The triple deficit of Hungary*

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The aim of this paper is to show that the notion and analysis of the twin deficit, the deficit of the current account and of the state budget must be extended to the notion and analysis of the triple deficit, the deficit the same two deficits and the deficit or insufficiency of domestic savings. The results support the view that these three problems, although closely intertwined, are to a certain extent independent, have autonomous causes, and must therefore dealt with separately. This result is contradictory to the common view that all problems are the consequences of state overspending and all of them can be solved by reducing the budget deficit and by cutting state expenditures. The ensuing policy recommendations are therefore, that the exports of goods and particularly services, and domestic private savings must be increased along with the reduction of budget deficit.

KEYWORDS:
National accounts, Input-output analyses, GDP.

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This paper deals with the latest results of a major study the first findings of which were published in *Szakolczai* [2005a] and *Szakolczai* [2005b]. The aim of the whole research is to analyse the fundamental disequilibria of the Hungarian economy, i.e. the triple deficit, the joint deficit of the current account, of the state budget, and of the deficit or insufficiency of domestic savings. The paper presents the most important data available and some conclusions that can be drown on the basis of their simple verbal analysis. The author hopes that the same and some further data will make possible the use of more intricate methods to corroborate and extend the results presented here.

The fundamentals of the theoretical side of the problem are simple. The triple deficit is the obvious extension of the well-known twin deficit, the deficit of the current account and of the state budget. As it is shown in *Szakolczai* [2005b], following the analysis of *Dornbusch* [1988)], the identity

$$CA = (T - G) + (S - I)$$

necessarily holds, i.e. current account necessarily equals the sum of the excess of taxes over government expenditures and of the excess of domestic private savings over domestic private investments. This equation shows that the extension of the problem of twin deficit to the third component, the insufficiency of domestic savings as compared with domestic investments, i.e. to the triple deficit, is therefore almost unavoidable. This formula by itself, however, tells us nothing about the causes and interconnections of the mentioned deficits.

These causes and interconnections pertain already to the field of applied economics or economic policy. The commonly accepted view is that the fundamental cause of the twin or triple deficit is the deficit of the state budget, and that the cure is the decrease of the budget deficit or the balanced budget. According to this view the twin or triple deficit is therefore the consequence of the overspending of the state, and all three deficits cease to exist if state expenditures are cut back. This view accepted generally, however has no theoretical foundation, as the formula tells nothing about causes and effects. This way of thinking is also inconsistent with the obvious symmetry of the problem, as well as with actual experiences. This paper tries to show that, in the recent Hungarian case, three independent primary problems exist, those *1*. of budget deficit, *2*. of current account deficit and *3*. of the deficiency of savings. These three problems, although intertwined, have their own autonomous causes, and the whole problem can only be solved if the three deficits are dealt with separately. This does not mean that one of the problems, if exists, does not aggravate the other two. The whole triple problem is made even more complicated by the ac

cumulated debt of the budget and the accumulated foreign debt. These two accumulated debts would necessitate a surplus of primary budget and a surplus of trade in goods and services which can be very difficult or even impossible to attain under present Hungarian circumstances.

To show this from another angle, it is certainly true that current account deficit shrinks if taxes are increased, state expenditures are cut back, and, as a result, GDP shrinks. When current account deficit is the consequence of structural trade problems and/or of the foreign indebtedness of the country, no politically acceptable or even feasible tax increase or expenditure cut can be enough to solve the problems of current account and trade deficit. These measures may or even must lead to the decrease of domestic savings. This shows that neither simplistic analysis nor simplistic policy recommendations are acceptable. As a result, the independent or autonomous causes of the three deficits or gaps must be analysed separately, and the policy advice will necessarily be the parallel intervention on all three fields.

These problems are particularly difficult under present Hungarian circumstances. The common view is, that the origin of all three problems is state overspending, and that the solution is not only a reduction of state expenditures, but the radical decrease of the role of the state, and the retreat or even partial elimination of the welfare state. This paper tries to show that the origin of the triple deficit is not state overspending alone, and that the problem cannot be solved by cutting state expenditures, or eliminating, at least partially, the welfare state. It does not mean that budget deficits are not high and should not be cut or even eliminated in the longer run.

The final solution of this problem would call for more intricate theoretical analysis, which is beyond the scope of this paper. Our aim is therefore only to show that the simplest possible analysis of national accounts data published by the Hungarian Central Statistical Office (HCSO), supplemented by some data of the National Bank of Hungary (Magyar Nemzeti Bank), is enough to clear up the most fundamental elements of the problem. These data point also to the advisable way of decreasing the triple deficit. Some elements of these time series go back to 1995, the year following the end of transition depression in Hungary, but the income accounts of the government are only available (for the author at the time of completing the paper) for the years 2001–2004. The author is, of course, clearly unable to extend these time series to the previous years. Even these very short time series enable us, however, to deal with these issues, and to point to their solution.

1. Domestic use

Let us first deal with the real side of the problem, with domestic use or domestic excess consumption, while the financing of this excess consumption, i.e. the monetary aspects are left to the later parts of the paper. Table 1 presents the ten year time series of the most important data.

Table 1

Gross domestic product, domestic use and external balance of goods and services, 1995–2004
(million HUF at current prices)

Year	GDP	DU	FCH	FCG	GFCF	CI	EBGS
1995	5 614 042	5 616 747	3 730 258	617 700	1 125 389	143 400	-2 705
1996	6 893 934	6 862 063	4 400 359	703 619	1 475 538	282 547	31 871
1997	8 540 669	8 453 306	5 283 032	900 797	1 898 917	370 560	87 363
1998	10 087 434	10 232 425	6 297 192	1 024 579	2 384 615	526 039	-144 991
1999	11 393 499	11 703 435	7 274 153	1 156 726	2 724 532	548 024	-309 936
2000	13 150 766	13 679 267	8 334 942	1 253 347	3 099 131	971 846	-506 974
2000	13 272 167	13 809 584	8 489 615	1 352 799	3 099 131	868 038	-537 417
2001	14 989 800	15 227 436	9 723 771	1 541 268	3 499 687	462 710	-237 636
2002	16 915 259	17 312 148	11 228 255	1 849 717	3 941 489	292 686	-396 889
2003	18 650 746	19 462 419	12 816 005	2 088 844	4 156 000	401 570	-811 673
2004	20 429 456	21 155 327	13 785 221	2 189 154	4 631 205	549 767	-725 871

Note. GDP is gross domestic product; DU is domestic use, total; FCH is final consumption of households; FCG is final consumption of government; GFCF is gross fixed capital formation; CI is changes in inventories; EBGS is external balance of goods and services.

