



# PUBLIC FINANCE REPORT



2022  
OCTOBER

*“Intending to ensure the benefit of the general public ... and the good  
condition of the country by useful remedies...”*

*(from a charter of King Charles Robert - February 1318)*



# PUBLIC FINANCE REPORT

Semi-annual analysis of  
public finance developments

2022  
OCTOBER

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*To support the fulfilment of its fundamental duties set forth in Act CXXXIX of 2013 on the Magyar Nemzeti Bank, in particular the tasks related to the determination and implementation of monetary policy, the Magyar Nemzeti Bank analyses developments in the budget deficit and debt, monitors the financing of the general government, analyses the impact of financing on monetary developments, capital markets and liquidity, and researches fiscal policy issues.*

*Pursuant to Act CXCV of 2011 on the Economic Stability of Hungary, the Governor of the MNB is a member of the Fiscal Council (FC), and thus the professional expertise and accumulated information available in the MNB can indirectly support the work of the FC. The MNB prepares background analyses for the duties of the FC stipulated in the Stability Act and provides them to the FC. The general public can learn about the most important results of these analyses from the publication entitled “Public Finance Report”.*

*The analyses in this Report were prepared under the direction of Gergely Baksay, Executive Director for Economic Analysis and Competitiveness. This report was prepared by the staff of the Directorate for Fiscal and Competitiveness Analysis and the Directorate Economic Forecast and Analysis. It was approved for publication by Governor György Matolcsy.*

*The analysis is based on information available for the period ending on 5 October 2022.*



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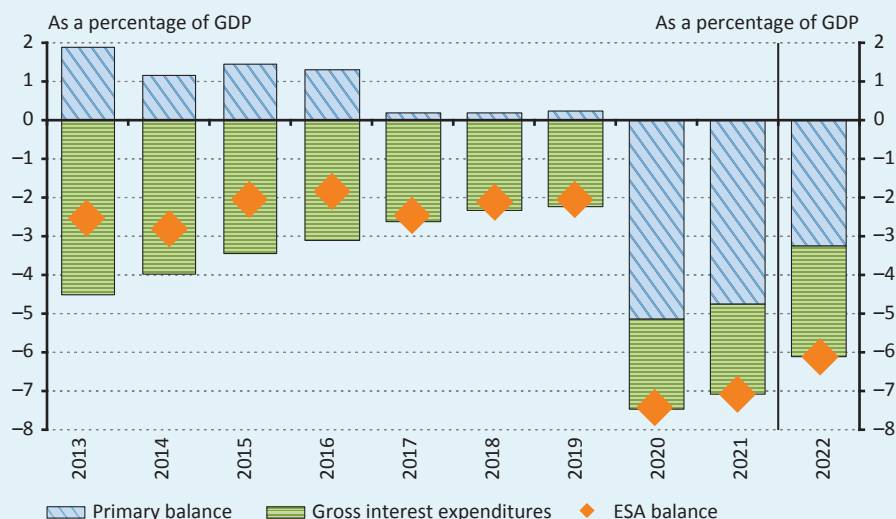
# 1 Summary

The purpose of this analysis is to present the developments in public finance in 2021 and the expected fiscal developments for 2022, on the basis of budget figures available for the first eight months of the year and the MNB's forecast prepared for its September Inflation Report. In view of the above, the actual compliance with the national and European Union rules related to the budget balance and government debt for 2021, as well as the expected compliance for 2022 are assessed.

**In the 2021 and 2022 fiscal years, the situation of the Hungarian general government has been significantly influenced by unfavourable global economic trends.** After 2020, the mitigation of the impacts of the coronavirus, the protection and restart of the economy absorbed significant budgetary resources also in 2021. Following this, in 2022 the disruptions in the global economy's supply chains and then the Russia-Ukraine war and the related economic sanctions had negative impacts on the economy, and through that on the budget. In addition, the soar in energy prices this year fundamentally influences the economic and budgetary processes.

**In order to stabilise the budget, in May 2022 the government announced comprehensive consolidation measures,** a dominant part of which includes the application of windfall taxes on extra profit and a substantial cut in budgetary expenses, primarily investments, this year and the coming years. The primary objective of the measures is to restore balance rapidly, and thereby to achieve the budget path, specified in the Convergence Programme, ensuring a gradual decline in the general government deficit (Chart 1).

**Chart 1**  
**Balance of the general government sector as a percentage of GDP**



Source: HCSO, MNB

**According to our forecast, the raised general government deficit target may be achieved, and thus the general government deficit may follow a steadily declining trend in 2021 and 2022 following the temporary outstanding rise in 2020.** The Budget Act has set a deficit target of 5.9 per cent for 2022, which was reduced by the government to 4.9 per cent in its December 2021 expectation, then raised to 6.1 per cent in September 2022. The raising of the deficit target is justified by the accumulation of special natural gas reserves, which – according to Eurostat accounting – increases the ESA deficit. This year the first eight months' cash deficit of the central subsector was HUF 2,873 billion, which amounted to 91 per cent of the annual appropriation, while the accrual-based deficit in the first half-year amounted to 2.8 per cent of the semi-annual GDP. As a result of the growth in revenues attributable to economic growth, in 2022 the deficit decreases compared to 7.1 per cent of 2021, and the current budget deficit target of 6.1 per cent may be achieved. To

this end, and due to the excess expenditures incurred, a package of measures – containing extra-profit tax measures amounting to roughly 3 per cent of GDP and expenditures cuts – was announced in parallel with the elaboration of the 2023 Budget Act. However, rising energy prices poses a risk to the realisation of the deficit targets, which is continuously addressed by the budget by measures.

**By the end of 2021, the gross government debt as a percentage of GDP declined from 79.3 per cent registered at the end of 2020 by 2.5 percentage points to 76.8 per cent. According to our forecast, the gross government debt-to-GDP ratio will continue to decline, falling to 76.0 per cent by end-2022 (Chart 2).** The MNB's nominal debt forecast for the end of 2022, prepared for the September Inflation Report, exceeds that in the Budget Act, while as a result of the higher nominal GDP growth, the debt ratio may essentially be in line with the figure stated in the Budget Act, i.e. 76.1 per cent as a percentage of GDP. As a result of the significant foreign currency issuance this year, the foreign currency ratio of central government debt may rise over 25 per cent from 20.6 per cent registered at the end of 2021.

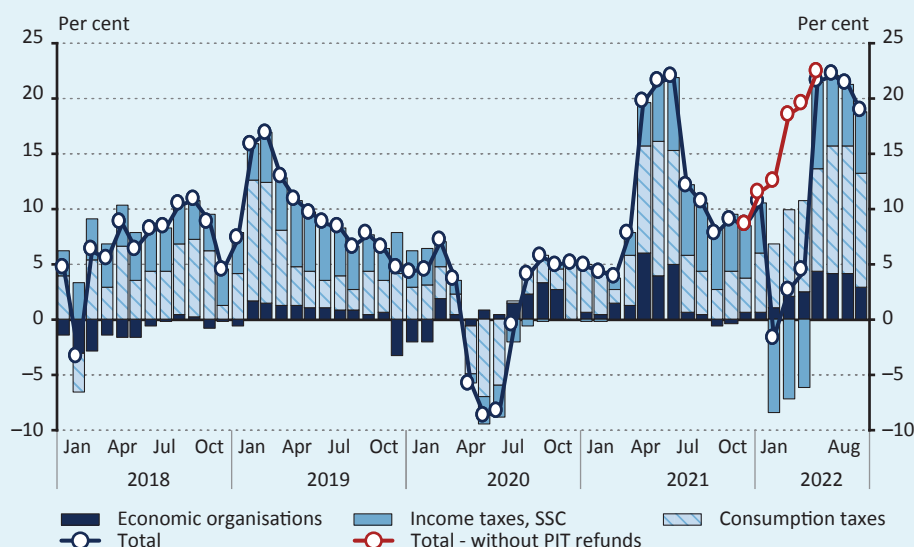
**Chart 2**  
**Expected development in gross public debt-to-GDP**



Source: Government Debt Management Agency, MNB

**The level of the budget's tax and contribution revenues as a percentage of GDP fell by 2.1 percentage point in 2021.** Last year tax and contribution revenues registered rapid nominal growth, with a total year-on-year rise of 10.8 per cent during the year, primarily as result of the dynamic mid-year growth (Chart 3). The growth is mostly connected to consumption taxes as well as to labour tax and contribution revenues. On the other hand, last year's revenues as a percentage of GDP were reduced by the outstandingly high, 13.9 per cent rise in nominal GDP. Furthermore, the decline in tax centralisation in 2021 was supported by the refund of personal income tax to families (which was paid in 2022, but on an accruals basis it was recognised in 2021) and the annual effect of the mid-year cut of the social contribution tax in 2020, the sectoral tax allowances and exemptions introduced due to the pandemic and the repeated reduction of the VAT on new residential property to 5 per cent. This year's tax centralisation is reduced by the partial personal income tax exemption of those below 25 as well as by the reduction of the employer tax burden by 4 percentage points, implemented at the beginning of the year, while the newly announced government tax measures, partly involving taxes imposed on extra profit and partly raising other taxes, act towards an increase.

**Chart 3**  
**3-month moving average of annual change in central sub-sector's tax and contribution revenues**



Source: Hungarian State Treasury

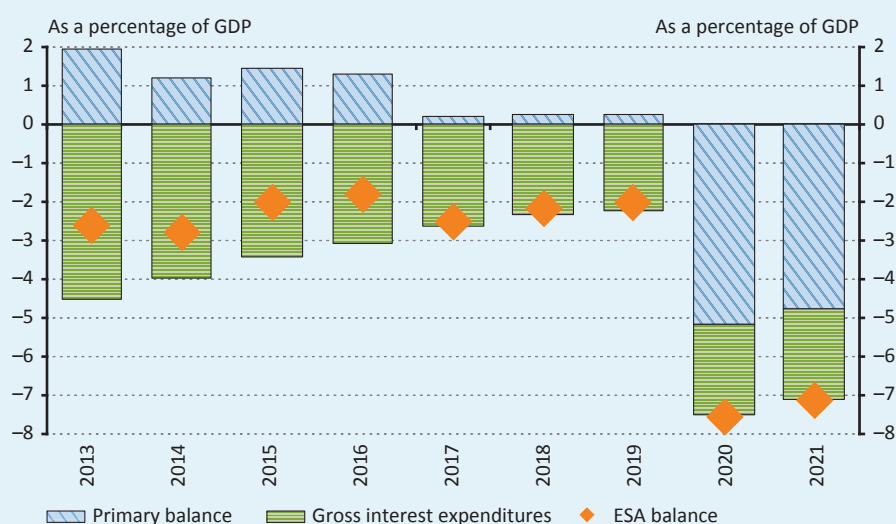
**Public sector spending significantly exceeded the appropriation in 2021, and it is likely to exceed the budget expectations in 2022 as well.** In 2021 the excess expenditure is primarily connected to expenditures related to pandemic prevention and the restart of the economy, while this year the level of expenditures was raised by measures aimed at the restart of the economy and increasing households' incomes. This year the excess expenditure appears mostly in the case of the fiscal expenditures resulting from the high energy prices, the government's wage increase measures, the reinstatement of the full amount of the 13th month pension faster than planned, the additional pension increases, the earlier than planned disbursement of law enforcement service benefits and the overdrawing of the central reserves for programmes aimed at the restart of the economy.

