**11 709.2**	**12 793.9**	**13 253.0**	**13 123.2**

[1] At Government agencies and chapter-managed appropriations the use of previously unspent appropriations are not planned for 2017 - 2020, but the fact data for 2015 and the expected value for 2016 includes a significant amount of usage of unspent appropriations on both the revenue and the expenditure side. Most of the used reserves also appear here for 2015 and 2016. All of these effects should be considered by comparing the values of each of the years.

[2] Item called Payments from central budgetary institutions contains an element resulting from the 5 percentage point cut in social contribution tax as any savings at the institutions should be paid to the central budget. The extra expenditures of these institutions due to the increase in minimum wage and minimum guaranteed wage will be covered by possible saving on other appropriations in the chapters or from general reserves.

MINISTRY FOR
NATIONAL ECONOMY

BUDGET FORECAST 2016-2020

Expenditures

(billion HUF)

	Fact			Forecast		
	2015	2016	2017	2018	2019	2020
		Expected	Expected	Plan	Plan	Plan
Subsidies to economic units	305.4	333.7	311.4	352.9	368.7	358.4
Support to the media	69.9	69.9	70.1	71.8	74.1	76.3
Consumer price subsidy	97.8	97.0	97.0	97.0	97.0	97.0
Housing grants	109.3	152.0	207.8	222.3	224.7	212.6
National family and social fund	708.7	677.0	657.5	640.5	623.6	623.9
Government agencies and chapter-administered appropriations	8 635.6	8 534.5	8 322.2	8 866.6	7 874.9	7 029.0
Support to political parties	3.8	3.8	3.8	3.8	3.8	3.8
Guarantee and contribution to social security funds	560.0	487.8	871.8	966.2	932.7	1 066.8
Transfer to local governments	665.4	720.2	641.1	644.0	638.4	643.1
Transfer to extrabudgetary funds	138.7	166.5	39.5	34.5	30.2	30.3
Expenditures related to international transactions	14.6	6.4	8.7	7.6	7.4	7.2
Expenditures related to debt service	41.1	48.1	41.6	44.4	41.8	46.1
Other expenditures	24.0	58.8	30.8	30.5	31.7	32.3
Extraordinary government measures (general reserve)	0.0	0.0	110.0	120.0	120.0	120.0
Special reserves	0.0	0.0	283.6	153.6	166.7	167.7
National Protection/Tax Reduction and Development Fund/	0.0	0.0	60.0	50.0	50.0	310.0
Indemnity expenditures	4.0	3.6	3.3	2.9	2.5	2.1
State guarantees	12.6	11.8	21.0	23.0	23.0	24.0
Expenditures related to state property	286.8	356.8	315.8	349.1	582.3	1 131.4
Contribution to EU budget	306.0	295.3	301.5	319.9	329.6	339.8
Total primary expenditures	**11 983.9**	**12 023.4**	**12 398.5**	**13 000.6**	**12 223.1**	**12 321.9**
Interest expenditures	1 205.7	1 095.1	971.7	944.6	953.8	926.2
Total expenditures	**13 189.7**	**13 118.5**	**13 370.2**	**13 945.2**	**13 176.9**	**13 248.1**

BUDGET FORECAST (2016-2020)

Balance and other indicators

(billion HUF)

	Fact	Forecast				
	2015	2016	2017	2018	2019	2020
		Expected	Expected	Plan	Plan	Plan
Primary balance of the central budget	-240.6	-90.9	-689.3	-206.6	1 029.9	801.3
Primary balance of the central budget in percent of GDP	-0.7%	-0.3%	-1.8%	-0.5%	2.4%	1.7%
Interest revenues of the central budget	232.5	139.5	60.7	35.5	33.1	44.5
Total revenues	11 975.8	12 072.0	11 769.9	12 829.4	13 286.1	13 167.7
Total expenditures	13 189.7	13 118.5	13 370.2	13 945.2	13 176.9	13 248.1
Balance of central budget	-1 213.8	-1 046.5	-1 600.3	-1 115.8	109.2	-80.4
Balance of Pension Fund	4.6	0.0	0.0	0.0	0.0	0.0
Balance of Health Fund	-30.1	0.0	0.0	0.0	0.0	0.0
Balance of extra-budgetary funds	2.2	55.1	69.0	82.3	103.6	114.5
Balance of central government	-1 237.2	-991.4	-1 531.3	-1 033.5	212.9	34.1
Balance of local governments	13.6	370.0	250.0	90.0	-240.0	-130.0
Balance of general government	-1 223.6	-621.4	-1 281.3	-943.5	-27.1	-95.9
ESA bridge [1]	689.7	-115.1 – -185.1	371.1	226.1	-611.9	-465.1
ESA balance of general government	-533.9	-736.5 – -806.5	-910.3	-717.4	-639.1	-561.1
ESA balance of general government in percent of GDP	**-1.6%**	**-2.1% – -2.3%**	**-2.4%**	**-1.8%**	**-1.5%**	**-1.2%**

[1] At the ESA bridge, therefore at the ESA Balance of general government, there is a risk of 0.2% GDP coming partly from the final size of year-end arrears of budgetary institutions, and partly from final amount of advance payments financed from EU funds.

Data source: Budapest Stock Exchange, CESifo, Eurostat, European Commission, Hungarian Central Statistical Office, Government Debt Management Agency, Hungarian Investment Promotion Agency, Magyar Nemzeti Bank, Ministry for National Economy, OECD, Thomson Reuters, tradingeconomics.com