Source: National Accounts, Hungary, 2003–2004 [2006]. HCSO. Budapest. p. 13., 14–15. and 20–21.

Data for 2000 of Table 1 are presented here and also later according to the methodology of the period of 1995–2000 and 2000–2004, respectively. Data show that GDP was practically equal to domestic use in 1995, and that GDP even surpassed slightly domestic use in the following two years. In the later years the two time series diverged, and a high negative external balance of goods and services developed. The origin of this problem can be *1.* general overspending *2.* overspending of the state as it is generally assumed, or *3.* a decrease of exports with respect to imports.

These possibilities can be examined by using the data of percentage distribution of total domestic use shown by Table 2.

The first and last columns of Table 2 show the excess of domestic use over the GDP in percentages. The increase of this excess is not monotonous but pronounced, and it is obvious that even a slight overspending of a few percentages, if it is maintained for a period of almost a decade, leads to serious problems as we must see now. The data of the four central columns show that while the excess of total domestic use grows steadily there are only marginal changes in the distribution of domestic use. The share of final consumption of households decreases slightly, that of final consumption of government decreases marginally, while the share of gross fixed capital formation increases somewhat, which can be considered as advantageous. These changes are in the right direction and might have been even more pronounced but the ratios show no special private or government overspending. If there is overspending, it is general domestic, but not government overspending, as generally stated. This increasing excess of domestic use over the GDP seems therefore to be independent of

any change in the composition of domestic use. This seems to support the view that its origin can be found in the field of international trade problems and not in state overspending.

Table 2

Domestic use and external balance of goods and services, 1995–2004
(percent)

Year	DU%	FCH%	FCG%	GFCF%	CI%	EBGS%
1995	100.0	66.4	11.0	20.0	2.6	0.0
1996	99.5	64.1	10.3	21.5	4.1	0.5
1997	99.0	62.5	10.7	22.5	4.4	1.0
1998	101.4	61.5	10.0	23.3	5.1	-1.4
1999	102.7	62.2	9.9	23.3	4.7	-2.7
2000	104.0	60.9	9.2	22.7	7.1	-3.9
2000	104.0	61.5	9.8	22.4	6.3	-4.0
2001	101.6	63.9	10.1	23.0	3.0	-1.6
2002	102.3	64.9	10.7	22.8	1.7	-2.3
2003	104.4	65.9	10.7	21.4	2.0	-4.4
2004	103.6	65.2	10.3	21.9	2.6	-3.6

Note. DU% is total domestic use, in percentage of GDP; FCH% is final consumption of households in percentage of total domestic use; FCG% is final consumption of government in percentage of total domestic use; GFCF% is gross fixed capital formation in percent of total domestic use; CI% is changes in inventories in percentage of total domestic use; EBGS% is external balance of goods and services in percent of GDP.

Source: Calculated from Table 1.

The data used until now are expressed in current prices, but the findings are even more confirmed by data expressed in constant prices and shown in Table 3.

As it can be seen from Table 3, data in comparable prices are available for the years from 1995 to 1998, from 1998 to 2000 and from 2000 to 2004. They appear in the first six rows of Table 3. The following three rows present rates of increase for these three time periods, and the fourth row the products of these three indices, i.e. the volume indices for the whole period of 1995–2004. These latter nine year rates of increase are obviously inconsistent with the assumption of state overspending on collective consumption. Final consumption of government at constant prices increased in these nine years by 21.57 percent what is less than half of 48.72, the percentage increase of the GDP.

The next three rows show the average annual rates of increases or volume indices for the previous three time periods, while the last row presents the average annual volume indices for the whole nine year time period. These latter volume indices clearly show that the average annual rate of increase of domestic use is more than two times and that of gross fixed capital formation more than three times higher than that of final consumption of the government. This is not government overspending on collective

consumption but the opposite. If there is an overspending, it is the overspending of households, because the average rate of increase of final consumption of households exceeds that of the GDP. There is also an overspending on investments too, because their rate of increase exceeds that of the GDP. Considering that rapid increase of investments is highly desirable, this also means overspending of households, because the increase of investments is not accompanied by a corresponding decrease in the share of private consumption. Instead of this the share of private consumption increases.

Table 3

Gross domestic product, domestic use and external balance of goods and services, 1995–2004
(million HUF at constant prices)

Year	GDP	DU	FCH	FCG	GFCF	CI	EBGS
1995	5 614 042	5 616 747	3 730 258	617 700	1 125 389	143 400	– 2 705
1998	6 238 452	6 379 020	3 850 031	623 254	1 485 645	420 101	–140 567
1998	10 087 434	10 232 425	6 297 192	1 024 579	2 384 615	526 039	–144 991
2000	11 053 751	11 214 942	6 923 477	1 055 702	2 718 627	517 137	–161 191
2000	13 272 167	13 809 584	8 489 615	1 352 800	3 099 131	868 037	–537 410
2004	15 637 065	16 507 975	11 005 361	1 581 878	4 021 320	–100 585	–870 910
1998/1995T	111.11	113.51	103.21	100.91	132.01	..	..
2000/1998T	109.58	109.60	109.95	103.04	114.01	..	111.17
2004/2000T	117.82	119.54	129.63	116.93	129.76	..	162.06
2004/1995T	143.45	148.72	147.10	121.57	195.29	..	..
1998/1995Y	103.58	104.33	101.06	100.30	109.70	..	..
2000/1998Y	103.10	103.10	103.21	101.00	104.47	..	103.59
2004/2000Y	104.18	104.56	106.70	103.99	106.73	..	112.83
2004/1995Y	104.09	104.51	104.38	102.19	107.72	..	

Note. GDP is gross domestic product (at producers prices); DU is total domestic use; FCH is final consumption of households; FCG is final consumption of government; GFCF is gross fixed capital formation; CI is changes in inventories; EBGS is external balance of goods and services; 1998/1995T, 2000/1998T, 2004/2000T are volume indices for the given period; 2004/1995T is volume index for the given period, quotient of the previous three indices; 1998/1995Y, 2000/1998Y, 2004/2000Y are average annual volume indices for the given period; 2004/1995Y is average annual volume index for the given period.

Source: *National Accounts, Hungary, 2003–2004* [2006]. HCSO. Budapest. p. 18–19. and 22–23.

2. Foreign trade deficit

With respect to and in spite of what has been written previously it can be assumed that the root of the problem can be found in the field of foreign economic relationships, in the foreign trade deficit, i.e. in the inadequacy of exports and in overspending on imports. Table 4 presents the data of exports, imports and balance of trade for goods and services in order to see whether this assumption is valid.