**The expected budgetary processes, subject to applying the relevant exemption clauses, will be in line with the Hungarian and international requirements pertaining to the general government balance and the government debt.** The Maastricht deficit criterion, included in both the Hungarian and the EU fiscal framework, specifies that the accrual-based deficit of the general government may not exceed 3 per cent of GDP. The Hungarian budget deficit in 2021 was 7.1 per cent of GDP, and the deficit will exceed the threshold this year as well, but the Maastricht deficit target is subject to an escape clause under both the EU and Hungarian fiscal frameworks. According to the decision of the EU organisations, the general escape clause continued to be applied this year as well, while in the Hungarian legislation the 3 per cent debt criterion and the rules related to attaining the medium-term budgetary objective have been temporarily suspended for the 2021-2023 fiscal years. According to our assessment, the decrease in government debt complies in both years with the debt rule of the Fundamental Law, suspended due to the state of emergency, and also with that of the Stability Act, being in force at present as well.

## 2 Balance of the general government sector in 2021

The government sector's ESA deficit of 2021 was 7.1 per cent of GDP according to the September EDP notification. In 2020, the growth in expenditures and the shortfall in tax revenues caused by the coronavirus crisis, broke the trend of the accrual-based deficit being below 3 per cent of GDP. Responding to the crisis, last year the government injected additional resources into the economy through fiscal stimulus expenditures, and thus in 2021 the general government deficit exceeded the Maastricht criterion by 4.1 percentage points (Chart 4). Budgetary policy fostering economic growth was facilitated by the fact that the European Union temporarily suspended the 3 per cent Maastricht deficit criterion. As a result of the rapid economic growth, the gross government debt-to-GDP ratio once again decreased in 2021 and by the end of 2021 it declined by 2.5 percentage points to 76.8 per cent from 79.3 per cent registered at the end of 2020.

**Chart 4**  
Balance of the general government sector



Source: HCSO

According to the September EDP notification of the HCSO, the ESA deficit of HUF 3,938 billion reflects the balance of the central subsector's (balance of the central government and the social security funds) deficit in the amount of HUF 4,025 billion and the local government subsector's surplus of HUF 87 billion. The accrual-based balance of local governments doubled its moderate surplus registered in 2020, and thus it closed with a surplus amounting to 0.1 per cent of GDP (Table 1).



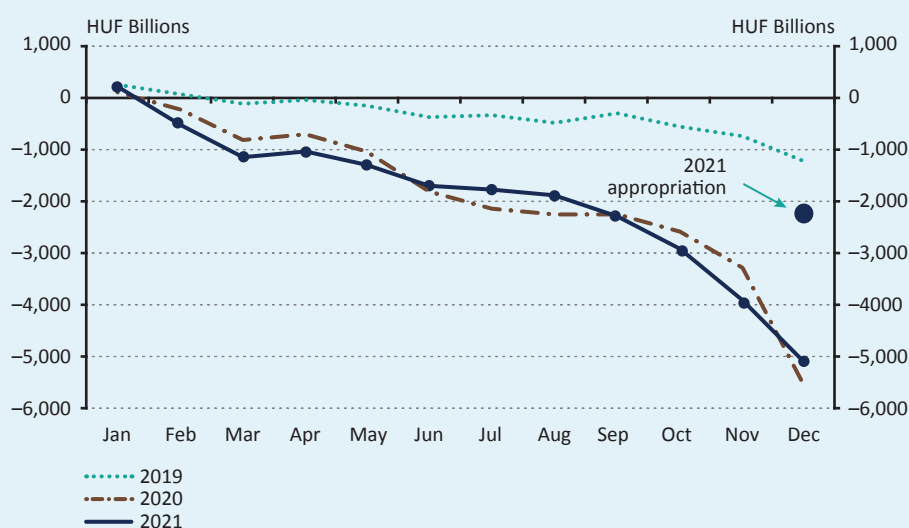
**Table 1**  
**Budget balance indicators in 2021**

	Cash-based balance	ESA-bridge	ESA balance
	HUF Billions		
Central subsector	-4,774	749	-4,025
Local governments	52	35	87
<b>Total general government</b>	<b>-4,722</b>	<b>784</b>	<b>-3,938</b>
	as a percentage of GDP		
Central subsector	-8.7	1.4	-7.3
Local governments	0.1	0.1	0.2
<b>Total general government</b>	<b>-8.6</b>	<b>1.5</b>	<b>-7.1</b>

Source: HCSO, 2022 September EDP notification

The 2021 **cash-based deficit of the general government** (the central and local government sub-sector) amounted to HUF **4,722 billion** at year-end. **The cash-based deficit of the central sub-sector was HUF 4,774 billion in 2021.** According to the EDP notification, the annual cash-based deficit exceeded the HUF 2.288 billion deficit target specified in the amended Budget Act by HUF 2,487 billion (Chart 5). **Cash revenues of the central subsector** exceeded the revenue total specified in the amended Budget Act by HUF 543 billion in total. The development of the surplus revenue was mostly attributable to the macroeconomic trends, the higher than planned economic growth rate, the larger than forecast rise in the national wage bill and – in connection with the latter – to the higher than expected consumption expenditures of households. As a result of the gross wage bill trends, personal income tax and social contribution tax and contributions together generated a surplus revenue of HUF 300 billion for the budget. Due to the higher than expected consumption expenditures, net VAT revenues exceeded the amended budgetary appropriation by HUF 362 billion.

**Chart 5**  
**Intra-year developments of cash-based deficit of the central sub-sector (year-to-date cumulative value)**



Source: 2021 Budget Act, Hungarian State Treasury preliminary data

According to our partially consolidated classification, **cash expenditures of the central subsector** exceeded the appropriation in the amended Budget Act by roughly HUF 3,080 billion in aggregate. Most of the excess expenditure was incurred by the budgetary organisations, at the expenditure related to state asset management and at the pension and healthcare expenditures. In addition to those, net interest expenditure exceeded the statutory appropriation by HUF 340 billion.

## 2.1 REALISATION OF THE MACROECONOMIC PROJECTIONS UNDERLYING THE BUDGET

Owing to the successful economy restart programmes, performance of the Hungarian economy rose by 7.1 per cent in 2021. The growth rate was significantly higher than expected by the original Budget Act. The 2021 Budget Act projected real economic growth of 4.8 per cent. Due to the crisis caused by the COVID pandemic, the risks surrounding the macroeconomic path were higher than usual at the time of preparing the budget.

Relying on the government and central bank programmes, the labour market swiftly adjusted to the changed circumstances, and thus in 2021 total **employment** rose by 0.8 per cent and reached its pre-pandemic level. In 2021, the growth rate of **gross average earnings** was 8.7 per cent, which substantially exceeded the forecast in the Budget Act. The wage review of doctors and nurses also made positive contribution to the annual wage dynamics. Excluding the technical effects (composition effect, and the effect of part-time workers) the annual wage dynamics was almost a double-digit figure, which implies the resilience of the labour market during the coronavirus pandemic.

The budget calculated with a 3.8 per cent **growth in the consumption of the households**, while consumption expenditures rose by 5 per cent. The higher than expected consumption was supported by strong wage dynamics, pick-up in services, measures supporting investment and buoyant retail lending.

**Table 2**  
**Comparison of the macroeconomic projection in the 2021 Budget Act and the actual figures (per cent)**

	Budget Act	Actual
<b>Change in GDP in real terms</b>	<b>4.8</b>	<b>7.1</b>
Exports	10.5	10.3
Imports	8.9	9.1
Gross fixed capital formation	5.5	5.2
Consumption expenditure of households	3.8	5.0
Public consumption	1.0	3.1
<b>Inflation</b>	<b>3.0</b>	<b>5.1</b>
<b>Average gross earnings</b>	<b>6.9</b>	<b>8.7</b>

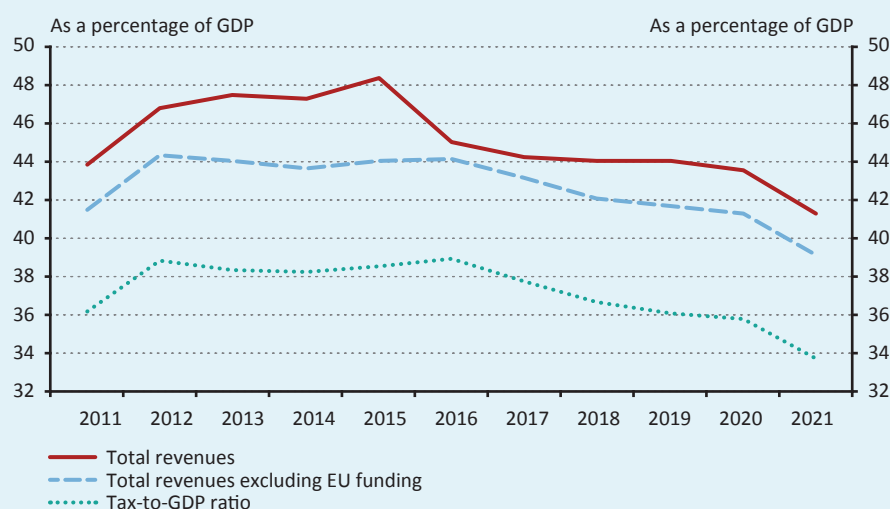
Source: HCSO, 2021 Budget Act

In 2021, the consumer price index was 5.1 per cent instead of 3.0 per cent assumed upon compiling the budget. From the supply side, annual inflation developments were significantly influenced by the rise in commodity and energy prices, rising transportation costs and supply chain disturbances. Additionally, demand factors such as the recovery in the consumption motive, which was postponed during the crisis, and excess demand from government purchases have also contributed to inflation.

## 2.2 BUDGET REVENUES

By 2021 the accrual-based revenues of the general government decreased to 41.3 per cent of GDP compared to 43.5 per cent of previous year; excluding EU funds, the decrease in revenue was 2.1 percentage points (Chart 6). Tax centralisation declined rapidly, by 2.1 percentage points as a percentage of GDP. The change in tax centralisation is mostly the result of the significant growth in GDP and the government's tax measures: temporary reduction of the itemised tax of small taxpayers due to the pandemic, cutting the excise tax on fuels due to the rise in Brent oil price and temporary reduction of the VAT rate on new residential properties to 5 per cent.

**Chart 6**  
Accrual-based revenues of the government sector and degree of tax-to-GDP ratio



Source: HCSO, Eurostat

**Consolidated cash revenues of the central subsector amounted to HUF 20,254 billion, of which HUF 18,037 billion was linked to tax and contribution revenues** (Table 3). Despite the coronavirus pandemic, tax and contribution revenues exceeded the original statutory appropriation by HUF 600 billion, while compared to the revised statutory appropriation the budget realised surplus tax and contribution revenues in the amount of HUF 893 billion in 2021.

