Summary for non-specialists
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Macroeconomic Imbalances – Hungary 2013

On 28 November 2012, the European Commission presented its second Alert Mechanism Report (AMR-2013) in accordance with the Regulation (EU) No. 1176/2011 on the prevention and correction of macroeconomic imbalances. The AMR serves as an initial screening device to identify Member States that warrant further in depth analysis into whether imbalances exist or risk emerging. According to Article 5 of Regulation No. 1176/2011, these country-specific “in-depth reviews” should examine the nature, origin and severity of macroeconomic developments in the Member State concerned, which constitute, or could lead to, imbalances. On the basis of this analysis, the Commission concludes whether it considers that an imbalance exists or not, and if so whether it is excessive or not, and what type of follow-up it will recommend to the Council to address to the Member State.

The 2013 in-depth reviews (for Belgium, Bulgaria, Denmark, Spain, France, Italy, Hungary, Malta, the Netherlands, Slovenia, Finland, Sweden and the United Kingdom) were published on 10 April 2013 together with a Commission communication summarising the results. On the basis of the analysis in the In-depth review the Commission concluded that:

HUNGARY is *experiencing macroeconomic imbalances, which deserve monitoring and decisive policy action*. In particular, the on-going adjustment of the highly negative net international investment position, largely driven by private sector deleveraging in a context of high public debt and a weak business environment continue to deserve very close attention so as to reduce the important risks of adverse effects on the functioning of the economy.

More specifically, Hungary is adjusting its large stocks of external and internal (public and private) debt, a process that should be continued in the midterm. For the third year in a row, the NIIP has been improving thanks to current account surpluses. This is mainly a result of falling domestic demand, driven by an on-going private sector deleveraging (mostly in the household sector). At the same time, a rapid fall in corporate credit supply (exacerbated by policy uncertainty and high surtaxes on the financial sector) has contributed to historically low investments. This has increased Hungary's vulnerability, further reduced the outlook for potential growth and sustained a high level of unemployment, which makes adjustment and fiscal consolidation more difficult. Public debt, which is relatively high when compared with neighbouring countries, has decreased. This is linked to a number of fiscal consolidation measures as well as a one-off receipt from the abolition of the mandatory private pension scheme. Nevertheless, uncertainty in the policy environment, a low growth potential coupled with a high share of foreign currency denominated debt and elevated public and private sector indebtedness, may have an important impact on Hungary's financing conditions which might become more difficult in the future.