Table 4

Exports, imports and trade balance of goods and services, 1995–2004
(million euro at current prices)

Year	XG	MG	BG	BG%	XS	MS	BS	BS%
1995	11 281	12 402	-1 122	-9.9	3 970	2 966	1 004	25.3
1996	12 743	14 080	-1 337	-10.5	4 683	3 177	1 506	32.2
1997	17 083	18 248	-1 165	-6.8	5 146	3 583	1 562	30.4
1998	21 057	22 742	-1 685	-8.0	4 811	3 736	1 075	22.3
1999	24 059	26 102	-2 044	-8.5	4 910	4 094	816	16.6
2000	31 278	34 457	-3 180	-10.2	6 429	5 195	1 234	19.2
2001	34 697	37 193	-2 496	-7.2	7 865	6 203	1 661	21.1
2002	36 821	39 024	-2 203	-6.0	7 820	7 233	587	7.5
2003	38 377	41 275	-2 898	-7.6	7 674	8 075	-401	-5.2
2004	45 083	47 536	-2 453	-5.4	8 660	8 533	127	1.5

Note. XG is exports of goods; MG is imports of goods; BG is trade balance of goods; BG% is trade balance of goods in percent of exports of goods; XS is exports of services; MS is imports of services; BS is trade balance of services; BS% is trade balance of services in percent of exports of services.

Source: Here and in the following table the National Bank of Hungary, Department of Statistics.

The trade balance of goods is negative in all of the ten years as it shown in Table 4, reaching its highest value in 2000, and decreasing later. The negative trade balance of goods was, however, almost completely counterbalanced by the positive balance of services in 1995, leading to the practical equality of GDP and domestic use in this year. The positive balance of services became higher than the negative balance of goods in the next two years leading to a positive external balance of goods and services appearing in the last columns of Table 1 and Table 2. In the last years of the period analysed here the negative trade balance of goods settled at about EUR2.5 billion per year while the positive balance of services practically disappeared. The trade balance of services was negative in 2003 and practically zero in 2004. This led to the high negative external balance of goods and services appearing in the last column of Table 1.

These findings confirm that the excess of domestic use over GDP is not resulting from state overspending as it is generally stated but it is the consequence of the stable negative balance of goods and the collapse of the positive balance of services. This is therefore a structural foreign trade problem and not a budget problem as it is generally asserted. The negative balance of goods is extensively analysed in *Szakolczai* [2005] where it has been shown to be the consequence of the dual character of the Hungarian economy. The greatest part of exports is produced by the foreign owned engineering firms while the greatest part of the Hungarian economy is dependent on imports but unable to produce the exports needed to pay for them. This problem is aggravated by the budget deficit, as part of this deficit is spent on imported goods. It would be almost nonsensical to say nevertheless that the dual char-

acter of the Hungarian economy or, particularly, the rapid disappearance of the positive trace balance of services is the consequence of government overspending.

The trade problem of services can be analysed by using data of Table 5.

Table 5

Exports, imports and trade balance of tourism and of services other than tourism, 1995–2004
(million euro at current prices)

Year	XT	MT	BT	BT%	XO	MO	BO	BO%
1995	2 258	1 158	1 100	48.7	1 712	1 808	–96	–5.6
1996	2 843	1 183	1 660	58.4	1 840	1 994	–154	–8.4
1997	3 384	1 325	2 060	60.9	1 762	2 258	–372	–21.1
1998	3 248	1 314	1 934	59.5	1 452	2 422	–859	–59.2
1999	3 359	1 450	1 909	56.8	1 551	2 644	–1 093	–70.5
2000	4 067	1 794	2 273	55.9	2 362	3 401	–1 039	–44.0
2001	4 654	2 022	2 632	56.6	3 211	2 992	–971	–30.2
2002	3 925	2 252	1 673	42.6	3 895	4 981	–1 086	–27.9
2003	3 577	2 289	1 288	36.0	4 097	5 786	–1 689	–41.2
2004	3 265	2 302	962	29.5	5 395	6 231	–835	–15.5

Note. XT is exports of tourism; MT is imports of tourism; BT is trade balance of tourism; BT% is trade balance of tourism in percent of exports of tourism; XO is exports of services other than tourism; MO is imports of services other than tourism; BO is trade balance of services other than tourism; BO% is trade balance of services other than tourism in percent of exports of services other than tourism.

The data of Table 5 show that the problem can be traced back to two causes. On the one hand, the earnings from tourism reached the highest level in 2001 and decreased in the following three years by about EUR1.4 billion while the domestic outlays on foreign tourism increased constantly in the whole period studied. On the other hand, the negative balance of services other than tourism increased to almost twenty fold of its original value between 1995 and 2003, and the negative balance remained high also in 2004. It can be stated therefore that origin of the problem of increasing excess of domestic use over the GDP lays in foreign trade problems and not in state overspending. This is a structural foreign trade problem that can be solved first of all by cutting back Hungarian expenses on foreign tourism and by attracting foreign tourists into Hungary, and also by developing Hungarian services other than tourism.

These results confirm the view that the problem of triple deficit has multiple causes and can be solved only by facing the structural problems of the Hungarian economy. It cannot be denied that one of these structural problems is the structural deficit of the budget, but it cannot be stated that it is the only or even the most important cause of the whole problem. It can, of course, be argued that the decrease of net earnings of tourism and the increase of expenses on services other than foreign tourism diminished the rate of increase of sources available for domestic use. The Hungarian economy failed to adapt itself to this change, and the domestic use increased as if the positive balance of

services had not disappeared. This is obviously true, but this does not mean that the origin of the problem is not the disappearance of the positive trade balance of services, and that the reduction of government expenditures on collective consumption would have solved the problem or would solve it in the future.

3. Domestic product and national income

We must turn now from the analysis of the real side of the economy to the income side. Domestic use must not only be compared with the GDP, but first of all with the gross national income (GNI) and the gross national disposable income (GNDI), because no person, family, community or country can spend more for a longer time than his disposable income. The first relating data appear in Table 6.