**Economic organisations paid HUF 1,892 billion to the treasury in 2021.** This amount exceeded the original appropriation in the 2021 Budget Act by HUF 68 billion. The Budget Act was amended in 2021, as a result of which the appropriations for payments by economic organisations declined by HUF 106 billion in total. Despite the reduced appropriation, annual payments exceeded the amended appropriation by HUF 174 billion, and in aggregate also exceeded the original budgetary appropriation. Corporate income tax and small enterprise tax together exceeded the amended statutory appropriation by HUF 125 billion, owing to the vigorous economic growth rate in the second half of the year. The surplus of HUF 16 billion in mining royalties is the consequence of the rising oil prices; surplus revenues in a similar amount were realised under the title of income tax on energy providers, due to the same reason. **Compared to 2020, payments by enterprises increased by HUF 281 billion.**

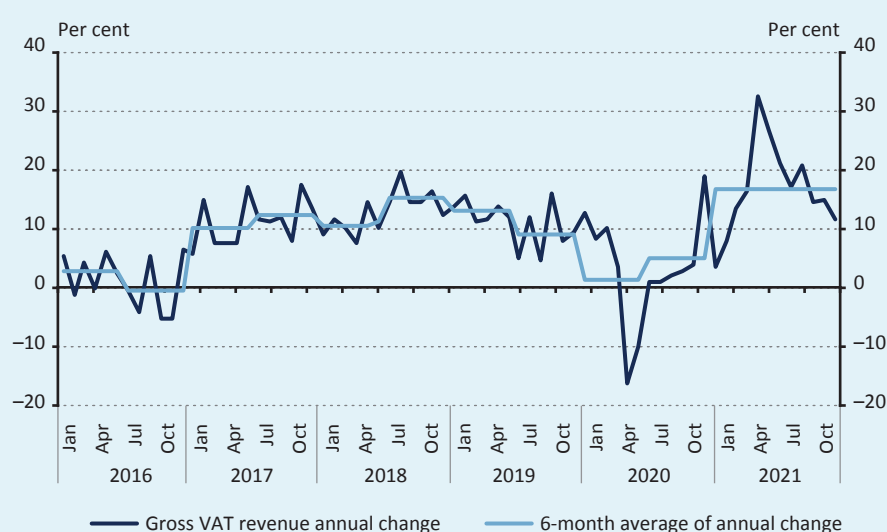
**Table 3**  
**Partially consolidated revenues of the central sub-sector in 2021 (HUF billions)**

	2021			
	Statutory appropriation	Statutory appropriation (amended)	Actual	Difference (actual – amended appropriation)
<b>TAX AND CONTRIBUTION REVENUES OF THE CENTRAL SUBSECTOR</b>	<b>17,401</b>	<b>17,145</b>	<b>18,037</b>	<b>893</b>
<b>Payments by economic organisations</b>	<b>1,824</b>	<b>1,718</b>	<b>1,892</b>	<b>174</b>
Corporate income tax	539	447	558	111
Special tax on financial institutions	61	61	62	0
Advertising tax	0	0	9	9
Itemised tax of small taxpayers	237	237	196	-42
Tax of small enterprises	97	97	111	14
Utility tax	53	53	54	1
Eco-tax	5	5	5	0
Mining royalty	44	44	60	16
Gambling tax	35	35	29	-6
Other taxes and payments	15	15	12	-3
Other centralised revenues	469	456	488	32
Income tax on energy providers	61	61	77	17
Company car tax	38	38	39	2
Retail tax	54	65	79	14
Rehabilitation contribution	116	104	113	10
<b>Consumption taxes</b>	<b>6,705</b>	<b>6,689</b>	<b>7,054</b>	<b>365</b>
Value added tax	5,015	5,036	5,397	362
Excise duties	1,263	1,249	1,243	-5
Motor vehicle registration tax	20	20	17	-3
Telecommunication tax	53	53	59	6
Financial transaction levy	219	219	233	14
Insurance tax	106	106	104	-2
Tourism development contribution	30	8	0	-7
<b>Payments by households</b>	<b>2,997</b>	<b>3,007</b>	<b>3,211</b>	<b>204</b>
Personal income tax	2,684	2,718	2,889	171
Duties, other taxes	227	202	227	25
Motor vehicle tax	87	87	95	8
<b>Tax and contribution revenues of extra-budgetary funds</b>	<b>453</b>	<b>453</b>	<b>471</b>	<b>18</b>
<b>Tax and contribution revenues of social security funds</b>	<b>5,421</b>	<b>5,277</b>	<b>5,409</b>	<b>132</b>
Social contribution tax and contributions	5,262	5,118	5,247	129
Other contributions and taxes	159	159	163	3
<b>REVENUES RELATED TO EU FUNDS</b>	<b>1,145</b>	<b>2,050</b>	<b>1,576</b>	<b>-474</b>
<b>OTHER REVENUES</b>	<b>474</b>	<b>467</b>	<b>641</b>	<b>173</b>
Other revenues of the central budget	334	327	507	181
Other revenues of social security funds	39	39	29	-9
Other revenues of extra-budgetary funds	102	102	104	2
<b>TOTAL REVENUES</b>	<b>19,021</b>	<b>19,662</b>	<b>20,254</b>	<b>592</b>

Source: Hungarian State Treasury, 2021 Budget Act, MNB

Net revenues from **value added tax** amounted to HUF 5,397 billion in 2021, exceeding last year's revenues by HUF 728 billion. 107 per cent of the amended statutory appropriation for 2021 was realised, representing a surplus revenue of HUF 362 billion compared to the appropriation. The growth rate of gross revenues amounted to 16 per cent, being the highest annual growth rate of the past 10 years. The measure helping small and medium-sized enterprises continued in 2021, reducing the deadline for VAT reimbursement from 30 to 20 days in the case of reliable taxpayers and from 75 to 30 days in the case of normal taxpayers, thereby supporting the liquidity of enterprises. Temporarily the VAT rate on take-away food was reduced from 27 per cent to 5 per cent between 14 November 2020 and 31 July 2021, which reduced budget revenues by around HUF 35-40 billion. Furthermore, the VAT rate applicable to the sales of new residential properties was once again reduced to 5 per cent from 2021, which – according to our estimates – reduced VAT revenues by HUF 50-60 billion last year. On 1 January 2021, the last phase of the extension of the **Online Invoice** system was realised: NTCA also sees the invoices issued to private individuals irrespective of the value, which permits the tax authority to make online proposals for the VAT return.

**Chart 7**  
**Change in gross VAT revenues year-on-year**

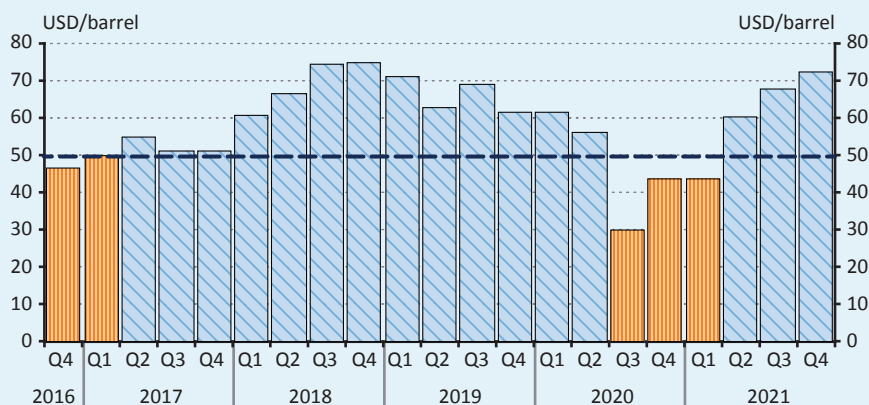


Source: Hungarian State Treasury

In 2021 **excise duty revenues** amounted to HUF 1,243 billion, exceeding those of 2020 by HUF 47 billion. Revenues amount to 98 per cent of the original appropriation, while the amended appropriation has been essentially met. **Excise duty on tobacco products** rose in January and April 2021 to ensure compliance with the EU regulation. The two-step tax increase of roughly 20 per cent could improve the balance of the budget by some HUF 35–40 billion. From 1 April the rate of the **excise duty on fuel consumption** declined, since the Brent price per barrel was steadily over USD 50 in the first quarter. The excise duty to be paid on fuel consumption was higher between 1 July 2020 and 31 March 2021 as a result of the lower world market price of crude oil (Chart 8). Pursuant to the Act on Excise Duties, if the world market price of Brent falls below USD 50 on average, a higher tax is applied in order to offset the ensuing lower revenues. In this period the price of unleaded fuel and diesel fuel per thousand litre rose from HUF 120,000 to HUF 125,000 and from HUF 110,350 to HUF 120,350, respectively. From 2021 no excise duty applies to brandy distillation below 86 litres, which caused a revenue shortfall of around HUF 5-10 billion to the budget.

Chart 8

Average price determined based on the daily Brent quotes necessary for establishing the tax rate on crude oil



Note: Tax rates in each quarter are set according to the average price between the first day of the first month and the 15th day of the last month of the quarter preceding the reference quarter.

Source: NTCA, S&P Global Inc. (Platts) 2016-2021

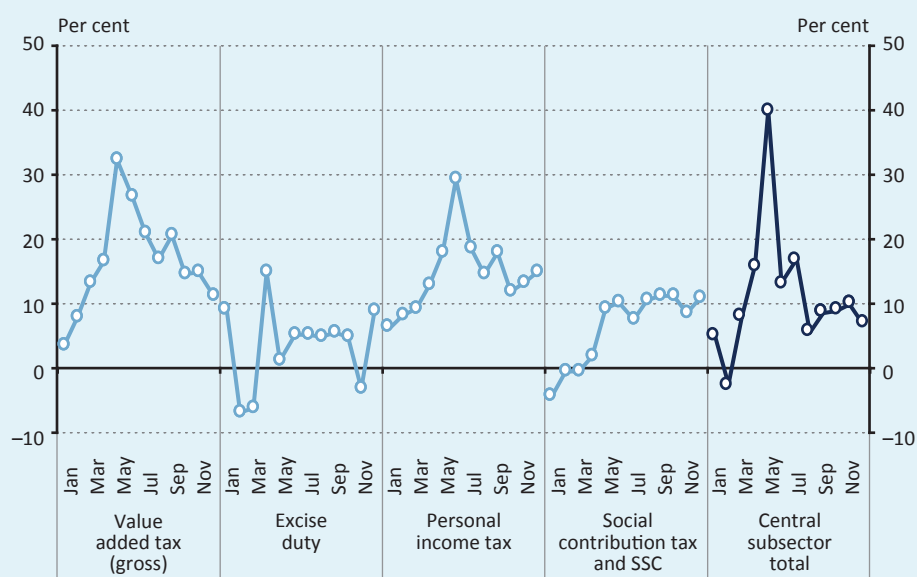
In 2021, revenues from **tourism development contribution payments** amounted to merely HUF 0.4 billion. The original tax revenue of HUF 30 billion was modified in the budget mid-year to HUF 8 billion; however, with a view to easing taxation in the state of emergency, the obligation to pay it was suspended until the end of the year. The basis of the 4 per cent contribution, applicable to catering and commercial accommodation providers is the consideration for the service subject to the contribution net of VAT. This contribution has been extended to the commercial accommodation sector from 2020 and simultaneously with this the VAT rate was reduced from 18 to 5 per cent.

**Revenues from financial transaction levy** amounted to HUF 233 billion in 2021, which exceeded the statutory appropriation by HUF 14 billion, i.e. by almost 6 per cent. In 2020, the decrease in revenues was due to the economic slowdown resulting from the coronavirus and to the declining number of transactions due to the moratorium on loan instalments. Although the moratorium was maintained in full until end of October 2021 and partially for vulnerable debtors until the end of 2022, the trend turned last year and the fast economic recovery also raised revenues from financial transaction levy.

Last year revenues from **duties** amounted to HUF 224 billion, generating by 16 per cent higher revenue compared to the amended statutory appropriation. In annual terms revenues from duties rose by 8 per cent compared to 2020.

The amended appropriation for **personal income tax** was HUF 2,718 billion in 2021, exceeding the originally planned amount by HUF 34 billion; however, the actual cash realisation exceeded even the raised appropriation by HUF 171 billion. Last year, tax revenues increased by 14.3 per cent compared to previous year, primarily due to the low base of 2020 resulting from the declining tax payments due to the coronavirus pandemic. The dynamic growth in whole-economy gross average earnings and wage bill was the greatest contributor to growth, while personal income tax paid on fringe benefits and other allowances also rose significantly, over 20 per cent, in 2021 compared to previous year.

