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Who is better? The Hungarians?

“The EU doesn't assist member countries in overcoming the economic slump because it punishes those who behave well and rewards those who perform poorly,” said the Hungarian prime minister at a last week’s event, adding that “with this kind of mentality one couldn't even run a village five and ten cent store.” By this he referred to the unfairness of threatening Hungary by withdrawing part of the cohesion funds as of 2013.

But does Hungary really belong to the better countries? As far as the external balance is concerned, the answer is yes, since 2009. However, all other economic indicators of the country are very poor. The current account deficit was at a critical level a few years ago. However, it changed and in the past three years has been showing a surplus of 1-2 per cent of GDP. In this respect Hungary reached a good position, and it stands somewhere around the end of the first third of the member countries. As far as the foreign trade surplus to GDP ratio is concerned, Hungary has the “bronze medal” after Germany and the Netherlands. These are the good news.

Domestic demand has declined by more than 11 per cent since the start of the financial crisis. Investments have fallen by 25 per cent, and household consumption dropped by 8 per cent during the past three years. The decline was smaller than this in the vast majority of European countries, or in all other countries in the region. In Hungary GDP has fallen by nearly 4 per cent in the past three years, whereas the performance of the EU and the countries in the region was much better. Owing to favourable weather conditions, the growth of agricultural production was prominent last year, thus GDP increased by 1.7 per cent, exceeding the EU average slightly. Without this, GDP growth would have been close to one percentage point below the European average.

In January 2012 Hungary had the highest rate of inflation among EU member states (almost 1 percentage point higher than runner-up Estonia). Hungary had the highest central bank base rate (even though the rate was still below market expectations) and the highest national currency exchange rate fluctuations (in the first two months of 2012 the HUF/EUR rate varied between HUF324 and HUF286, that is, changes exceeded 10 per cent). Sometimes government bonds could not be sold, not even at unusually high yields that could not have been financed in the long term.

The genuine deficit of thel general government increased in 2011 rather than decreased. The so-called structural deficit, which excludes the single and cyclical effects (for example, the nationalized private pension fund assets), increased (close to 6 per cent), rather than decreasing. This is an extremely high value. In addition, the direction of the change is completely opposite to the European trend. Furthermore, loose fiscal policy failed to stimulate the economy, an international atmosphere of distrust emerged, and the

effects of using the pension funds assets to reduce the government debt were annihilated by the depreciation of the forint. In the wake of a large tax reduction effort, the tax level is higher in 2012 than it was in 2010.

So who and how maintains that village five and dime?