Table 6

Gross domestic product, gross national income and gross national disposable income, 1995–2004
(million HUF at current prices)

Year	GDP	CE	PI	EUT	GNI	UT	GNDI
1995	5 614 042	1 401	–213 763	–	5 401 680	25 152	5 426 832
1996	6 893 934	11 355	–308 056	–	6 597 233	–938	6 596 295
1997	8 540 669	22 677	–517 469	–	8 045 877	38 228	8 084 105
1998	10 087 434	28 084	–647 939	–	9 467 579	52 224	9 519 803
1999	11 393 499	24 203	–692 616	–	10 725 086	103 309	10 828 395
2000	13 150 766	42 366	–753 725	–	12 439 407	99 984	12 539 391
2000	13 272 167	42 366	–723 281	–	12 591 252	99 984	12 691 236
2001	14 989 800	45 383	–833 727	–	14 201 456	115 864	14 317 320
2002	16 915 259	36 602	–956 328	–	15 995 533	127 780	16 123 313
2003	18 650 746	35 250	–955 398	–	17 730 598	149 639	17 880 237
2004	20 429 456	31 708	–1 243 523	60 575	19 278 216	63 887	19 342 103

Note. GDP is gross domestic product; CE is compensation of employees, net; PI is property income, net; EUT is European Union transfers, net; GNI is gross national income; UT is unrequested current transfers, net; GNDI is gross national disposable income.

Source: *National Accounts, Hungary, 2003–2004* [2006]. HCSO. Budapest. p. 13., the National Bank of Hungary, Department of Statistics.

HCSO publishes only data for gross national income that is GDP plus balance of labour and capital incomes. The first is, obviously, a small positive, and the latter an important negative item. Since the 2004 EU transfers, which are much less important as general public assumes, they appear separately. HCSO GNI data are presented in the fifth column of Table 6. We have obtained gross national disposable income by adding to the HCSO GNI figure the data of un-requested transfers published by the

central bank. GNDI data calculated in this way appear in the last column of Table 6. Only GNI data are therefore directly compatible with the other HCSO data used here.

Domestic use must be compared with the GNI or rather with the GNDI, and we have therefore determined the excess of domestic use over the GNI and the GNDI. The first difference, is directly compatible with other HCSO data, the second is more correct in a theoretical sense. These data, together with data on financing this excess, are presented in Table 7.

Table 7

Excess of domestic use over gross national income and gross national disposable income and their financing, 1995–2004
(million HUF at current prices)

Year	EDU(GNI)	EDU(GNDI)	REFDI	OSF(GNI)	OSF(GNDI)
1995	215 067	189 924	–27 050	242 117	216 974
1996	264 830	265 768	78 210	186 620	187 558
1997	407 429	369 201	245 160	162 269	124 041
1998	764 846	712 622	252 470	512 376	460 152
1999	978 349	875 040	273 420	704 929	601 620
2000	1 236 860	1 139 876	280 760	956 100	859 116
2000	1 218 332	1 118 348	280 760	937 572	837 588
2001	1 025 980	910 116	385 626	640 354	524 490
2002	1 316 615	1 188 835	456 144	860 471	732 691
2003	1 731 821	1 582 182	445 095	1 286 726	1 137 087
2004	1 877 111	1 813 224	449 377	1 427 734	1 363 847

Note. EDU(GNI) is excess of domestic use over gross national income; EDU(GNDI) is excess of domestic use over gross national disposable income; REFDI is reinvested earnings of foreign direct investments, net; OSF(GNI) is other sources of financing the excess of domestic use over gross national income, EDU(GNI) = REFDI + OSF(GNI); OSF(GNDI) is other sources of financing the excess of domestic use over gross disposable national income, EDU(GNDI) = REFDI + OSF(GNDI).

Source: *National Accounts, Hungary, 2003–2004* [2006]. HCSO. Budapest. p. 13, and calculated from Tables 1 and 6.

The two left columns of Table 7 show the excess of domestic use over the GNI and the GNDI. This excess is considerable, it amounted to 10 percent of the GNI and 9.1 percent of the GNDI in 2000, decreased somewhat in 2001, increased again in the following two years, and attained practically the 2000 year-level in 2004. It is obviously impossible to maintain an excess of domestic use over the GNI or the GNDI approaching or even attaining 10 percent for a longer time period. Domestic use must therefore be decreased, as soon as possible, to the level of disposable income with other sources of financing that are available for a longer time. Though as it has been shown previously, the excess of domestic use is not the consequence of government overspending on collective consumption but of overspending in general.

It can be argued again that the Hungarian economy failed to face to the problem that a considerable part of the GDP is foreigners' property income, did not maintain domestic use within the limits of the GNDI. It behaved as if the whole GDP would have been at its disposal which is obviously false. Though this does not mean that the source of the problem is government overspending on collective consumption.

The excess of domestic use over the GNI or the GNDI must, of course, be financed. Part of it was financed by reinvested earnings of foreign direct investments, and it may be argued that this part does not lead to the increase of the burden of debt servicing. The greatest part of financing, more than three quarters of it, came, however, from other sources. This greater part, particularly if we consider the extremely high values of the last four and especially all of the last two years, increases and will also increase in the future the debt servicing burden of the country.

The shares and rates of increase of the main components of domestic use were presented in Tables 2 and 3, and it could be seen that the rate of increase of government outlays on collective consumption was much smaller than that of household consumption and of gross fixed capital formation. To show the income side of the problem, the percentage share of disposable income of the five sectors of the economy is shown in Table 8.

Table 8

Disposable income of the five sectors of the national economy, 1995–2004
(percentages)

Year	DIC%	DIF%	DIG%	DIH%	DIN%
1995	6.8	2.0	..	65.7	..
1996	6.2	1.6	..	66.2	..
1997	8.8	1.3	..	64.4	..
1998	9.5	1.6	..	64.2	..
1999	10.7	1.9	..	62.4	..
2000	10.2	2.0	..	61.4	..
2000	12.1	2.2	..	62.1	..
2001	11.1	2.2	20.3	63.1	..
2002	12.8	1.6	20.0	62.0	..
2003	13.7	2.1	19.8	61.0	..
2004	13.2	1.9	19.6	62.3	..
2000/1995	177.1	112.3	..	94.5	..
2004/2001	118.6	88.1	96.7	98.8	..

Note. DIC% is disposable income of non-financial corporations in percent of gross national disposable income; DIF% is disposable income of financial corporations in percent of gross national disposable income; DIG% is disposable income of government in percent of gross national disposable income; DIH% is disposable income of households in percentage of gross national disposable income; DIN% is disposable income of non-profit institutions in percent of gross national disposable income; 2000/1995, 2004/2001 are Indices.

Source: *National Accounts, Hungary, 2003–2004, 2002–2003, 2001–2002, 2000–2001, 1998–2000, 1998–1999, 1995–1997* [2006], [2005], [2004], [2003], [2002], [2001], [1999]. HCSO. Budapest.

Data of Table 8 lead to the same conclusions as those shown in Tables 2 and 3. The share of corporations is increasing, that of financial corporations is practically the same in the first and in the last years of the period studied while the share of households and of government decreases. This change is very articulate in the last three years. There is therefore no redistribution of income in favour of the government and not even in favour of households while the increasing share of corporations may further investments and growth. This structure can be considered as sound.