**Chart 9**  
**Annual change of major taxes and contributions**



Source: Hungarian State Treasury, MNB calculation

The original appropriation in 2021 for **tax and contribution revenues of extra-budgetary funds** was HUF 5,875 billion, which was reduced by the mid-year amendment of the Budget Act by HUF 145 billion. On the other hand, tax and contribution revenues in 2021 exceeded the amended appropriation by HUF 150 billion, and thus the revenue realised was close to the original appropriation. Employee and employer tax and contribution revenues, accounting for the largest part of the funds' revenues, exceeded the amended appropriation by roughly HUF 85 billion. Social security contributions exceeded the figure registered a year ago by 11.5 per cent, while revenues from social contribution tax declined by 0.5 per cent compared to 2020. The growth in payments is mostly attributable to the rise in the whole-economy wage bill: gross average earnings rose by 8.7 per cent in 2021 under moderately increasing employment. The dynamics of employer payments in 2021 was reduced by the fact that in the second half of 2020 the social contribution tax rate was declined by further 2 percentage points and in the first half of the year, certain sectors of the national economy – hit hardest by the unfavourable economic impacts of the coronavirus pandemic – were exempted from the payment of the employer tax burdens. It also acted towards a decline in payments that the fringe benefits paid on SZÉP cards were exempted from the social contribution tax throughout the year.

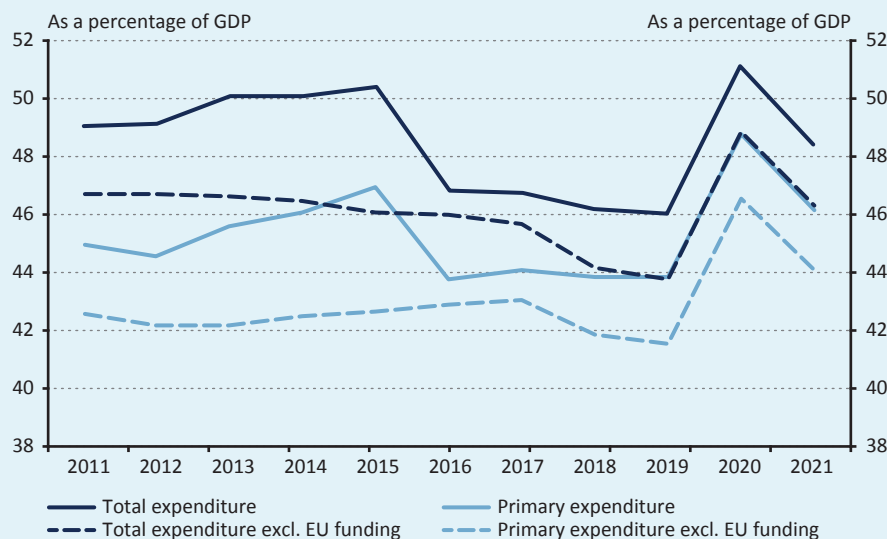
In 2021 **revenues related to EU grants** amounted to HUF 1,576 billion in total, and thus this amount fell short of the amended appropriation by roughly HUF 470 billion. The absorption rate related to the 2014–2020 programmes rose from 62 per cent to 71 per cent last year, while the cohesion facility grew to EUR 26.9 billion by the end of the year. According to our estimate, the absorption of the disbursed advances amounted to HUF 1,230 billion in 2021, and thus last year the unutilised EU advances held by the beneficiaries declined by roughly HUF 270 billion.

**Other revenues of the central subsector** together exceeded the appropriation in the amended Budget Act by HUF 199 billion. Within the combined appropriations **the budget revenues related to state property management** was HUF 214 billion. Asset management revenues exceeded the statutory appropriation by HUF 70 billion; the difference is the combined result of the higher revenue realised on the sales of industrial emission units (carbon-dioxide quota) and the sales of state-owned real estate and movables in a volume higher than planned.

## 2.3 DEVELOPMENTS IN EXPENDITURE

As a result of the crisis management, accrual-based expenditures of the general government exceeded the preliminary plans in 2021 as well; however, compared to previous year they fell by 2.6 percentage points, to 48.4 per cent of GDP in 2021 (Chart 10). Primary expenditures net of EU funds also fell sharply last year to 46.3 per cent of GDP, after a 2.5 percentage point decline. The level of expenditures net of EU grants as a percentage of GDP exceeded the average of 2011–2019 by 0.8 percentage point.

**Chart 10**  
Expenditures and primary expenditures of the government sector (as a percentage of GDP)



Source: HCSO

The consolidated cash expenditures of the central subsector amounted to HUF 25,029 billion, of which HUF 23,754 billion was linked to primary expenditure items (Table 4). According to available preliminary data, expenditures exceeded the appropriation in the amended Budget Act by about HUF 3,080 billion; the difference compared to the originally approved budget amounts to more than HUF 4,500 billion. The significant difference is primarily the result of the expenses related to the management of the economic crisis caused by the coronavirus pandemic. The excess expenditures arose primarily at the expenses of the central budgetary organisations, the expenses related to state assets and at the pension and healthcare expenditures.

The primary expenditures of the central subsector exceeded by HUF 2,743 billion the corresponding expenditure appropriation of the amended Budget Act; the difference compared to the figures in the original Budget Act is HUF 4,180 billion. The large excess expenditure is the consequence of several factors.

- Gross expenditure of the Central Reserve of Epidemic Control exceeded the reserves of HUF 25 billion, planned for the pandemic control measures, by HUF 575 billion. The excess expenditure was generated by the increased healthcare expenses resulting from the new wave of the coronavirus pandemic as well by the costs related to the reorganisation of the healthcare system.
- The possibility of reusing the residue appropriation from the execution of the 2020 budget in the amount of roughly HUF 340 billion also broadened the government's room for manoeuvre.
- The reserve appropriation, entitled "Economy Restart Programmes", raised upon the amendment of the budget to HUF 108 billion with a view to executing the general government economy policy to stimulate economic growth, was exceeded; the appropriation was overdrawn by almost HUF 1,970 billion.
- In the second half of 2021 the rise in the price of imported fuels increased budgetary expenditures.



**Table 4**  
**Partially consolidated cash expenditures of the central sub-sector in 2021 (HUF billions)**

	2021			
	Statutory appropriation	Statutory appropriation (amended)	Actual	Difference (actual – appropriation)
<b>PRIMARY EXPENDITURE ITEMS</b>	<b>19,574</b>	<b>21,011</b>	<b>23,754</b>	<b>2,743</b>
Special and normative subsidies and support to the public media	562	562	740	179
Social policy fare subsidy	138	138	86	-52
Housing grants	250	370	376	7
National Family and Social Policy Fund	672	672	675	3
Net own expenditures of central budgetary organisations and chapters	6,574	6,738	8,294	1,556
Expenditures related to EU funds	1,601	2,515	2,243	-272
Support to local governments	865	909	1,014	105
Contribution to the EU budget	450	615	610	-5
Central reserves	396	436	0	-436
Other expenditures	740	730	1,754	1,024
<b>Expenditures of extra-budgetary funds</b>	<b>591</b>	<b>591</b>	<b>689</b>	<b>97</b>
EREf – Passive allowances	109	109	94	-14
EREf – Active allowances	165	165	149	-16
Other expenditures	318	318	446	128
<b>Expenditures of social security funds</b>	<b>6,736</b>	<b>6,736</b>	<b>7,273</b>	<b>537</b>
PIF - Pensions	3,907	3,907	4,116	209
HIF - Disability and rehabilitation benefits	284	284	305	22
HIF - Cash benefits	496	496	530	33
HIF - Medical and preventive care	1,567	1,567	1,880	313
HIF - Net expenditures of the drug budget	333	333	319	-14
Other expenditures	149	149	123	-26
<b>NET INTEREST EXPENDITURES</b>	<b>937</b>	<b>937</b>	<b>1,274</b>	<b>337</b>
<b>TOTAL EXPENDITURES</b>	<b>20,511</b>	<b>21,948</b>	<b>25,029</b>	<b>3,080</b>
<b>BALANCE</b>	<b>-1,491</b>	<b>-2,288</b>	<b>-4,774</b>	<b>-2,487</b>

Source: Hungarian State Treasury, 2021 Budget Act, MNB

The combined statutory appropriation for the **special, normative subsidies and support for the public media** was HUF 562 billion, while payments reached HUF 740 billion, and thus the excess expenditure was almost HUF 180 billion. The government received extraordinary authorisation from the Parliament for the high overrun of the appropriation for the prevention of the coronavirus pandemic. Based on the authorisation, the government spent the full amount of the overrun of the appropriation on special and normative corporate subsidies. According to preliminary data, the budget paid HUF 506 billion in subsidies to companies providing public transport and other public services to compensate for the pandemic-related revenue shortfall of the respective companies and for the rise in the energy costs in the second half of the year. Additional, surplus subsidies paid for individual support connected to the stimulation of the economy exceeded HUF 100 billion. A subsidy of HUF 5 billion was paid to reduce the additional costs of the postal services. Expenditures on public media corresponded to the statutory appropriation.

On **social policy fare subsidy** the budget paid merely HUF 86 billion instead of the HUF 138 billion target. The saving of HUF 52 billion is the combined result of two factors: on the one hand, the expenditure for direct fare subsidy fell short of the appropriation by HUF 19 billion due to the lower than expected utilisation of public transport services, and on

the other hand, the expenditure planned for a new cost element was paid by the budget under a different title, which resulted in an additional saving of HUF 33 billion at this expenditure item.

**Expenditures on housing subsidies** reached HUF 377 billion, and thus they exceeded the subsidy paid in 2020 by more than HUF 125 billion and the original 2021 appropriation by the same amount. The statutory appropriation was raised by HUF 120 billion upon the amendment of the Budget Act, which was justified by the expenditures connected to the new programme – Home improvement subsidy for families with children – introduced from 1 January. The expenditures for Home improvement subsidy amounted to roughly HUF 129 billion; mostly due to this, the amended statutory appropriation was also overran by HUF 7 billion.

Expenditures of the **National Family and Social Policy Fund** amounted to HUF 675 billion, which essentially corresponds to the appropriation in the Budget Act. *Family benefits* and *reimbursements disbursed under various titles*, disbursed from the Fund, amounted to HUF 399 billion and HUF 24 billion, respectively, thereby each of them falling short of the figure registered last year by HUF 1 billion. The difference was more significant at the *Early retirement benefits*; the expenditures of HUF 99 billion exceed the appropriation by about HUF 6 billion, which is attributable to the supplementary pension increases, also covering the 13th month benefit, disbursed retrospectively. Savings of almost HUF 4 billion were realised in the expenditures related to *Social benefits*. The benefits disbursed in the amount of HUF 152 billion fell short of the statutory appropriation primarily due to the lower expenditures for income substitute and income supplementing benefits.

According to the data available, **the net expenditures – calculated without the EU revenues and payments – of the budgetary institutions** together with the central budgetary payments amounted to HUF 8,294 billion in 2021. This figure is lower by HUF 860 billion, or 13 per cent, than the realisation of expenditures in 2020. Net expenditures exceeded the net expenditures of HUF 6,738 billion, calculated from the amended appropriations of the Budget Act, by HUF 1,556 billion, and thus the over-realisation of the statutory appropriations was almost 18 per cent. Revenues of the budgetary organisation were realised in the amount of HUF 2,700 billion instead of the planned HUF 1,490 billion; the greater part of the large difference is the consequence of the accumulation due to the reallocation of the statutory appropriations between budgetary chapters. Payments by the budgetary organisations to the central budget were realised in the amount of HUF 389 billion instead of the anticipated HUF 26 billion. The difference between the appropriation and the realisation was caused by the revenues of the Central Residue Settlement Fund, i.e. the revenues arising from the centrally ordered payment obligation related to previous year's appropriation residues. On the whole, on the revenue side of the central budget, the statutory appropriations for the payments by budgetary organisations and centralised payments were realised in the amount of HUF 3,089 billion instead of the anticipated HUF 1,516 billion.

**Gross expenditures of the budgetary organisation and chapter-administered appropriations** fell short by almost HUF 968, billion those of the base period by 7.9 per cent, while they exceeded the amended Budget Act's appropriation by HUF 3,104 billion, i.e. 37.6 per cent. Since the realisation of the expenditure appropriations already includes the absorption of the fiscal reserves as well as the payments to the Central Residue Settlement Fund, together with the absorption of the surplus revenues realised over the statutory appropriations on the expenditure side, when also taking into consideration the expenditures belonging to these item in total in the amount of roughly HUF 1,573 billion, the excess spending of budgetary organisations over the original appropriation was almost HUF 1,530 billion. The growth in excess expenditure compared to the statutory appropriations occurred both at the budgetary organisations and the professional chapter-administered expenditure appropriations.

