SUMMARY

Main messages

- *Under the current projection's key assumptions , Hungary's gross debt-to-GDP ratio will fall from 80.65 per cent at the end of 2011 to 59.4 per cent by 2026.*
- *This level of debt will be consistent with the 60 per cent reference value set by the Maastricht Treaty. The debt dynamics also complies with the "one-twentieth rule" introduced by the European Union in 2012. However, it will significantly exceed the debt rule of 50 per cent of GDP set by the Constitution. Bringing the debt-to-GDP ratio down to that level will require either (i) higher levels of growth relative to our projection for a sustained period, or (ii) Government actions to strengthen investor confidence and reduce financing costs, or (iii) further improvements in the fiscal balance.*
- *The primary balance – the general government balance excluding interest payments – is projected to show a gradual improvement over the projection horizon after a temporary fluctuation, and to stabilise around 2 per cent of GDP in the long term. This level of the primary balance can offset the the increase in debt stemming from the servicing costs exceeding by 0.8 per cent the economy's long-term growth rate of 2.5 per cent. Therefore it will ensure a declinig debt ratio.*
- *The temporary decline in the primary balance over the period up to 2016 reflects the phase-out of certain revenues (special taxes, the semi-super grossing system and private pension fund revenues, as well as lower EU funds), and new expenditures (such as the implementation of a new career model for employees in the public education). In the medium term, however, the parametric and paradigmatic reforms of the pension system (indexing pensions, raising the age of retirement, the tightening of eligibility criteria, and the transformation of the disability benefit scheme) are likely to result in a substantial improvement in the primary balance.*
- *After 2014, the measures of the second Structural Reform Programme (the Széll Kálmán Plan 2.0) are expected to improve the general government primary balance by an estimated 1.4 per cent annually over a sustained period, and therefore these are highly important in reducing the debt ratio.*
- *In addition to the primary balance, developments in debt servicing costs will also considerably influence debt dynamics. The calculations suggest that a half per cent deviation of the growth rate from the baseline assumptions may divert the debt-to-GDP ratio from the baseline projection by 3.4 percentage points by 2026. Similarly, from 2017 onwards a one per centage point deviation of debt servicing costs may divert the ratio by 3.9 percentage points.*
- *It is important to note that our work qualifies as a technical projection and not as a forecast. This means that it shows the expected paths of the deficit and debt based on the assumption of unchanged economic and other policies rather than the most likely outcomes.*