To turn back to the problem of triple deficit, these findings show the obvious. The trade problems are aggravated by the accumulated debt and by the possible increases of the debt servicing burden that may be caused by factors fully independent of this country and of its budget deficit. Although the budget deficit, if it cannot be financed by domestic savings, which is the present Hungarian case, obviously increases foreign indebtedness and debt servicing burden. It cannot be argued that the current account deficit is the direct consequence of the current budget deficit.

4. Budget deficit

Even if foreign trade and current account problems cannot be traced back to the problem of budget deficit, this latter is the second and obviously very important element of the triple deficit. Its analysis demands a rather detailed survey of the relevant data. The first of them is the distribution of income accounts of the government that were available for the author for the last four years and are presented in Table 9.

Table 9

Distribution of income accounts of government, 2001–2004
(million HUF at current prices)

Item	2001	2002	2003	2004
Operating surplus, net	–8 067	–13 861	–582	–13 497
Taxes on production and import	2 325 807	2 547 690	2 938 418	3 308 172
Subsidies	266 938	301 337	277 896	324 679
Interest, dividends and rents received	137 060	108 568	124 937	227 579
Interest, paid, consolidated	721 736	676 590	722 551	849 844
Balance of primary income	1 466 126	1 664 470	2 062 326	2 347 731
Current taxes in income and wealth	1 537 656	1 738 070	1 807 387	1 879 241
Social contributions, received	1 971 090	2 323 803	2 535 713	2 770 021
Social benefits other than in kind	1 916 602	2 284 145	2 617 404	2 885 518
Balance of other current transfers	–154 248	–222 306	–242 978	–317 634
Disposable income	2 904 022	3 219 892	3 545 044	3 793 841

Source: *National Accounts, Hungary, 2003–2004, 2002–2003, 2001–2002* [2006], [2005], [2004]. HCSO. Budapest. p. 88–89., 86., 86.

Data of Table 9 show that the structure of government incomes is relatively stable and do not point to any major problems. This stability may, however, be the root of the budget problems because the rates of increase of taxes on production and imports and particularly of current taxes on income and wealth are small which means that the increase of government income from taxes may not cover the increase of expenditures. Having seen the income side let us turn now to the side of expenditures. The relevant data are shown in Table 10.

Table 10

Use of disposable income of government, 2001–2004
(million HUF at current prices)

Item	2001	2002	2003	2004
Disposable income	2 904 022	3 219 892	3 545 044	3 793 841
Final consumption expenditure	3 231 080	3 931 661	4 588 886	4 866 355
Individual consumption expenditure	1 717 376	2 104 922	2 500 042	2 677 221
Collective consumption expenditure	1 513 704	1 826 739	2 088 844	2 189 134
Saving (+) or excess consumption (–)	–327 058	–711 769	–1 043 842	–1 072 514
Balance of capital transfers	–396 883	–673 234	–341 506	–230 826
Changes in net worth*	–723 941	–1 385 003	–1 385 348	–1 303 340
Capital accumulation, net**	–66 396	42 994	–195 736	–208 225
Net lending (+) or borrowing (–)	–657 545	–1 427 994	–1 189 612	–1 095 115

* Changes in net worth due to savings and capital transfers

** See Table 11.

Source: *National Accounts, Hungary, 2003–2004, 2002–2003, 2001–2002* [2006], [2005], [2004]. HCSO. Budapest. p. 90–91., 88., 88.

The first five rows of Table 10 present how savings or excess consumption are determined in the system of national accounts. Savings or excess consumption is the difference between disposable income and final consumption expenditures while the latter are the sum of government's outlays on individual and collective consumption. Data show that excess consumption doubled and trebled in 2002 and 2003, respectively, and stabilised in 2004. It can also be seen that individual consumption expenditures – transfers and social expenditures in the broad sense – increased more than outlays on collective consumption. The two increases are 55.9 and 45.6 of percent the 2001 data, respectively. The further rows of Table 10 show the balance of capital transfers and the changes in net worth. The detailed analysis of this data would be important but it is impossible without further background information.

The last two rows of Table 10 show capital accumulation and net borrowing. According to these rows that are based on the published HCSO data excess consumption is financed not only by net borrowing which is generally known but also by negative capital accumulation or capital destruction – the decrease of the capital

stock of the government – which is not generally known and obviously absurd and unacceptable. Financing current consumption by capital destruction is contrary to all possible economic considerations and to the interests of the following generation. This side of the problem requires some further analysis for which Table 11 contains relevant data.

Table 11

Capital accumulation of government, 2001–2004
(million HUF at current prices)

Item	2001	2002	2003	2004
Gross fixed capital formation	563 251	815 684	652 995	730 680
Changes in inventories	1 550	2 697	283	4 002
Consumption of fixed capital*	614 308	759 340	813 665	872 506
Consumption of fixed capital**	576 146	593 451	631 298	657 761
Acquisition of non-produced assets***	–16 889	–16 047	–35 349	–70 401
Capital accumulation****	–66 396	42 994	–195 736	–208 225
Capital accumulatione*****	–28 234	208 883	–13 369	6 520

* Original data published in the first source indicated.
** Corrected preliminary data published in the second source indicated.
*** Acquisition less disposal of non-produced non-financial assets.
**** Calculated from the data published in the first source indicated.
***** Calculated from the data published in the second source indicated.
Source: *National Accounts, Hungary, 2003–2004, 2002–2003, 2001–2002* [2006], [2005], [2004]. HCSO. Budapest. p. 90–91., 88., 88. and www.ksh.hu.

Net capital accumulation – a notion is not appearing in this form in the national accounts – can be obtained by adding up the three elements of gross capital accumulation: *1.* gross fixed capital formation, *2.* changes in inventories and *3.* acquisition of less disposal of non-produced non-financial assets. Deducting consumption of fixed capital, i.e. amortisation (depreciation) can be also added. HCSO publishes data of for the government sector only, and two sets of these data are available. The first are the original data published in printed form on which capital accumulation appearing in the last but one row of Table 10 is based, and which can be seen in the third row of Table 11. The second are the corrected preliminary data published on the HSCO homepage (www.ksh.hu). These corrected preliminary data can be found in the fourth row of Table 11. Finally, capital accumulation based on these two sets of capital consumption data are shown in the last two rows of Table 11.

