

HUNGARY

Real GDP growth fell sharply in the fourth quarter of 2008 as the recession in the euro area curbed exports, adding to already weak domestic demand which reflected fiscal restraint and tight credit conditions. The economy will be in deep recession in 2009 before slowly picking up in 2010. Unemployment is likely to reach double-digit figures during the projection period. After slowing at the beginning of 2009, consumer price inflation is projected to rise during the year due to value-added tax and excise tax increases and the recent currency depreciation.

Implementing sustainable fiscal consolidation is the key for boosting investor confidence and providing room for monetary policy to ease. Given the projected severe recession, maintaining deficit objectives through further cuts would amplify the cycle. To foster credibility of fiscal consolidation policy makers should thus adhere to nominal expenditure targets, while strengthening the medium-term expenditure framework. This, together with the shift from direct to indirect taxation, should raise Hungary's growth potential.

Hungary: Demand, output and prices

	2005	2006	2007	2008	2009	2010
	Current prices HUF billion	Percentage changes, volume (2000 prices)				
Private consumption	12 124.8	1.7	0.6	-0.5	-6.9	-1.9
Government consumption	4 958.1	3.8	-7.5	0.7	-2.1	-1.8
Gross fixed capital formation	5 040.2	-3.7	1.8	-2.6	-6.8	-3.3
Final domestic demand	22 123.1	0.9	-1.0	-0.7	-5.8	-2.2
Stockbuilding ¹	275.9	0.8	0.1	1.1	-6.1	0.0
Total domestic demand	22 399.0	1.6	-1.0	0.4	-9.5	-2.2
Exports of goods and services	14 511.0	18.6	16.4	4.8	-17.3	-3.0
Imports of goods and services	14 916.9	14.8	13.4	4.7	-21.6	-3.1
Net exports ¹	- 405.9	2.3	2.2	0.2	3.2	-0.1
GDP at market prices	21 993.1	4.1	1.2	0.4	-6.1	-2.2
GDP deflator	—	3.9	5.9	4.1	2.7	2.7
<i>Memorandum items</i>						
Consumer price index	—	3.9	8.0	6.0	4.5	4.1
Private consumption deflator	—	3.4	6.2	5.6	3.4	3.4
Unemployment rate	—	7.5	7.4	7.9	10.7	11.7
General government financial balance ²	—	-9.3	-4.9	-3.4	-4.2	-4.2
Current account balance ²	—	-7.5	-6.4	-8.2	-4.0	-3.2

Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook Sources and Methods* (<http://www.oecd.org/eco/sources-and-methods>).

1. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

2. As a percentage of GDP.

Source: OECD Economic Outlook 85 database.