Excess costs related to pandemic prevention were recognised to the debit of the *Central Reserve for Pandemic Control* appropriation. According to the data of the Hungarian State Treasury, last year the total expenditure of the Central Reserve for Pandemic Control reached HUF 600 billion. Due to technical accounting reasons, part of the fiscal subsidy for model switching universities, i.e. an expenditure of roughly HUF 155 billion, was recognised here in the first half of last year. In the second half of the year, the government compensated for this amount from the Central Residue Settlement Fund. Accordingly, considering this item, the budget incurred HUF 445 billion in 2021 as direct costs of the pandemic prevention. The net amount of the expenditure decisions related to programmes financed from the *Economy Restart Fund* was almost HUF 2,100 billion. Roughly HUF 1,550 billion of the excess expenditure was incurred by budgetary organisations.

**Gross expenditures of budgetary organisations** were realised in the amount of HUF 6,983 billion, which corresponds to 95.8 per cent of the realisation in the base period. **Gross expenditures of the chapter-administered appropriations** were realised in the amount of HUF 4,374 billion, which corresponds to 86.8 per cent of the realisation last year. With effect from 1 July 2021, the model switching universities are no longer considered as budgetary organisations, and the fiscal support for universities was reallocated to chapter-administered expenditure appropriations from the same date. Structure of the 2021 expenditures by economic classification: budgetary organisations spent 31.8 per cent of their gross expenditures, i.e. HUF 3,706 billion, on wage costs. Institutions paid 18.3 per cent of gross expenditures, i.e. HUF 2,126 billion, for material expenditures (typically for purchased consumption). Investment expenditures amounted to roughly HUF 680 billion, falling short of the base period expenditure level by HUF 120 billion. The ratio of the organisations' expenditures for capital formation was 16.0 per cent; subsidies in the amount of HUF 1,916 billion fell short of last year's expenditure of the same type by about HUF 660 billion. Due to the fall in capital formation transfers, gross expenditures of the chapter-administered appropriations declined by more than 13 per cent compared to the base period.

In 2021, **expenditures related to EU grants** were realised in the amount of HUF 2,243 billion. This amount falls short of the amended appropriation by HUF 272 billion. HUF 980 billion of the expenditures were invoiced payments connected to Széchenyi 2020, while disbursed advances amounted to almost HUF 950 billion. Expenditures connected to CEF (Connecting Europe Facility) and to the 2021–2027 programmes amounted to about HUF 310 billion. By the end of the year, the accumulated amount of disbursements under Széchenyi 2020 came close to HUF 10,700 billion. Awarded and contracted applications rose by more than HUF 600 billion and by roughly HUF 450 billion, respectively. The 2014–2020 indicative envelope (which also includes the Hungarian co-financing and the 2021–2022 rural development funds) rose to HUF 11,615 billion by the end of December.

**Subsidies to local governments** exceeded the amended appropriation by 11.5 per cent. The excess expenditure compared to the appropriation was generated by the reallocation of the planned appropriation of the Modern Cities Programme and the surplus subsidies realised to the debit of the Economy Restart Programme reserves. In the latter case the budget provided surplus resources last year primarily for development and investment projects.

The **contribution to the budget of the European Union** expenditure item exceeded the initial appropriation by HUF 160 billion, while compared to the amended Budget Act's appropriations, a saving of HUF 5 billion was made. The large deviation from the original appropriation is due to the fact that the growth rate of the Hungarian economy was much more robust than assumed upon compiling the 2021 Budget Act, in both 2020 and 2021. Due to the higher economic growth Hungary's GNI-based contribution quota rose and this is why upon amending the Budget Act the appropriation was raised by HUF 165 billion.

**Other revenues of the central budget** exceeded the statutory appropriation by HUF 1,024 billion. The difference is primarily attributable to the overrun of expenditures connected to state asset management. Exceeding the approved appropriation by HUF 964 billion, **expenditures related to state property** were realised in the amount of HUF 1,474 billion. In 2021, expenditures related to asset management exceeded even the very high base of 2020, by more than HUF 160 billion.

According to available preliminary data, the amount disbursed for capital formation and operating expenses of corporations with majority state interest was HUF 1,036 billion in total. In total, the budget provided more than HUF 560 billion to support and increase the capital of companies falling with the ownership competence of the Minister Without Portfolio in charge of National Property Management. Of the special expenditures, the funds disbursed at the end of the year to MVM Zrt. in the amount of HUF 200 billion was the most significant item. The operating and investment expenditure of the Hungarian National Asset Management Inc. exceeded HUF 91 billion. Total spending on priority government building construction projects came close to HUF 290 billion, exceeding the statutory appropriation by more than HUF 160 billion. For the capital increase of the Paks II Nuclear Power Plant Development Ltd. the budget incurred an expenditure of HUF 58 billion instead of the amended appropriation of HUF 112 billion. Central other (sundry) expenditures exceeded the statutory appropriation by HUF 32 billion, while the central budget incurred an excess expenditure of HUF 15 billion in total on several minor expenditure items.

**Expenditures of extrabudgetary funds** exceeded the appropriation by HUF 97 billion. The difference compared to the budgeted value occurred at the National Employment Fund and at the National Cultural Fund, while at the other funds the departure from the statutory appropriation amounted to merely a couple of billion forints.

Within the expenditures of the extra-budgetary funds **passive expenditures of the Economy Restart Employment Fund** and the EU pre- and co-financing expenditures fell short of the appropriation in 2021 by roughly HUF 14 billion and HUF 43 billion, respectively. By contrast, expenditures related to the job protection programme exceeded the appropriation by almost HUF 71 billion, primarily due to the popularity of the programme. According to the fiscal accounts, the expenditure of HUF 165 billion, planned for the Start Labour Programme, was realised in the amount of HUF 149 billion. However, the global expenditure amount contains a mid-year reallocation of HUF 20 billion to the reserve appropriation of the Economy Restart Programme, and thus the actual spending was realised in the amount of HUF 129 billion. The expenditure savings exceeding the plan by HUF 36 billion is essentially the consequence of the average headcount of public workers falling short of the figure assumed in the plan.

**The appropriation for the expenditures of social security funds in 2021 was HUF 6,736 billion, which was exceeded by the actual annual expenditures by HUF 537 billion in total.** In the case of the social security cash benefits (sickness benefit, maternity benefits, pensions) the differences are primarily attributable to the macroeconomic developments differing from those underlying the budget, while the expenditures related to benefits in kind were increased by government decisions of significant effect.

**In the case of the Pension Insurance Fund the 2021 budget planned an expenditure of HUF 3,915 billion, which was exceeded by the actual disbursements by almost HUF 210 billion.** In the case of **retirement benefits** disbursed from the Fund, the Budget Act calculated with disbursements in the amount of HUF 3,907 billion, while the appropriation for **other expenditures** was HUF 8 billion in total. Within that, retirement benefits disbursed from the Fund exceeded the appropriation by HUF 211 billion, while other expenditures fell short of the government's expectations by almost HUF 2 billion. **Compared to the 2020 actual figures, expenditures of the Pension Insurance Fund rose by HUF 472 billion, i.e. by roughly 13 per cent in 2021, which is fully attributable to the disbursement of retirement provisions.** The significant rise in the retirement provision expenditures is the combined result of the following factors:

- In order to compensate for the price increase exceeding the budget expectation **in November 2020 a supplementary pension increase of 1.2 per cent** was implemented, the carry-over effect of which is about HUF 45 billion. The government decided on the measure in October 2020, and thus in the period of planning the 2021 budget it may have resulted in a higher base than assumed.
- **In January 2021 a 3 per cent start-of-the-year pension increase**, was implemented, which – due to the inflation exceeding that anticipated on the macroeconomic path underlying the Budget Act – was followed by **a supplementary increase of 0.6 per cent in June and 1.2 per cent in November** with retrospective effect. The budget impact of the pension increases implemented in 2021 is about HUF 172 billion in the case of provisions disbursed from the Pension Insurance Fund, of which roughly HUF 60 billion has not yet been included in the budget.
- In February 2021 **the gradual reinstatement of the 13th month pension** has commenced, where 25 per cent of the January pension was disbursed to the beneficiaries. The budget impact of the measure, in the case of benefits financed from the Pension Insurance Fund, was close to HUF 80 billion, which is roughly equal to the 2021 appropriation.
- **In November 2021, the government decided on the disbursement of a pension premium of an unprecedented high amount** due to the soar in real economic growth after the downturn caused by the pandemic. Pursuant to the government decision each beneficiary received a pension premium in the maximum amount of HUF 80,000. The disbursements burdening the Pension Insurance Fund amounted to HUF 171 billion, exceeding the 2021 appropriation by almost HUF 118 billion.
- **The replacement effect also contributed to the rise in expenditures**, since due to the strong whole economy net wage dynamics – in retrospect persistently exceeding inflation – taken into consideration when setting the initial benefits paid to new pensioners is higher on average than the benefits of those leaving the scheme.

**The 2021 Budget Act appropriated HUF 2,821 billion in total for the expenditures of the Health Insurance Fund, which fell short of the actual disbursements by HUF 329 billion.** The larger part of the difference is connected to medical and preventive care items, since this is where the impact of the significant wage review announced at the end of 2020 appears. Expenditures related to cash benefits exceeded the appropriations due to more favourable macroeconomic developments than the expectations underlying the Budget Act.

**The 2021 Budget Act appropriated HUF 284 billion for the expenditures of disability and rehabilitation benefits, while actual disbursements exceeded this amount by almost HUF 22 billion.** The difference is mainly attributable to the fact that the supplementary pension increases disbursed in 2021 – which were paid with retrospective effect and also for the 13th month benefit – also covered disability and rehabilitation benefits.

**The 2021 appropriation for medical and preventive care was HUF 1,567 billion, while the actual expenditures exceeded this by HUF 313 billion.** The large difference is due to the fact that in December 2020 the government decided on a multi-step wage review of doctors in healthcare employment relationship and a wage subsidy for general practitioner and dentist practices operating as entrepreneurs in 2021; accordingly, these appropriations do not include the impacts of these measures. The estimated fiscal impact of the first phase of the aforementioned wage review programmes in 2021 is almost HUF 200 billion in the case of doctors, and roughly HUF 90 billion in the case of general practitioners and dentists. The expenditures were further increased by the disbursement of HUF 41 billion in 2021 against the earmarked appropriations, while the expenditures of consolidated specialised care and the high value drug financing exceeded the appropriation by HUF 19 billion and HUF 24 billion, respectively. On the other hand, the expenditure of HUF 45 billion, appropriated for the reform of the funding scheme, was not realised.

**The 2021 appropriation for net pharmaceutical expenditures was HUF 333 billion, while the actual amount realised fell short of this by HUF 14 billion.** Gross expenditures and payments by pharmaceutical manufacturers and distributors fell short of the amount anticipated in the Budget Act by HUF 15 billion and by less than HUF 1 billion, respectively.

**The sum of the 2021 appropriations for cash benefits was HUF 496 billion, while the actual disbursement exceeded this by HUF 33 billion.** The differences are primarily attributable to the fact that compared to the date when the budget was planned labour market trends (wage dynamics, number of people in employment) have become more favourable. The differences by categories are distributed roughly in proportion to the amount of the individual expenditure items: payments related to **sickness benefit, childcare and adoptive parent allowance and infant care allowance** were lower by HUF 11 billion, HUF 15 billion and HUF 7 billion, respectively. The amount of the infant care allowance rose from the former 70 per cent to 100 per cent of the gross wage from 1 July 2021, which significantly contributed to the year-on-year rise in the annual expenditure of almost HUF 22 billion.