The first set of data lead to the conclusion that government financed current consumption by capital destruction in 2003–2004 because consumption of fixed capital (amortisation) exceeded gross capital accumulation in these years. The corrected preliminary data lead to the somewhat less startling conclusion that capital accumulation is these two years was practically zero. The other part of capital destruction is the result

of selling government property, mainly real estates. This appears in the national accounts as acquisition (+) or sale (–) of non-produced non-financial assets. This element is negative in all four years for which data are available. These negative values are also unacceptable by all possible economic considerations, but their magnitude is not influenced by the difference between the various capital consumption data.

We must add as an explanation of what has been written previously that capital consumption (amortisation) data are rather "soft", as the are, necessarily, estimates based on assumptions, particularly in the government sector. The fact that the first set of these data led to the startling conclusion of capital destruction on a major scale might have led to the use of new, different assumptions and the resulting new set of amortisation data. It is therefore advisable to present here both sets of amortisation data and the results based on both sets because this seems to be the best way to describe the recent situation.

To turn back to the main line of analysis, saving or rather excess consumption, negative capital accumulation and negative net lending or rather net borrowing data appear in relative terms in Table 12.

Table 12

Main indices of capital accumulation and net borrowing of government, 2001–2004
(percent)

Item	2001	2002	2003	2004
Saving* in percent of DIG	–11.3	–22.1	–29.5	–28.3
Saving* in percent of GDP	–2.2	–4.2	–5.6	–5.3
Capital accumulation in percent of DIG**	–2.3	1.3	–5.5	–5.5
Capital accumulation in percent of GDP**	–0.4	0.3	–1.1	–1.0
Capital accumulation in percent of DIG***	–1.0	6.5	–0.4	–0.2
Capital accumulation in percent of GDP***	–0.2	1.3	–0.1	–0.0
Net lending**** in percent of DIG	–22.6	–44.4	–33.6	–28.9
Net lending**** in percent of GDP	–4.4	–8.4	–6.4	–5.4

* Saving (+) or excess consumption (–).
** Calculated from the data published in the first source indicated in Table 11.
*** Calculated from the data published in the second source indicated in Table 11.
**** Net lending (+) or borrowing(–).
Note. DIG is disposable income of the government; GDP is gross domestic product.
Source: Calculated from Table 11.

Negative saving i.e. excess consumption of the government surpassed government disposable income by more than 10, by more that 20 and by nearly 30 percent in 2001, 2002 and 2003–2004, respectively. The same excess amounted to more than 2 percent of the GDP in 2001 and to more than 5 percent in 2003–2004. The negative capital accumulation obtained using the first set of amortisation data was 5.5 percent

of government disposable income and about 1 percent of the GDP in the same two years, while the negative capital accumulation obtained using the second set of amortisation data was 0.4 and 0.2 percent, respectively, of government disposable income and about 0.1 and 0.0 percent of the GDP in the same two years. Finally, the negative net lending i.e. borrowing of government attained its peak at almost 45 percent of government disposable income and 8.4 percent of the GDP in 2002. In the years of 2003–2004 values stabilised at about 30 percent of the government disposable income and 6 percent of the GDP.

To turn finally to the economic implications, it is obvious that the situation described cannot be maintained. Current consumption may not surpass disposable income for a longer time and particularly not in the mentioned degree, and the excess cannot be financed from credits. Capital accumulation cannot be negative or even zero. According to some estimates capital accumulation of government ought to attain at least 3 percent of the GDP but even this seems to be a low figure. Current consumption may not be financed by selling off property. The conclusions are therefore obvious and the difference between the economic interpretation of capital destruction or zero capital accumulation is marginal. The whole situation and the policies leading to this point suggest serious reconsideration.

Table 13

Disposable income, saving, capital accumulation and net lending in subsectors of the government sector, 2001-2004
(million HUF at current prices)

Item	Year	CG	LG	SS	G
Disposable income	2001	2 026 775	492 839	384 408	2 904 022
	2002	2 246 162	548 288	425 442	3 219 892
	2003	2 421 512	675 601	447 931	3 545 044
	2004	2 572 489	769 584	451 768	3 793 841
Savings (+) or excess consumption (–)	2001	438 913	–838 224	72 253	–327 058
	2002	278 788	–1 028 849	38 292	–711 769
	2003	154 315	–1 187 651	–10 506	–1 043 842
	2004	203 783	–1 221 130	–55 167	–1 072 514
Capital accumulation	2001	–107 025	36 963	3 666	–66 396
	2002	–110 251	150 950	2 295	42 994
	2003	–317 056	116 611	4 709	–195 736
	2004	–289 696	83 340	–1 869	–208 225
Net lending (+) or borrowing (–)	2001	171 145	–895 415	66 725	–657 545
	2002	–278 883	–1 183 360	34 246	–1 427 997
	2003	154 922	–1 328 061	–16 473	–1 189 622
	2004	258 324	–1 300 139	–53 300	–1 095 115

Note. CG is central government; LG is local government; SS is social securities; G is government, total.

Source: *National Accounts, Hungary, 2003-2004, 2002-2003, 2001-2002* [2006], [2005], [2004]. HCSO. Budapest. p. 89–91., 88., 88.

This conclusion is reinforced by the subdivision of government into its three subsectors, *1.* the central government, *2.* the local government and *3.* the social securities. This analysis is based on published data which are consistent with the published data shown previously and which are presented in Table 13.

Local government data are the most striking. According to HCSO data local government excess consumption was close to HUF1 billion in 2001 and above HUF1 billion in the following three years. Local government negative let lending i.e. borrowing was even somewhat higher because of positive capital accumulation. According to the same data central government net lending was positive in 2001 and in the years of 2003–2004, and central government resorted to borrowing only in 2002.

These conclusions are, however, consequences of the methodology used to consolidate data. According to this methodology central government income transfers to local governments do not appear as a part of the disposable income of local government but as a part of their borrowing. Credits taken up by central government in order to finance income transfers to local governments appear therefore as credits taken up by local governments. This is, on the one hand, reasonable, because these credits finance the expenses of local governments, though on the other hand, misleading, because the debtor is the central and not the local government. Data should be interpreted in this way.

The capital accumulation data presented in Table 13 are not influenced by the method of consolidation. It is therefore true that local governments had a small positive capital accumulation even if we use the old amortisation values. To turn to the social securities, their position deteriorated continuously in these years, but the saving, excess consumption and net lending or borrowing of this subsector was almost negligible as compared with those of central and local government.

5. Income of households

Considering that more detailed analysis of budget problems cannot be attempted here we must turn to the third element of triple deficit, the problem of income and saving of households. The first relating data are shown in Table 14.

