MINISTRY
FOR NATIONAL ECONOMY

European Commission continues to expect stable growth in Hungary

The European Commission published its Spring 2015 Economic Forecast on 5 May 2015, which – besides analysing the economic outlook of the European Union and the Euro-zone -- provides a detailed economic prognosis for individual member states. In the opinion of the European Commission, rebounding growth in the global economy, further Euro depreciation, low oil prices and the EU's stimulus programme will result in GDP growth of 1.8 percent in 2015 and 2.1 percent in 2016, within the European Union. With regard to Hungary, the EC has upwardly revised expectations in comparison to the earlier report, the Winter Forecast.

Hungary on a stable growth path

In 2014, Hungary's economy grew by 3.6 percent, beating every prior expectation. The main driving force behind this achievement had been investment growth, fuelled by the Funding for Growth Scheme of the National Bank of Hungary and EU funding, but the revival in household consumption had also been a key factor. As far as growth in the coming years is concerned, although it is seen to be more muted in comparison to 2014, the Commission has still revised upward the 2.4 percent and 1.9 percent growth figures predicted in the Winter Forecast.

European Commission forecast for Hungary				
	Winter forecast		**Spring forecast**	
	2015	*2016*	***2015***	***2016***
GDP (growth in %)	2,4	1,9	**2,8**	**2,2**
Unemployment rate (%)	7,4	6,6	**6,8**	**6**
General Government Debt (in % of GDP)	77,2	76,1	**75**	**73,5**

Source: European Economic Forecast (Winter and Spring 2015)

The economy of Hungary is expected to post GDP growth of 2.8 percent in 2015 and 2.2 percent in 2016, coupled with significant increase in household consumption. The settling of the issue of troubled forex borrowers and the low inflation-induced increase in wages in real terms are seen as the main reasons for this development. The employment and unemployment rates are also expected to improve: the report predicts that the unemployment rate, which exceeded 11 percent in 2010, will be reduced to 6 percent by 2016. Following flat inflation last year, consumer prices will remain unchanged in 2015, while in 2016 the rate of inflation may reach a sound level of 2.5 percent.

EU recovery to gather steam due to multiple factors

Expectations in spring 2015 on the outlook of Europe's economy are the most upbeat since the crisis of 2008-2009. Although the W-shaped recession that followed the crisis had been a lengthy drag on the EU's economy with multiple setbacks, the signs of recovery have by now become clearly visible. Among these, it is worth highlighting low oils prices, falling Euro exchange rates and the massive support provided monetary policy instruments, such as the quantitative easing of the European Central Bank and low interest rates. The structural reforms by member states are another positive effect, for example measures aiming to ease labour market regulation in the most vulnerable countries.

The improvement in growth determinants, such as rebounding household consumption, has led to the revision of this year's growth prognoses. The Commission finds that this year and next these factors are to remain strong enough to offset negative impacts. **In the Commission's estimate, in 2015 real GDP growth will be 1.5 percent within the Euro-zone and 1.8 percent in the EU28, and 1.9 percent and 2.1 percent, respectively, in 2016.** These constitute upgrades of 0.2 percent for the Euro-zone and 0.1 percent for the EU28, in comparison to the Winter Forecast.

Economic output of the EU28 and the Euro-zone will exceed the pre-crisis level by 2016, as the latest.

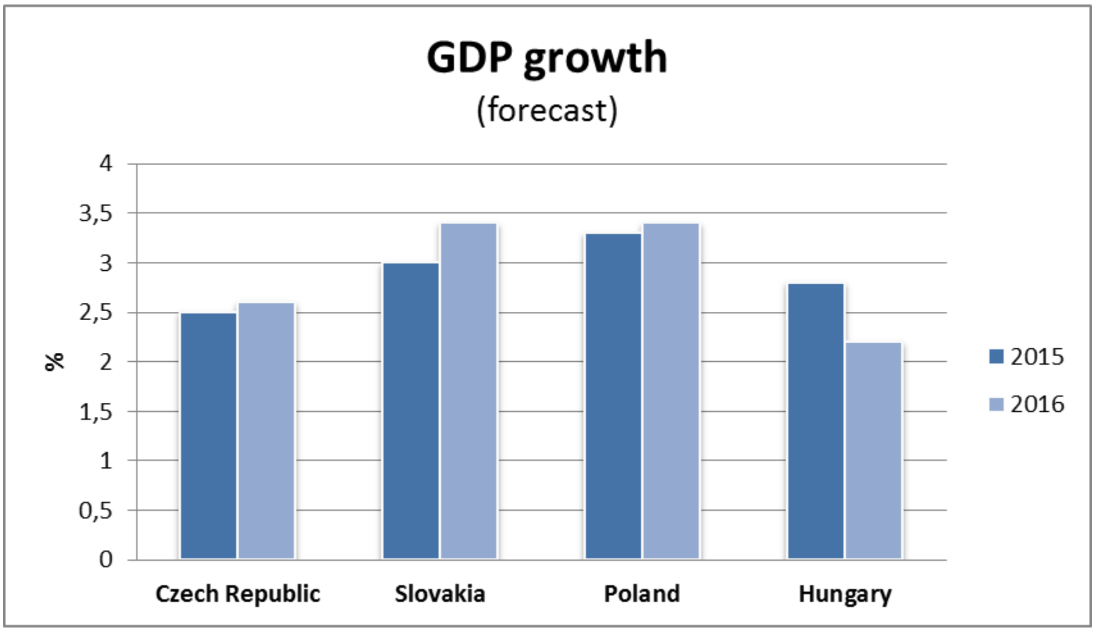
General government debt and fiscal deficit

The general government debt-to-GDP ratio is forecast to fall in Hungary, both this year and next: the European Commission finds that the indicator is likely to hit 73.5 percent until 2016. According to the Forecast, the general government budget deficit is set to fall steadily, and the 2.5 percent deficit figure expected for the current year will be followed by a further drop to 2.2 percent in 2016.

Visegrád Four: above-average growth anticipated

The countries of the Visegrád Four will post economic growth this year and next above the EU average (1.8 percent and 2.1 percent, respectively). Proper labour market measures and increasing real wages will significantly boost household consumption in Poland. In the country with a population of almost 40 million, GDP growth is expected to exceed 3 percent in the coming years, while the level of unemployment is set to decline to 7.9 percent until 2016. In the Czech

Republic, the economy posted positive growth in 2014 following the recession of 2013, and the firm revival is expected to continue in both 2015 and 2016, fuelled by domestic consumption growth. Economic expansion in Slovakia is prognosticated this year to reach and next year to exceed 3 percent, while unemployment is set to decline from the current very high level to 10.6 percent by 2016. Domestic consumption is also seen to be a major growth factor.



Source: European Economic Forecast (Spring 2015)

As a whole it can be concluded that Hungary – similarly to the countries of the region – has been placed on an ascending growth path, and rebounding household consumption will be a key determinant concerning economic expansion in the coming years. It has to be noted that the European Commission could not take the 2015 Convergence Programme into account when the Forecast had been prepared. As a result of earlier measures and the effects of planned Government measures, GDP growth may again exceed 3 percent in 2015. The Government estimates that the economy is to grow by 3.1 percent this year and 2.5 percent next year. In comparison to the Forecast published in February 2015, the Commission has turned more upbeat on Hungary; therefore – in light of new data – it is reasonable to presume that Hungary's outlook will be further upgraded.