5+1 charts on Hungary’s convergence to Austria

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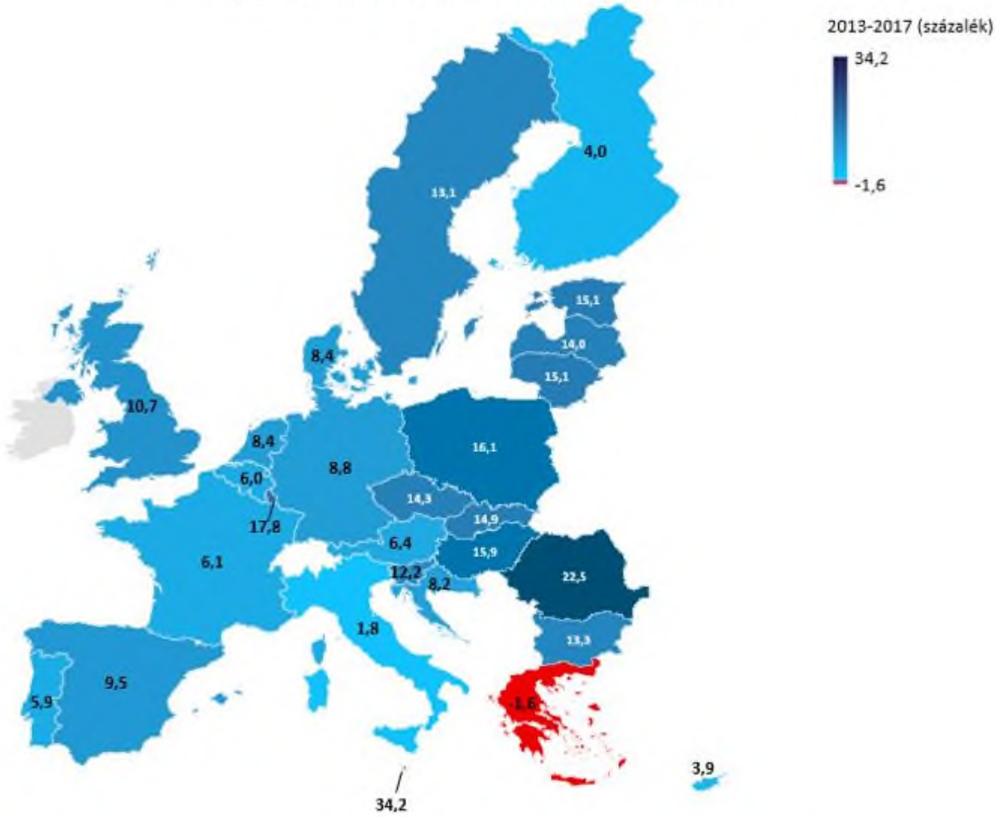
The historical legacies are strongly reflected on the map of Europe, which is difficult, but not impossible, to change.

A recent article of HVG *(Five charts that show the degree of Hungary’s falling behind Western Europe)* argues that there are still large economic and social differences between the western and eastern sides of Europe, with no sign of approaching the West. In a number of areas – for example, economic development or the productivity and wage levels, closely related to that – the difference is indeed still significant between the eastern and western halves of the continent; however, these are mostly attributable to historical reasons, which are very difficult to change and it is only possible in the longer run. For that very reason, when comparing the current levels, it is more important to analyse the changes: whether there is any convergence between the Central and Eastern European region and the core countries of the EU and, if – the region is not homogeneous – in which countries convergence is successful to a larger and in which ones to a lesser degree.

> Proper and consistently implemented reforms can achieve convergence in the long run, the signs of which are clearly visible in Hungary when comparing the current situation with that observed half a decade ago.

