

Hungary: Government presented structural reform assumptions

On March 1st the Hungarian government announced their programme of structural reforms which assumes a significant reduction of the country's debt (from 80% of GDP in 2010 to 65–70% of GDP in 2014) and substantial limitation of budgetary expenditures (deficit reduction from 3.8% of GDP in 2010 to 1.9% of GDP in 2014). If the program is implemented, it stands a chance of improving the public finance situation in the long term. Structural reforms will increase the credibility of the Hungarian economy, as the centre-rightist government of Viktor Orbán until now has concentrated on solutions that temporarily boosted budget receipts thus delaying the introduction of system solutions.

The reform programme (named after a 19th century reformer of public finances Kálmán Széll) assumes a reduction of budgetary spending by 2.2 billion euro and a growth of receipts by 1.1 billion euro. The sources of revenues will be first of all the bank tax, whose level has not changed in 2012, maintained CIT for large businesses (19%) and the introduction of electronic road fees. Spending cuts in turn will include e.g. the reduction of unemployment and incapacity benefits, a decrease of medicine and municipal transportation subsidies. Expenditure cuts are to be introduced together with employment policy changes. It is, for example, planned to abolish bridging retirements, to unify the retirement age and support small and medium businesses, also using EU structural funds.

At the same time the government is planning a significant reduction of public debt using 63% of the resources taken over in March this year by the national retirement fund thanks to the transfer of approximately 10 billion euros from the open-end pension funds. The predominance of cuts over the increase of budget receipts assumed by the reform is aimed at stabilising public finance. It may also cause a slowdown in economic growth. Thus the influence of the proposed changes on the pace of economic development will depend on specific system solutions, mainly in the employment policy area. The first package of legal regulations implementing Széll's program should be ready by 1st July this year. <szyl, dab>