Summary for non-specialists
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Macroeconomic Imbalances

Hungary 2014

On 13 November 2013, the European Commission presented its third Alert Mechanism Report (AMR) 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, presented on 5 March 2014, the Commission will conclude 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 2014 in-depth reviews (for Belgium, Bulgaria, Germany, Denmark, Ireland, Spain, France, Croatia, Italy, Luxembourg, Hungary, Malta, Netherlands, Slovenia, Sweden, Finland and the United Kingdom) were published on 5 March 2014 together with a Commission communication summarising the results. On the basis of the analysis in the In-depth review the Commission concluded that:

Hungary continues to experience *macroeconomic imbalances, which require monitoring and decisive policy action*. In particular, the ongoing adjustment of the highly negative net international position, the high level of public and private debt in the context of a fragile financial sector and deteriorating export performance continue to deserve very close attention so as to reduce the important risks of adverse effects on the functioning of the economy.

More specifically, despite a lacklustre export performance, the NIIP has been improving, reflecting primarily private sector deleveraging. Although there have recently been some encouraging signs in manufacturing, it will not be enough to bring out by itself a marked turnaround in export performance. While the debt level has declined, the imbalance and risks related to private debt remain, as deleveraging has been hindered by a high share of distressed borrowers, a depressed housing market, a fragile financial sector, a substantial share of loans in foreign currency as well as prevailing business uncertainty. Restoring normal lending to the economy in a sustainable manner would require improving the operating environment for banks. A high government debt is another important source of concern. Despite substantial improvements in the structural fiscal balance, a weakened exchange rate, a poor growth potential and elevated financing costs have kept the debt from declining. Hungary is not expected to meet its medium-term objective and its structural balance is projected to deteriorate in 2014.