The global money and capital market crisis of 2008 hit Hungary harder than the average as a consequence of the economic policy mistakes committed before. However, the crisis management and reform measures – aiming at full employment and providing outstanding support to families and the SME sector – taken after 2010 simultaneously resulted in relatively fast recovery, dynamic growth and lasting macro-financial balance. This is the key and indispensable macroeconomic basis for successful convergence, in the creation of which Hungary showed outstanding performance, compared to the other EU Member States, in the past years. The charts below confirm that **the post-2010 reforms in Hungary yielded significant results both in economic and social terms**, and thus, for example, in respect of economic growth, higher employment, improving fiscal balance or rising fertility. Moreover, the substantial reduction of the deeper structural differences (e.g. differences in development and wage level) and **successful convergence are conditional on the further improvement in Hungary’s competitiveness.**

1. ábra: A reál GDP kumulált változása 2013 és 2017 között

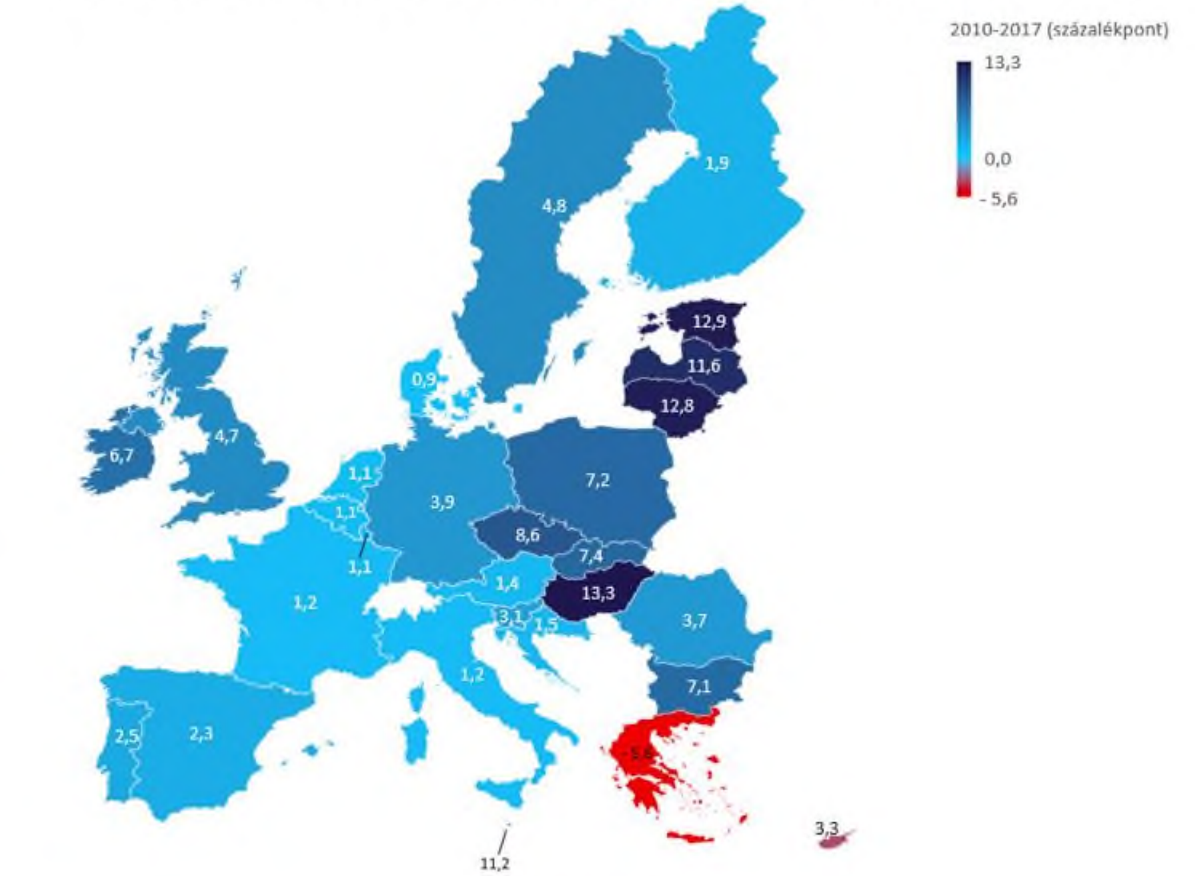


Forrás: Eurostat

Megjegyzés: Írország értékét (47,4 százalék) kiszűrtük, mivel esetükben a kiugró GDP növekedés nem reálgazdasági folyamatokat tükröz, hanem részben módszertani okai vannak.

In the post-crisis period, between 2013 and 2017, Hungary registered the fifth largest increase in GDP among the EU Member States. Between 2013 and 2017, i.e. in the post-crisis period, Hungary achieved an average real GDP growth of 3.2 percent. Since 2013, the average growth rate of the Hungarian economy is almost twice as high as the EU average and it also slightly exceeds the average of the Visegrád countries. Today the Visegrád countries are clearly the drivers of European growth, the sound structure of which ensures sustainable growth.