Table 14 builds up the disposable income of households starting from their primary income.[1] In order to obtain disposable income of households shown in the last column social benefits in cash and other transfers received by households are added, while current taxes on income and wealth and other current taxes, social contribu-

[1] There is a slight difference due to methodological reasons between the data of disposable income of households used in Tables 14, 15 and 16, on the one hand, and Tables 17 and 18, on the other. The former are published in the subsequent publications quoted previously, and the latter the in last edition of the National Accounts. The latter is the latest version of the disposable income of households (DIH), but it cannot be compared with the other data shown in Tables 14, 15 and 16.

tions of households and other transfers paid by households are deducted. Further analysis is built upon these data but the stability or instability of the distribution of households' disposable income can only be analysed using the distribution data. (See Table 15.)

Table 14

Distribution of households' disposable income, 1995–2004
(million HUF at current prices)

Year	PIH	SBM	TrORH	TH	SCH	TrOPH	DIH
1995	3 831 410	910 459	485 354	411 965	894 523	361 326	3 559 409
1996	4 744 483	992 604	439 101	520 171	1 013 284	259 747	4 382 986
1997	5 732 626	1 158 386	544 595	599 410	1 260 235	356 404	5 219 558
1998	6 661 130	1 405 781	545 595	700 579	1 499 300	314 380	6 098 247
1999	7 370 429	1 583 399	570 139	818 496	1 599 084	352 580	6 753 807
2000	8 571 615	1 748 658	623 153	998 707	1 898 529	371 887	7 674 303
2000	8 552 039	1 755 180	605 554	999 708	1 891 917	196 031	7 825 117
2001	9 721 559	1 982 249	829 986	1 185 800	2 206 805	227 654	8 913 535
2002	10 669 256	2 356 536	843 335	1 341 514	2 473 817	204 769	9 849 077
2003	11 668 853	2 693 533	847 092	1 389 906	2 680 953	229 287	10 909 332
2004	12 847 691	2 985 769	904 681	1 441 203	2 953 022	286 695	12 057 221

Note. PIH is primary income of households, net; SBM is social benefits other than social transfers in kind; TrORH is other current transfers, received by households; TH is current taxes on income, wealth etc. of households; SCH is social contributions of households, total; TrOPH is other current transfers paid by households; DIH is disposable income of households.

Source: *National Accounts, Hungary, 2003–2004, 2002–2003, 2001–2002, 2000–2001, 1998–2000, 1998–1999, 1995–1997* [2006], [2005], [2004], [2003], [2002], [2001], [1999]. HCSO. Budapest. p. 104–105., 102–103., 102–103., 94–95., 116–117., 120–121.

The data of Table 15 point to a remarkable stability of the distribution, but three important changes can already be ascertained. Social benefits in cash attained their lowest share in 2002 and their share increased in the following two years while taxes and social contributions of households attained their highest share in 2002 and this share decreased in the two following years. These data point therefore to a redistribution of income on behalf of households and to the detriment of government which is in conformity with the findings presented previously. The inference is obvious. If there is no state overspending on collective consumption as it has been shown, and if there is a decrease in the share of taxes and social contributions paid by and an increase in the share of social benefits in cash obtained by households within households' disposable income as it has been presented here, the resulting budget deficit is obviously not the consequence of state overspending on collective consumption but redistribution on behalf of households in the form of decrease of taxes and increase of social benefits in cash.

Table 15

Distribution of households' disposable income, 1995–2004
(percent)

Year	PIH%	SBM%	TrORH%	TH%	SCH%	TrOPH%
1995	107.6	25.6	13.6	11.6	25.1	10.2
1996	108.2	22.6	10.0	11.9	23.1	5.9
1997	109.8	22.2	10.4	11.5	24.1	6.8
1998	109.2	23.1	8.9	11.5	24.6	5.2
1999	109.1	23.4	8.4	12.1	23.7	5.2
2000	116.9	22.8	8.1	13.0	24.7	4.8
2000	109.3	22.4	7.7	12.8	24.2	2.5
2001	109.1	22.2	9.3	13.3	24.8	2.6
2002	108.3	23.9	8.6	13.6	25.1	2.1
2003	106.9	24.7	7.8	12.7	24.6	2.1
2004	106.6	24.8	7.5	12.0	24.5	2.4

Note. PIH% is primary income of households, net, in percent of disposable income of households; SBM% is social benefits other than social transfers in kind in percent of disposable income of households; TrORH% is other current transfers, received by households in percent of disposable income of households; TH% is current taxes on income, wealth etc. of households in percent of disposable income of households; SCH% is social contributions of households, total, in percent of disposable income of households; TrOPH% is other current transfers paid by households in percent of disposable income of households.

Source: Calculated from Table 14.

The same conclusions are confirmed and completed by the same data presented in a rearranged form in Table 16.

The first four columns of Table16 present the time series of social benefits in cash, disposable income of households, social transfers in kind and adjusted disposable income of households. As it has already been shown, social benefits in cash are, obviously, part of disposable income, while adjusted disposable income is obtained by adding social transfers in kind to disposable income. The last two columns present social benefits in cash and social transfers in kind as the percentage of disposable income of households. Both ratios decrease until 2000 but show a remarkable increase after this year. These increases and particularly the increase of social benefits in cash represent a redistribution of income in favour of households, and along with the decrease of the share of taxes and social contributions paid, account for at least the greatest part of the budget problems of the last years of the time period studied.

To analyse our findings we can state the following. On the one hand there is no redistribution in favour of government but rather a redistribution in favour of households in the form of decreasing taxes and social contributions and increasing social benefits and social transfers. It is obvious that the decrease of taxes and social contributions and the increase of social benefits and social transfers cannot go hand in hand as this leads to budget deficit what actually happened. There are two ways to solve this problem: to raise taxes and social contributions or to decrease social bene-

fits and social transfers. The common view is that the only way out is the decrease of social benefits and social transfers, i.e. the retreat of the welfare state. This view is contrary to the symmetry of the problem and has no theoretical foundation. Further considerations are needed to determine which of the two possibilities or what a combination of them is preferable.