In 2021, **net accrual-based interest expenditure** was 2.2 per cent of GDP, which corresponds to the figure registered at the end of 2020 as a percentage of GDP and may still be considered historically low. The impact of the yield increase observed from the second half of 2021 on interest expenditures was offset by the strong economic growth. **Net cash-based interest expenditures** amounted to HUF 1,275 billion in 2021, some HUF 340 billion higher than the budgeted amount. This is due to the fact that gross interest expenditures and revenues exceeded those anticipated by the Act by HUF 375 billion and HUF 37 billion, respectively. The higher than expected gross interest expenditures and higher interest revenues is the consequence of rising yields, particularly from the second half of the year. In 2021, net cash-based interest expenditure rose by roughly HUF 290 billion in nominal terms, which is mostly attributable to the increase in the portfolio of and yields on forint bonds.

## 2.4 BUDGET MANAGEMENT OF LOCAL GOVERNMENTS

Based on the EDP notification published in September, the local government subsector closed 2021 with a cash-based surplus of HUF 52 billion. Based on the available preliminary data, the cash revenues of the subsector increased by nearly 12 per cent compared to the base year, and revenues amounted to around HUF 3,300 billion, corresponding to 6.0 per cent of GDP. Local government expenditures declined by 0.5 per cent compared to 2020, and were around HUF 3,250 billion at the end of the year, corresponding to 5.9 per cent of GDP. Of the expenditures, wage costs rose by merely 2.9 per cent, and within that expenditures for external personnel benefits stagnated. Investment expenditures declined also



in nominal terms, and thus their level as a percentage of GDP also decreased by 0.2 percentage point to 1.4 per cent. Expenditures on purchased consumption rose by 9.1 per cent compared to the disbursements in 2020; nevertheless, their level as a percentage of GDP declined by 0.3 percentage point to 3.3 per cent of GDP, due to the fact that the nominal GDP growth rate exceeded the growth rate of expenditures on purchased consumption by 5 per cent.

According to the September EDP notification, the closing ESA balance of the local government subsector was a surplus of HUF 87 billion, which is HUF 44 billion higher than the subsector's ESA balance in the previous year. The improved balance is attributable to the higher revenue received from the central budget and the expenditure (investments and personnel expenses) cuts. The sum of the statistical corrections performed by the HCSO is HUF 35 billion; the largest correction with positive sign is related to the recognition of EU grants in the amount of HUF 56 billion. However, corporations and organisations classified into the local government sector reduced the subsector's surplus by HUF 9 billion; the balance position of the classified corporations and organisations changed by HUF 27 billion compared to the base year, and turned into a deficit from a surplus.

## 2.5 STATISTICAL CORRECTION (ESA BRIDGE)

Reconciliation between the cash-based revenues and expenditure and the resulting cash-based balance and ESA balance calculated in accordance with the EU methodology is ensured by supplementary statistical corrections (ESA bridge) applied to the cash-based accounting. The statistical adjustments are necessary because some of the transactions must be recognised, based on the approach applied in the EU, at the time of settlement (accrual-based accounting), while the rules of Hungarian budget accounting transactions are considered upon cash movement (cash-based accounting). Moreover, EU regulations interpret the concept of general government (government sector) more broadly than the Hungarian legislation, as they classify certain non-profit institutions, certain state-owned companies and other organisations under state control into the government sector. Therefore, the HCSO calculates the ESA balance obtained with the use of the EU methodology for the government sector, and thus this deficit ratio differs from the cash-based (GFS) balance of the general government also in terms of sectors.

The 2021 Budget Act defined the balance of the accrual-based statistical adjustment (ESA bridge) as 0.4 per cent of planned GDP (HUF +213 billion). That is, the balance estimate related to the government sector contained a correspondingly more favourable ESA balance compared to the targeted cash balance applicable to the general government, approved in the Budget Act. The mid-year amendment of the Budget Act did not cover the expected balance of the accrual-based statistical corrections. According to the data of the EDP notification of September 2022, the ESA bridge was HUF 784 billion in 2021, i.e. 1.4 per cent of GDP. The higher than planned amount of the ESA bridge is attributable to the deviation of several factors.

The financial operations carried out in the central subsector resulted in a total correction of HUF 186 billion, improving the cash balance. The statistical correction of the settlements related to EU transfers, decreasing ESA expenditures, is a much higher amount than that recognised in previous year, i.e. HUF 286 billion in total. It is a change compared to the preliminary EDP report issued in April that the balance improving corrections connected to RRF (Recovery and Resilience Facility) fell from the former HUF 300 billion to HUF 2 billion.

Corporations, guarantee funds and non-profit institutions classified into the central government sector together improved the ESA balance of the general government sector by HUF 852 billion. The high surplus reflects the advances - received from the central budget - related to the restart of the economy and the capital increases. The reclassification of MÁV holding to the general government sector resulted in a one-off deficit improving statistical correction of HUF 100 billion.

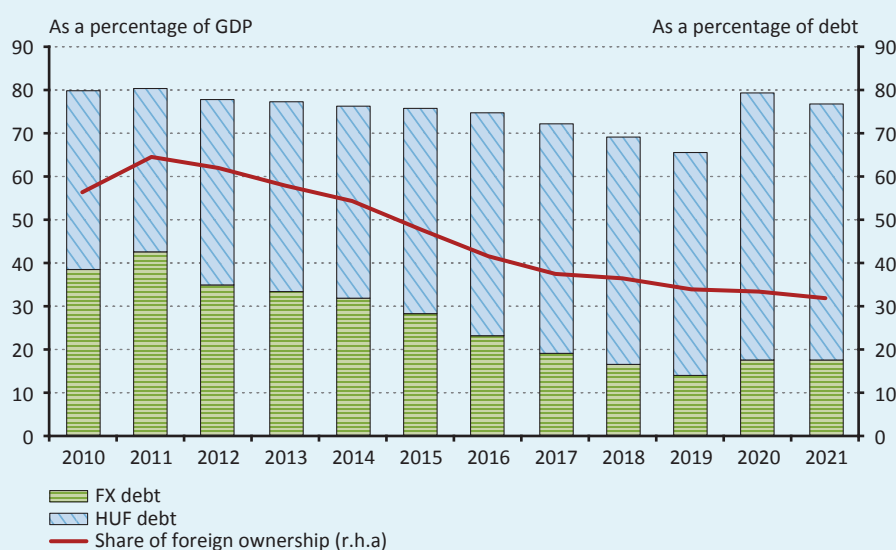
The corrections related to the tax and tax-type revenues reduced the ESA bridge surplus by around HUF 430 billion. The large negative figure is linked to the personal income tax reimbursement implemented at the beginning of 2022, which had to be recognised in the ESA balance in 2021. According to the HCSO accounts the tax revenue decreasing effect amounted to HUF 634 billion, mostly as a result of the government measures related to the reimbursement of the personal income tax. Of the other statistical corrections the interest paid, accrued and the interest on swap transactions improved the ESA balance by HUF 144 billion. The standardised guarantees (primarily the subsidies related to the Prenatal baby support programme) reduced the surplus of statistical corrections by HUF 94 billion, and a share transfer to a non-profit organisation increased the budget's ESA expenditures by HUF 102 billion.

## 2.6 DEVELOPMENTS OF GOVERNMENT DEBT

At the end of 2021, the gross government debt-to-GDP ratio fell to 76.8 per cent. (Chart 11). Compared to 79.3 per cent at the end of 2020, the debt ratio declined by 2.5 percentage points. The significant GDP growth and the fall in liquid reserves (Treasury Single Account and foreign currency deposits) acted towards a fall in the government debt ratio: nominal GDP rose by 14.5 percentage points, while in 2021 net issue of debt was somewhat lower than net borrowing. In addition to the foregoing, the MNB's dividend payments in the amount of HUF 250 billion also contributed to the decline in the government debt ratio by increasing the liquid deposits of the budget in 2021.

**Chart 11**

**Developments in gross government debt, forint and FX debt within that and the share of foreign ownership**



Source: MNB

As a result of the currency bond issuances, the foreign currency ratio of the government debt increased somewhat further by the end of 2021, while the ratio of non-resident holdings in government debt continued to fall. In 2021, the net foreign currency issuance by the Government Debt Management Agency amounted to more than HUF 900 billion, raising the foreign currency ratio of central government debt to 20.6 per cent from 19.9 per cent registered in 2020, which is in line with the 10–25 per cent tolerance band set by the Government Debt Management Agency. One of the key objectives of the government's debt management strategy is to strengthen domestic financing, owing to which the ratio of non-resident holdings within government debt declined to 31.3 per cent by the end of 2021, continuing the trend seen since 2011. In line with the objectives of the Government Debt Management Agency, the average term-to-maturity of the Hungarian government debt rose further in 2021; based on the data published by the ECB it was 6.8 years at the end of the year, which is a significant growth from 5.6 years registered in 2020. The moderate non-resident holdings and the foreign currency ratio are key to the decrease in external vulnerability and to Hungary's continuing favourable credit rating, while the rise in the average term-to-maturity also contributes to the fall in gross financing need.

# 3 Expected general government developments in 2022

## 3.1 EXPECTED ESA BALANCE OF THE GOVERNMENT SECTOR IN 2022

According to our forecast, the accrual-based deficit target of 6.1 per cent as a percentage of GDP, set by the government, may be achieved in 2022. The Budget Act has set a deficit target of 5.9 per cent for 2022, which was reduced by the government to 4.9 per cent in its December 2021 expectation, then raised to 6.1 per cent in September 2022. The raising of the deficit target is justified by the accumulation of special natural gas reserves, which – according to the Eurostat accounting – increases the ESA deficit. The budget deficit is thus expected to be lower this year than the 7.1 per cent deficit in 2021 (Table 5). According to our forecast this year tax revenues may exceed the appropriations due to the higher wage dynamics and growing consumption. In addition, the tax measures announced in parallel with the 2023 Budget Act<sup>1</sup> generate additional significant surplus revenue compared to the appropriation. On the other hand, rising energy prices have negative fiscal impact, responded to by the budget on a continuous basis by measures.