2. ábra: Foglalkoztatási ráta százalékpontos változása 15-64 éves korcsoportban 2010 és 2017



között

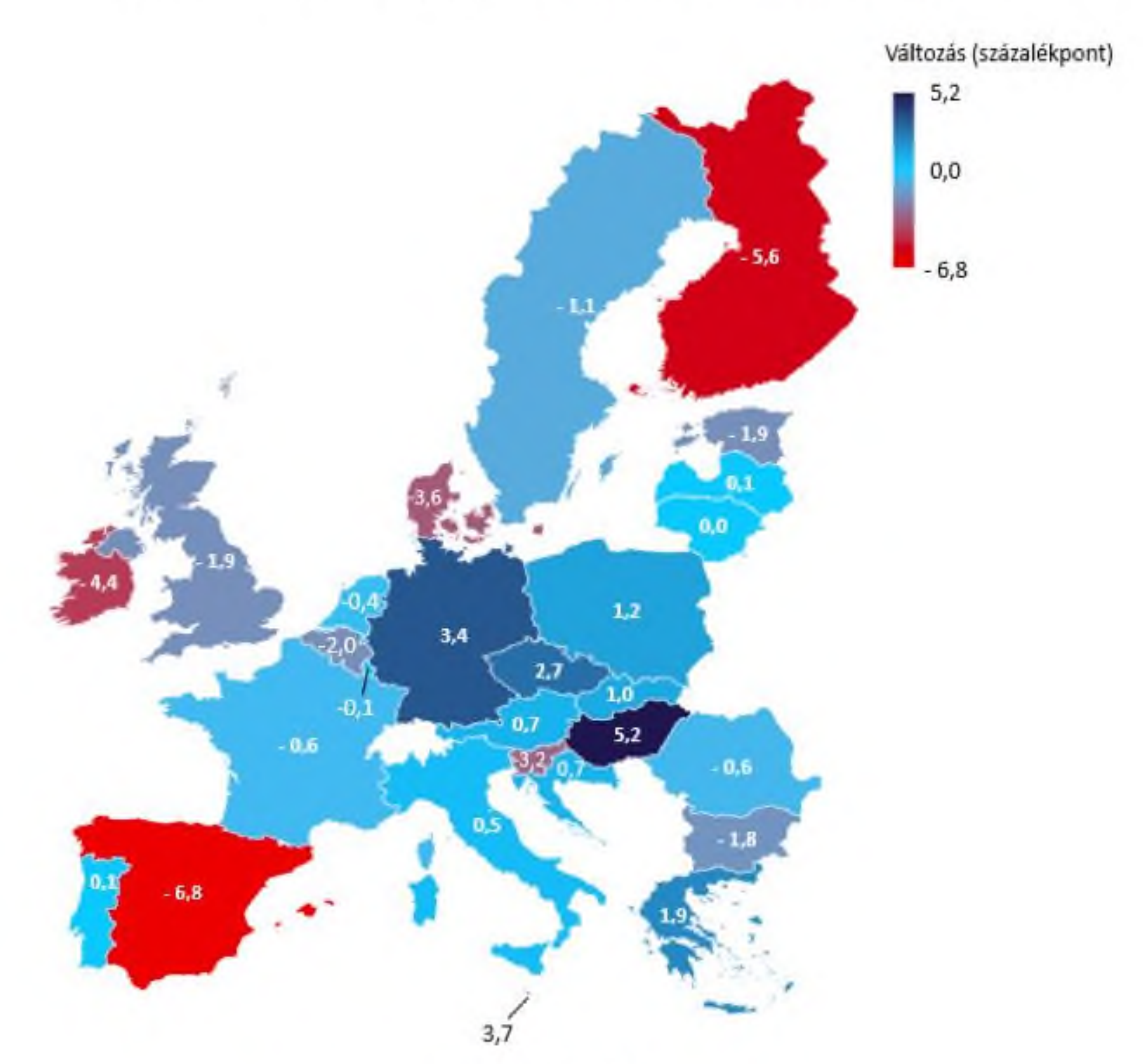
Forrás: Eurostat

Megjegyzés: A skála a 2010-es foglalkoztatási rátáktól való százalékpontos eltérést mutatja.