Table 16

Disposable income of households, social transfers and social benefits, 1995–2004
(percentages)

Year	SBM	DIH[a]	STrK	DIHA	SBM%	STrK%
1995	910 459	3 559 409	763 186	4 322 595	23.8	21.4
1996	992 604	4 382 986	890 760	5 273 746	20.9	20.3
1997	1 158 386	5 219 558	1 063 885	6 283 443	20.2	20.4
1998	1 405 781	6 098 247	1 288 607	7 386 854	21.1	21.1
1999	1 583 399	6 753 807	1 445 511	8 199 318	21.5	21.4
2000	1 748 658	7 674 303	1 607 786	9 282 089	20.4	21.0
2000	1 755 180	7 825 117	1 626 130	9 451 247	20.5	20.8
2001	1 982 249	8 913 535	1 903 416	10 816 951	20.4	21.4
2002	2 356 536	9 849 077	2 321 511	12 170 588	22.1	23.5
2003	2 693 533	10 909 332	2 749 726	13 659 058	23,1	25.2
2004	2 985 769	12 057 221	2 970 654	15 027 875	23.2	24.6

Note. DIH is disposable income of households; SBM is social benefits other than social transfers in kind; DIHA is adjusted disposable income of households; STrK is social transfers in kind; SBM% is social benefits other than social transfers in kind in percent of disposable income of households; STrK% is social transfers in kind in percent of disposable income of households.

Source: *National Accounts, Hungary, 2003–2004, 2002–2003, 2001–2002, 2000–2001, 1998–2000, 1998–1999, 1995–1997* [2006], [2005], [2004], [2003], [2002], [2001], [1999]. HCSO. Budapest. p. 104–105., 102–103., 102–103., 94–95., 116–117. 120–121.

The most important considerations are the following. First, it is generally accepted that future development can be promoted first of all by better health and education, and this requests a high level of social benefits in kind and the maintenance of the welfare state. Second, the argument in favour of maintaining or increasing household money incomes is politically motivated. Third, it is obvious that the decrease of the share of both taxes and social contributions and also of social welfare expenditures in the broader sense increases the inequality of income distribution. The lowering of taxes benefits the social strata with higher incomes while the reduction of social benefits and transfers is against to the interests of the lower income social groups. It is generally accepted, however, that greater inequality is disadvantageous for development. The supporters of increasing income inequality are therefore working against growth even if they pretend that their policy recommendation are growth promoting. Finally, this is, obviously, not a technical problem which can be solved

by experts but a problem connected with value judgements. Consequently the author, even if he holds the view that expenditures on health and education must be maintained or even increased, cannot propose anything else than to inform the public in a correct way about the problems, the possible solutions and their consequences.

6. Savings and investments of households

Some space must be devoted to the third element of the triple deficit, the inadequacy of domestic savings. We have already seen that government is dissaving, the analysis of corporate savings is difficult to carry out for several reasons (e.g. unavailability of data) so household savings will be analysed here not in all detail. The most important data are presented in Table 17.

Table 17

Disposable income, saving, capital transfers, gross capital formation and net lending of households, 1995–2004
(million HUF at current prices)

Year	GDP	DIH	SH	CTrH	GCFH	LH
1995	5 614 042	3 565 712	598 640	41 701	277 441	362 900
1996	6 893 934	4 367 488	857 889	56 748	347 537	567 100
1997	8 540 669	5 205 091	1 019 289	42 614	406 803	655 100
1998	10 087 434	6 112 666	1 176 007	24 110	405 917	794 200
1999	11 393 499	6 755 823	1 056 369	22 033	435 502	642 900
2000	13 150 766	7 693 926	1 137 710	36 563	505 673	668 600
2000	13 272 167	7 881 646	1 121 138	78 787	677 498	522 127
2001	14 989 800	9 037 644	1 290 591	105 409	867 507	525 493
2002	16 915 259	9 995 602	1 175 432	98 756	996 948	277 240
2003	18 650 746	10 909 332	923 596	121 565	1 131 111	–85 960
2004	20 429 456	12 057 221	1 323 719	102 908	1 317 421	109 206

Note. GDP is gross domestic product; DIH is disposable income of households; SH is saving of households; CTrH is capital transfers of households, net; GCFH is gross fixed capital formation of households; LH is lending of households, net.

Source: *National Accounts, Hungary, 2003–2004* [2006]. HCSO. Budapest. p. 13. 106–107.

Data of the third column of Table 17 show that savings of households at current prices increased marginally between 1997 and 2004 while, as data of the second column show, disposable income of households almost doubled in the same period. This must mean that the rate of saving decreased heavily in this time. This development is highly disadvantageous as the high rate of private savings is the obvious prerequisite of dynamic economic growth. The problem becomes even more pronounced if

household savings are compared with gross fixed capital formation i.e. with residential building of households. The last column of Table 18 shows that net lending of households – the difference of household savings and households' gross fixed capital formation presented in this column – practically disappeared by the end of the period studied. Net lending of households can also be compared with capital transfers of households appearing in the fifth column. It can be seen that in 2004 capital transfers obtained by households were practically equal to net lending of households which means that households obtained as much from the other sectors of the economy as they allotted to these other sectors in the form of net lending.

The interpretation of these finding is obvious. On the one hand, net lending of households ought to finance both budget deficit and the greatest part of private sector investments. Zero net lending of households is a situation which cannot be maintained. On the other hand, it is obvious that zero net lending of households is not the consequence of state overspending or of budget deficit but an independent problem that cannot be solved by reducing the budget deficit and cutting state expenditures.

The results are even more striking if data are shown in percent of the GDP as it is done in Table 18.

Table 18

Disposable income, saving, capital transfers, gross capital formation and net lending of households, 1995–2004
(percent)

Year	DIH%	SH%	CTrH%	GCFH%	LH%
1995	63.5	10.7	0.7	4.9	6.5
1996	63.4	12.4	0.8	5.0	8.2
1997	60.9	12.1	0.5	4.8	7.7
1998	60.6	11.7	0.2	4.0	7.9
1999	59.3	9.3	0.2	3.8	5.6
2000	58.5	8.7	0.3	3.9	5.0
2000	59.4	8.5	0.6	5.1	3.9
2001	60.3	8.6	0.7	5.8	3.5
2002	59.1	7.0	0.6	5.9	1.6
2003	58.5	5.0	0.7	6.1	-0.5
2004	59.0	6.5	0.5	6.5	0.5

Note. DIH% is disposable income of households in percent of GDP; SH% is saving of households in percent of GDP; CTrH% is capital transfers of households, net, in percent of GDP; GCFH% is gross fixed capital formation of households in percent of GDP; LH%: is lending of households, net, in percent of GDP.
Source: Calculated from Table 17.

It can be seen that household savings decreased from a little more than 10 percent of the GDP to 6.5 percent, and that they became practically equal to residential construction of households leading to the disappearance of net lending of households.

These results add much to what has been told previously. It has been shown that general domestic overspending and overspending of the households must be stopped. There are two ways to attain this: to reduce households' incomes and to increase households' savings. It is obvious that the latter way is more advantageous for the households. The increase of household savings and lending is therefore not only a necessity but also advantageous for the households in the longer run.

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