**Table 5**

**Balance of the general government sector in 2022**

	Statutory appropriation	Expected by the budget	MNB forecast	Statutory appropriation	Expected by the budget	MNB forecast	Difference
	HUF Billions			as a percentage of GDP			
1. Balance of the central subsector	-3,153	-4,350	-4,425	-5.6	-6.9	-7.0	-0.1
2. Balance of local governments	-156	238	17	-0.3	0.4	0.0	-0.3
<b>3. Cash-based (GFS) balance of the general government (1+2)</b>	<b>-3,309</b>	<b>-4,112</b>	<b>-4,407</b>	<b>-5.9</b>	<b>-6.5</b>	<b>-7.0</b>	<b>-0.5</b>
ESA-bridge	-16	239	524	0	0.4	0.8	0.5
<b>5. ESA balance of the general government sector (3+4)</b>	<b>-3,325</b>	<b>-3,873</b>	<b>-3,883</b>	<b>-5.9</b>	<b>-6.1</b>	<b>-6.1</b>	<b>0.0</b>

*Note: Due to rounding, differences may occur in the table. GDP-proportionate values are calculated with the use of different GDP forecasts.*

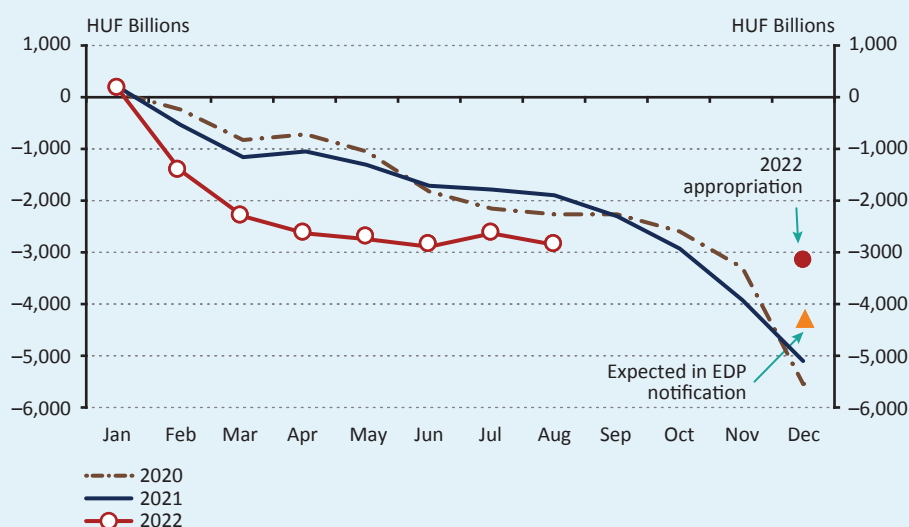
*Source: 2022 Budget Act, 2022 September EDP notification, 2022 September Inflation Report*

Our projection calculates with lower economic growth – but higher wage dynamics and consumption growth – than that anticipated by the Act, due to which the tax and contribution revenues may exceed the appropriation. This year, in addition to the higher than expected expenditures – such as energy expenses rising due to the high world market prices, pension expenditures and interest expenditures – tax revenues are also higher than planned, which may result in a deficit corresponding to the deficit target in 2022. Our expectation with regard to the balance of local governments is lower by 0.3 per cent of GDP, while our forecast for the statistical corrections projects a higher by 0.5 per cent ESA deficit than the one shown in the 2022 September EDP report.

<sup>1</sup> See: Public Finance Report – Analysis of the 2023 budget bill, page 20, Box 1: Fiscal measures to be introduced in 2022–2023 <https://www.mnb.hu/letoltes/koltsegevetesi-jelentes-2022-06.pdf>



**Chart 12**  
Intra-year cumulative cash-based balance of the central sub-sector



Source: 2022 Budget Act, Hungarian State Treasury

The cumulative deficit of the central subsector was HUF 2,873 billion until the end of August, which equals to 91 per cent of the annual appropriation (Chart 12). Tax and contribution revenues of the central subsector were higher by almost HUF 1,600 billion in the first 8 months of the year, while expenditures of the central subsector exceeded the year-on-year figure by more than HUF 2,600 billion. The larger part of the growth in expenditures is attributable to the reinstatement of the 13th month pension – as well as to the usual pension increase at the beginning of the year, and to the supplementary pension increase in July and presumably in November –, to the higher expenditures related to EU transfers, and to the expenditures of the central budgetary organisations.

#### Box 1

##### Measures aimed at increasing household incomes

The combined effect of tax and wage measures, increasing households' net income in 2022, exceeds HUF 1,700 billion this year. The tax refund to families with children, the personal income tax exemption up to the average wage for young people under 25, the 13th month pension, the armed forces' benefit and sectoral wage increases are significant measures that provide families with surplus income.

In 2022, significant personal income tax measures have been implemented. At the beginning of this year, the budget increased the support for families by **reimbursement of personal income tax** as the budget reimbursed families with children for their personal income tax paid on their 2021 income up to the average wage. The fiscal impact of the measure was around HUF 660 billion, i.e. 1 per cent of GDP. From the beginning of 2022, the income of **employees below the age 25** is exempted from personal income tax up to the amount of the average wage. The allowance leaves roughly HUF 140 billion, i.e. 0.2 per cent of GDP, with young people, thereby encouraging them to work.

**Table 6**  
The impact of significant income-increasing measures in 2022

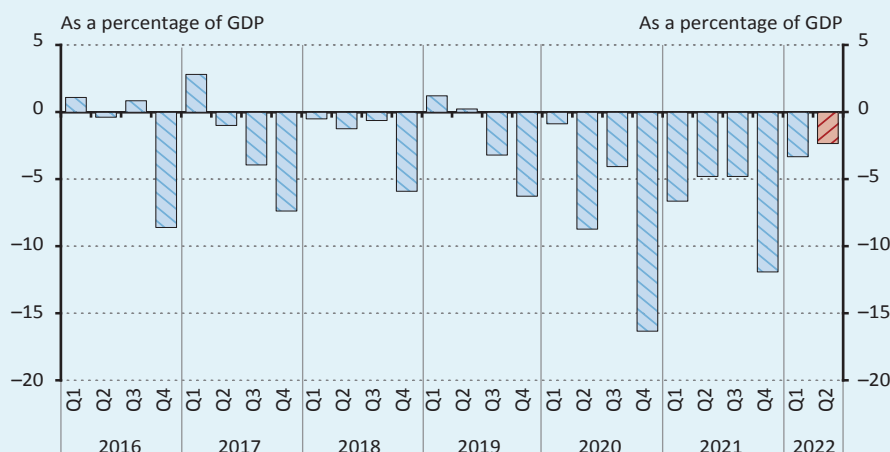
Measure	Gross budgetary impact	Net income
1) Personal income tax refund	660	660
2) Sectoral wage increases	610	382
3) 13th-month pension	365	365
4) Law enforcement service allowance	271	170
5) PIT-exemption under 25 years	140	140
<b>Total measures (1+2+3+4+5)</b>	<b>2 046</b>	<b>1 717</b>

**Law enforcement and national defence workers received six months' early extra benefits, while a number of state employees benefited from wage increase in 2022.** The disbursements of incomes originally due in 2023 (**armed forces benefit**) was implemented at the beginning of 2022. The gross budgetary impact of the measure exceeded HUF 270 billion, i.e. more than 0.4 per cent of GDP, and increased the disposable income of the affected – roughly 75,000 – persons by HUF 170 billion in total. The government's **sectoral wage measures** (teachers, government officials, social workers, law enforcement employees, university teachers, etc.) may generate an expenditure of HUF 610 billion in total, almost 1 per cent of GDP, for the budget, which may increase households' disposable income by more than HUF 380 billion. In the first quarter of 2022, gross wage expenditures of the government sector rose by 18.5 per cent year-on-year, or – excluding the armed forces benefit – by 9.2 per cent.

**Disbursement of the full amount of the 13th month pension significantly improved the income position of pensioners.** The disbursement of the 13th month pension early this year provided pensioners with a benefit of HUF 365 billion in total. In addition, this year a mid-year pension increase of 3.9 per cent was implemented already in July, which may be followed by an additional adjustment in November based on the anticipated inflation.

**In the first half of 2022, the accrual-based deficit was 2.8 per cent of the half-year GDP, which was in line with the then prevailing annual deficit target of 4.9 per cent.** The first-quarter accrual-based deficit amounted to 3.4 per cent of the quarterly GDP, which is rather high compared to previous years (Chart 13). In the first quarter measures resulting in one-off expenditures of significant amount were implemented (13th month pension, armed forces benefit). According to the preliminary data of HCSO, in the second quarter the deficit was merely 2.3 per cent. This is the lowest quarterly deficit to GDP ratio since the outbreak of the coronavirus crisis.

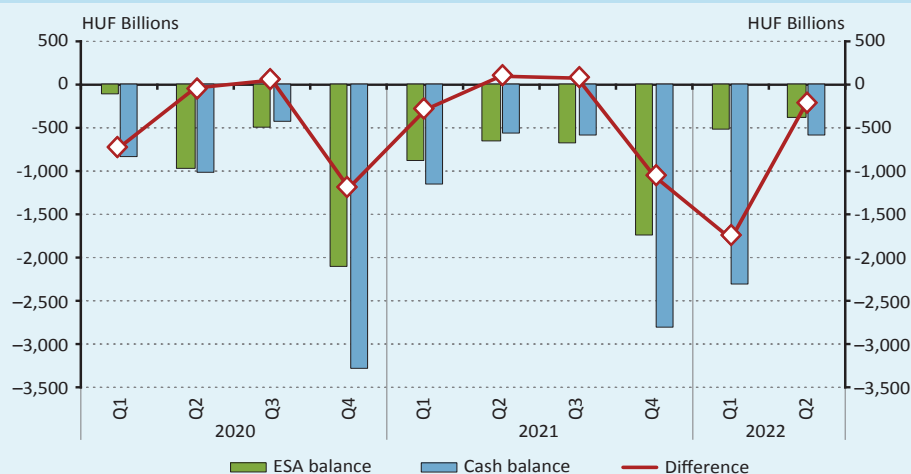
**Chart 13**  
**Accrual-based budget balance**



Source: HCSO, MNB

**In the first half of 2022, the budget accumulated a large cash-based deficit, while the accrual-based balance has developed much more favourably than that.** The cash-based deficit of the central subsector in the first half of the year amounted to HUF 2,892 billion, which equals to 92 per cent of the 2022 statutory appropriation. On the other hand, the accrual-based deficit of the first half-year was substantially more favourable and amounted to 2.8 per cent of the half-year GDP, i.e. merely HUF 893 billion. Based on this, the ESA deficit of the first half-year fell short of the cash-based deficit by almost HUF 2,000 billion, i.e. this is the amount of the statistical corrections (ESA Bridge) related to the items of the first half-year. The vast majority of the high-amount balance-improving corrections may be linked to the reimbursement of personal income tax and the advances related to EU grants. Although part of the disbursed EU advances appear as cash expenditure in the general government deficit, the real economy performance and revenue connected to it will occur later, and thus the HCSO and Eurostat prescribe a statistical correction for these.

**Chart 14**  
**Difference between quarterly ESA and cash balances**



Source: HCSO, Hungarian State Treasury

## 3.2 MACROECONOMIC PROJECTION UNDERLYING THE BUDGET

While the macroeconomic projection underlying the 2022 Budget Act adopted in 2021 projected an economic growth of around 5 per cent for this year, the MNB's September forecast calculates with a real growth of about 3-4 per cent. The time profile of GDP is characterised by strong duality: In the first half of 2022, the Hungarian economy registered a year-on-year growth of 7.3 per cent, while growth prospects for the second half of this year have significantly deteriorated. The central bank's forecast for certain domestic demand items (household consumption expenditure, public consumption) exceeds the fiscal projection; due to this, the growth contribution of net exports is negative in the path prepared by the MNB, while it is positive in the projection underlying the Budget Act.

**Labour demand continues to be high, and thus both the budget and the MNB forecast anticipate further rise in employment this year.** The MNB's latest forecast calculates with more dynamic employment growth this year compared to the forecast of the Budget Act, and thus the unemployment rate is expected to be 3.5 per cent in 2022. According to the MNB's September projection, whole-economy gross average wage may rise beyond the budget's expectations, i.e. by 16.6–16.9 per cent in 2022. This year's wage dynamics is determined by the large minimum wage increase at the beginning of this year, the wage reviews affecting a wide range of state officials and the further tightening of labour market conditions.

**The 2022 Budget Act, adopted last year, still calculated with 3 per cent inflation, while in its September Inflation Report the MNB anticipates an inflation of 13.5–14.5 per cent this year.** In the first half of 2022 consumer prices rose by 11.7 per cent year-on-year, while in August inflation accelerated to 15.6 per cent. On the other hand, according to the September Inflation Report the negative supply side effects may ease already in the medium term, and the base effect of the significant consumption growth resulting from income flow in the first half of 2022 also acts towards a decrease in the consumer price index of 2023.