Between 2010 and 2017, the employment rate in Hungary rose from 55 percent to 68 percent, being the largest growth rate among the countries of the EU.

Before 2010, Hungary had the lowest employment rate within the EU, which restrained economic growth. Achieving full employment is essential for the development and maintenance of broad-based economic growth. One of the main objectives of the post-2010 reforms was the substantial expansion of employment, which was supported by a number of measures (e.g. flat rate personal income tax, Job Protection Action Plan, introduction of family tax base allowance). In parallel with the rise in employment, the unemployment rate declined significantly, from a level of over 11 percent recorded in the early 2010s to less than 4 percent. According to 2018 Q2 data, the unemployment rate in Hungary was 3.7 percent, the third lowest rate in the EU. Within this, the unemployment rate of juvenile workers (15-24 years) also fell sharply, from 26 to 11 percent between 2010 and 2017, being the fourth largest decrease among the EU Member States.

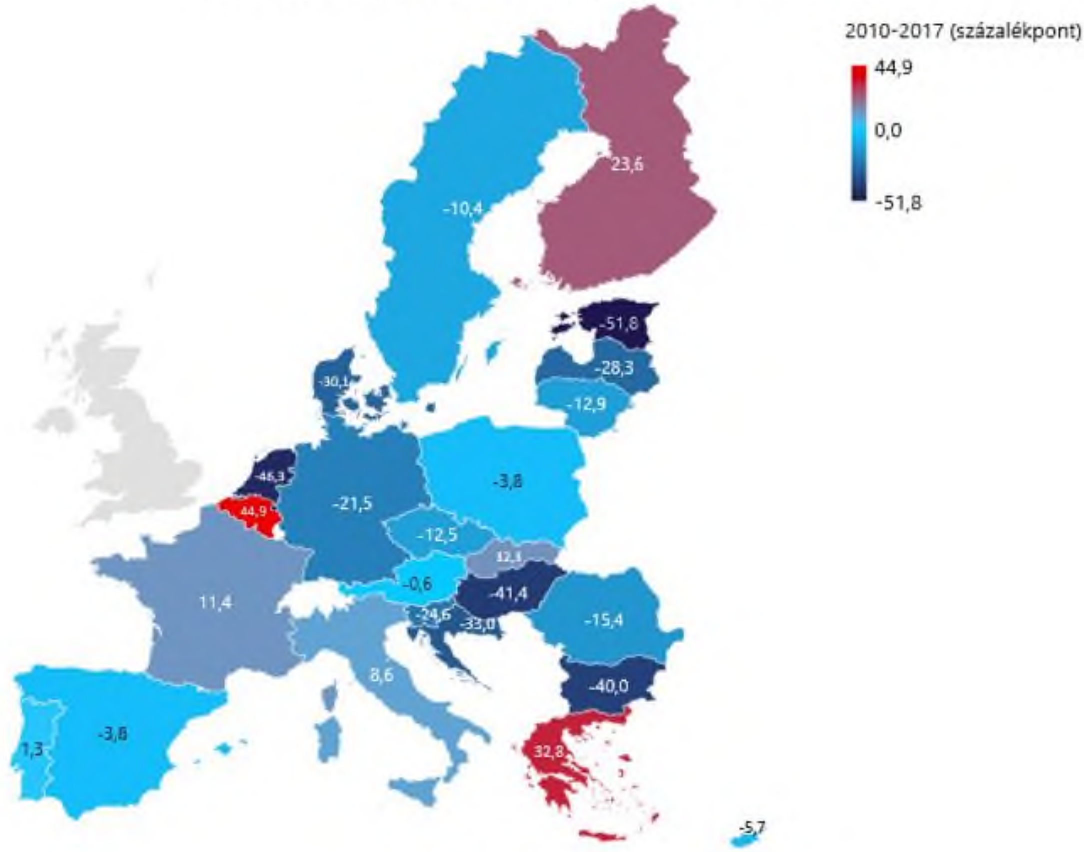
3. ábra: Az államháztartás átlagos egyenlegének változása 2002-2007 és 2012-2017 között



Forrás: Eurostat

The largest improvement in the general government balance was recorded in Hungary compared to the pre-crisis period. Between 2002 and 2007, the average budget deficit was 7.4 percent, which fell to 2.2 percent between 2012 and 2017. During the same period, the budget balance of the EU Member States declined by 0.5 percentage point on average. In the region, the government balance of Poland, the Czech Republic and Slovakia also improved in the period under review (by 1.6 percentage points on average).

4. ábra: A GDP-arányos nettó külső adósság változása 2010 és 2017 között

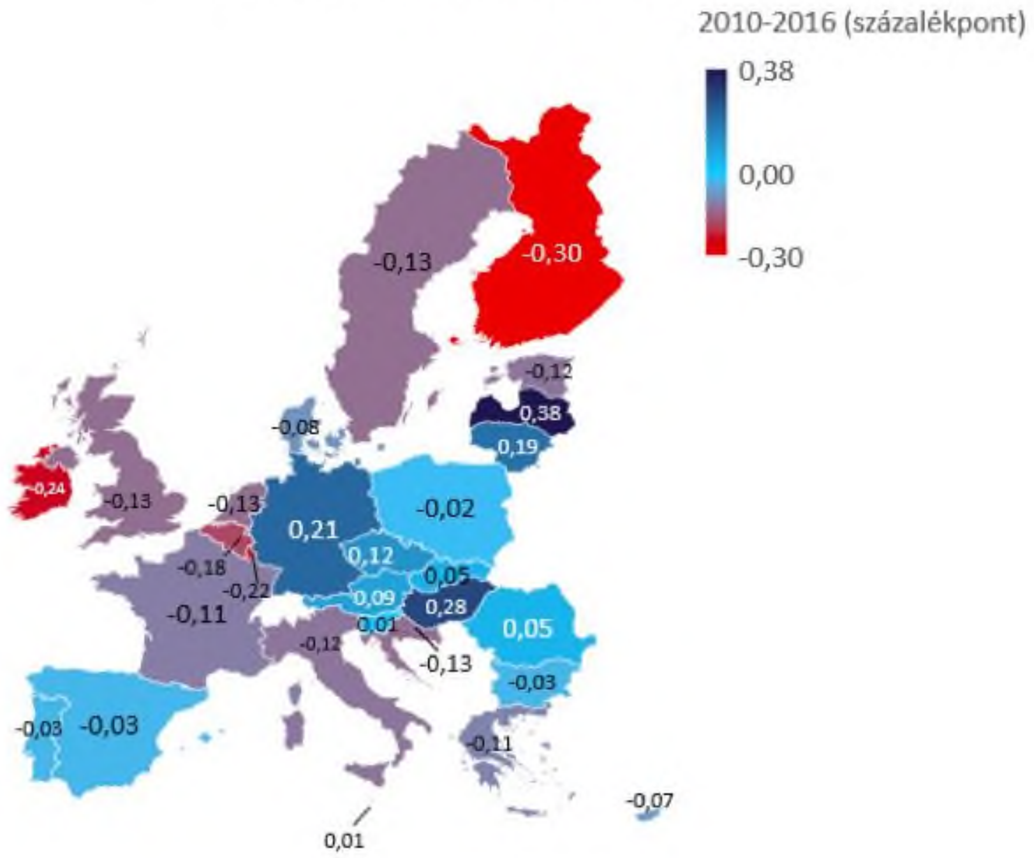


Forrás: Eurostat, MNB

Megjegyzés: Tulajdonosi hitelek nélkül. Az Egyesült Királyság esetében nem áll rendelkezésre adat, míg Írország, Málta és Luxemburg esetében az EU-s átlagtól érdemben eltér a GDP-arányos nettó külső adósság mutató.

Hungary's net external debt-to-GDP ratio showed the third largest drop after 2010, significantly reducing Hungary's vulnerability. One of the most important indices suitable for describing external vulnerability is the development in net external debt. Hungary's net external debt to GDP ratio soared in the years of the crisis; however, in the past years it has declined substantially. Between 2010 and 2017, as a result of deleveraging by the domestic sectors, the value of the index fell by more than 41 percentage points (from 54.6 to 13.2 percent), being the third largest improvement within the EU in the period under review. At present, Hungary's net external debt to GDP ratio is within the first third of the EU ranking.

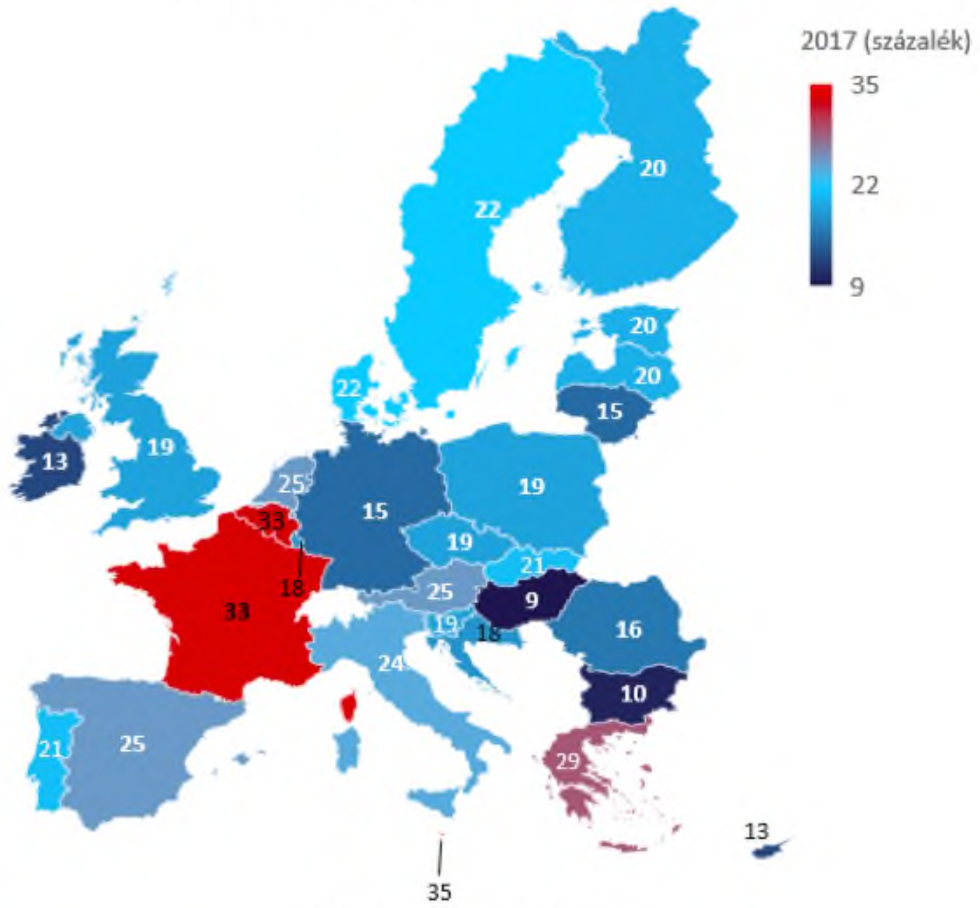
5. ábra: A teljes termékenységi ráta változása 2010 és 2016 között



Forrás: Eurostat

Hungary recorded the second highest rise in the fertility rate within the EU between 2010 and 2016. A low fertility rate is a major challenge in almost all developed countries: at present none of the EU Member States reaches the minimum level of 2.1, necessary for social reproduction. The birth rate has a key influence on long-term social development potential and the volume of human resource available in the economy. In 2010, Hungary had the lowest fertility rate among the EU countries (1.25); however, by 2016, we managed to surpass 10 countries – among them the average of the Visegrád region, which used to have a higher value before – in this respect. Within the EU, Hungary registered the second largest growth rate in this area, reaching the level of 1.53. The sharp increase is mostly attributable to the family support system, strengthened after 2010, as well as to the significant improvement in Hungary's economic prospects.

6. ábra: A társasági adó felső kulcsának mértéke 2017-ben



Forrás: Európai Bizottság

Since 2017, Hungary has had the lowest corporate tax rate in the EU. As a result of the measure taken in December 2016, the corporate income tax rate was reduced in Hungary to a flat rate of 9 percent. Among the EU Member States, a slightly higher corporate income tax rate than in Hungary applies to taxpayers in Bulgaria and Cyprus, while the average tax rate is around 20 percent. Malta has the highest corporate income tax rate (35 percent), while in Belgium and France the amount of compulsory payments from the tax base also exceeds 30 percent.

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