**Table 7**

**Comparison of the macroeconomic paths included in the 2022 Budget Act and in the MNB's September 2022 Inflation Report**

	2021		
	Budget Act	MNB	Difference between MNB and Budget Act
<b>GDP</b>	<b>5.2</b>	<b>3.0 – 4.0</b>	<b>(-2.2) – (-1.2)</b>
Consumption expenditure of households	6.0	6.0 – 6.1	0 – 0.1
Public consumption	-1.9	2.3 – 2.7	4.2 – 4.6
Gross fixed capital formation	7.2	3.0 – 3.6	(-4.2) – (-3.6)
Exports	10.5	4.7 – 5.3	(-5.8) – (-5.2)
Imports	10	5.4 – 6.0	(-4.6) – (-4)
GDP deflator	3.8	10.4	6.6
<b>Inflation</b>	<b>3.0</b>	<b>13.5 – 14.5</b>	<b>10.5 – 11.5</b>
<b>Gross wage bill</b>	<b>9.8</b>	<b>17.7</b>	<b>7.9</b>
Gross average earnings	7.7	16.6 – 16.9	8.9 – 9.2
of which: private sector	7.6	14.1 – 14.5	6.5 – 6.9
Number of employees	1.1	1.2 – 1.3	0.1 – 0.2
of which: private sector	1.3	1.8 – 1.9	0.5 – 0.6

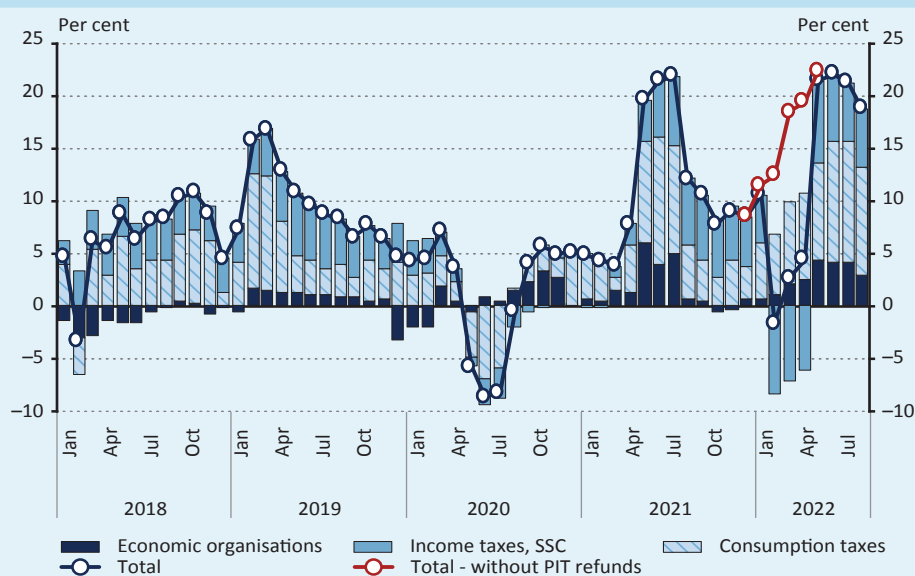
Source: 2022 Budget Act, MNB September 2022 Inflation Report

### 3.3 CASH-BASED REVENUES OF THE CENTRAL SUB-SECTOR

According to our forecast, tax and contributions of the central subsector may exceed the statutory appropriation by HUF 2,545 billion. In the past few months tax revenues rose by about 20 per cent, which is the result of macroeconomic developments rather than of the low base caused by the coronavirus. The largest growth has been registered in income taxes and contributions, and consumption taxes: VAT revenues showed a significant growth dynamic until August (Chart 15).

**Chart 15**

**Structure of the year-on-year change in the central subsector's tax and contribution revenues (3-month moving average)**



Source: Hungarian State Treasury, MNB

**Corporate tax revenues** may exceed the appropriation in the 2022 Budget Act by HUF 170 billion. The difference is attributable to the more favourable macroeconomic developments, particularly in respect of payments by corporations. In the first eight months of the year corporate income tax revenues exceeded the year-on-year payments by HUF 141 billion, reaching HUF 542 billion.

Revenues from the **special tax of financial institutions** may exceed the appropriation in the 2022 Budget Act by HUF 253 billion. The difference is attributable to the newly introduced special tax, payable by credit institutions to the treasury from the second half of the year. The basis of the special tax is the fee and commission revenue collected by credit institutions, at a tax rate of 10 per cent in 2022. Until the end of August, revenues from special taxes amounted to HUF 42 billion, exceeding the payments in the first half of previous year by HUF 9 billion.

Revenues from **retail tax** may exceed the appropriation in the Budget Act by HUF 87 billion. Since the adoption of the Act, two measures have changed the rules applicable to the tax type. First, as of February 2022, the highest rate of the tax type was raised by 0.2 percentage point to 2.7 per cent. Then, as part of the May package of measures, taxpayers were obliged to pay – in addition to the usual retail tax due this year – also an amount corresponding to 80 per cent of their tax paid to the treasury in 2021. In the first eight months of the year taxpayers paid merely HUF 46 billion through the additional payments arising from previous year's settlements and the payment of the year's first tax advance in July. The deadline for the tax advance due for this year is in the second half of the year for most taxpayers.

Revenues from **mining royalty** may exceed the appropriation in the Budget Act by HUF 154 billion. The significant difference is attributable to two factors: on the one hand, the factor essentially determining the tax to be paid, i.e. the world market price of fuels, was significantly higher than assumed by the Budget Act, and on the other hand, the 2022–2023 package of fiscal measure affects this tax type as well. Here, the mining royalty rates on crude oil and natural gas have been tripled. In the first eight months mining royalties received by the budget amounted to HUF 105 billion; the larger part of the revenues are expected in the second half of the year as well.

The revenues expected from the **itemised tax of small taxpayers** (KATA) may fall short of the appropriation in the Budget Act by HUF 64 billion. The shortfall is attributable to the measure aimed at reducing the number of taxpayers. The reduction of the number of taxpayers entered into force on 1 September 2022, while its impact on fiscal revenues will be visible from October. In the first eight months of the year, revenues from itemised tax of small taxpayers amounted to HUF 144 billion.

**Box 2****Amendments affecting the itemised tax of small taxpayers (KATA) after framing the Budget Act**

**The main intention of the legislator underlying the tightening of KATA was to eliminate the tax optimisation practices that have become increasingly common among larger companies in recent years, mainly aimed at replacing employment under lower tax burden.**

**The amendment effective from 1 September 2022 restricts the range of undertakings eligible for the simplified tax type.**

**1. Pursuant to the changes, only those may apply the itemised tax who issue invoices only to private individuals.**

**2. KATA may be chosen only in full-time employment.** Previously KATA was also available to part-timer small taxpayers. In their case, the amount of the itemised tax was HUF 25,000 instead of the general HUF 50,000.

**3. The possibility of opting for a higher tax rate, which results in a higher social insurance benefit base, has been abolished.** From January 2014, full-time employee small taxpayers could opt for the increased tax amount of HUF 75,000, which provided them primarily with a higher benefit base and a longer term of service for pension purposes.

**4. The limit for the annual revenue of small taxpayer enterprises is raised to HUF 18 million.** In 2013, the revenue limit was set to HUF 6 million, which was doubled in 2017 to HUF 12 million.

**5. Taxation under KATA may only be chosen by self-employed taxpayers.** Previously, in addition to the self-employed, one-person firms, sole proprietorships, deposit partnerships or general partnerships with only private individual members, and from 2018, law firms could also opt for taxation under the KATA.

**According to our estimate the measure may generate surplus revenue for the budget roughly in the amount of HUF 150-200 million.** 100,000-150,000 of the roughly 450,000 small taxpayers are expected to continue their activities under the new KATA scheme which alone may result in a loss of revenue of around HUF 150 billion annually. By contrast, revenues from other tax types – primarily from personal income tax and contributions – may be over HUF 300 billion, which may be offset by the termination of self-employed – typically part-time – activity and/or the related tax payments.

**Table 8**  
**Partially consolidated cash revenues of the central sub-sector (HUF billions)**

	2022				
	Statutory appropriation	January – August realisation	Percentage of appropriation	MNB forecast	Difference: MNB – appropriation
<b>TAX AND CONTRIBUTION REVENUES OF THE CENTRAL SUB-SECTOR</b>	<b>18,496</b>	<b>13,236</b>	<b>72%</b>	<b>21,041</b>	<b>2,545</b>
<b>Payments by economic organisations</b>	<b>1,960</b>	<b>1,613</b>	<b>82%</b>	<b>2,839</b>	<b>879</b>
Corporate income tax	589	542	92%	759	170
Special tax of financial institutions	61	42	68%	314	253
Itemised tax of small taxpayers	237	144	61%	173	-64
Tax of small enterprises	121	105	87%	152	31
Utility tax	53	27	51%	54	1
Eco-tax	6	3	48%	5	0
Mining royalty	38	105	277%	192	154
Gambling tax	34	30	89%	46	13
Other taxes and payments	15	13	89%	-13	-28
Other centralised revenues	520	364	70%	571	51
Income tax on energy providers	55	64	117%	233	178
Company car tax	39	29	75%	53	13
Retail tax	76	46	60%	163	87
Rehabilitation contribution	116	98	85%	137	21
<b>Consumption taxes</b>	<b>7,243</b>	<b>5,496</b>	<b>76%</b>	<b>8,615</b>	<b>1,373</b>
Value added tax	5,487	4,346	79%	6,774	1,286
Excise duties	1,296	815	63%	1,238	-58
Registration tax	25	11	44%	19	-6
Telecommunication tax	53	38	72%	75	22
Financial transaction levy	233	180	77%	293	61
Insurance tax	115	81	70%	166	51
Airline tax	0	3	0%	13	13
Tourism development contribution	34	22	65%	38	4
<b>Payments by households</b>	<b>3,156</b>	<b>1,853</b>	<b>59%</b>	<b>3,133</b>	<b>-23</b>
Personal income tax	2,867	1,620	57%	2,759	-107
Duties, other taxes	199	170	85%	260	62
Motor vehicle tax	91	64	70%	113	23
<b>Tax and contribution revenues of extra-budgetary funds</b>	<b>441</b>	<b>300</b>	<b>68%</b>	<b>416</b>	<b>-25</b>
<b>Tax and contribution revenues of social security funds</b>	<b>5,697</b>	<b>3,974</b>	<b>70%</b>	<b>6,039</b>	<b>342</b>
Social contribution tax and contributions	5,537	3,852	70%	5,847	310
Other contributions and taxes	160	122	76%	191	31
<b>REVENUES RELATED TO EU FUNDS</b>	<b>2,386</b>	<b>761</b>	<b>32%</b>	<b>1,614</b>	<b>-772</b>
<b>OTHER REVENUES</b>	<b>573</b>	<b>656</b>	<b>114%</b>	<b>892</b>	<b>320</b>
Revenues on public property	276	310	112%	438	162
Other revenues of the central budget	425	161	38%	226	-198
Other revenues of social security funds	35	26	72%	37	2
Other revenues of extra-budgetary funds	113	159	141%	191	78
<b>TOTAL REVENUES</b>	<b>21,455</b>	<b>14,653</b>	<b>68%</b>	<b>23,548</b>	<b>2,093</b>

Source: Hungarian State Treasury, MNB September 2022 Inflation Report

Note: Partly consolidated data.

Revenues from **income tax on energy providers** may exceed the amount stated in the Budget Act by HUF 178 billion. This tax type is also affected by new measures. In the case of surtax on energy providers the range of taxpayers has been expanded with bio-ethanol and bio-fuel producers, sunflower oil and starch producers. In addition, a special tax at 25 per cent has been imposed on the profit realised on the difference between the Brent and Ural prices. The rate of this tax was raised to 40 per cent in August. Until end of August revenues from this tax type amounted to HUF 64 billion; the larger part the revenues is expected to be received in the second half of the year in this case as well.

Revenues from **company car tax** may exceed the appropriation by HUF 13 billion, since in the adjustment package the tax rate was raised by 1.8-1.9 times the current one. Until the end of August, the treasury received HUF 29 billion; the larger part of the revenues will also be received in the second half of the year.

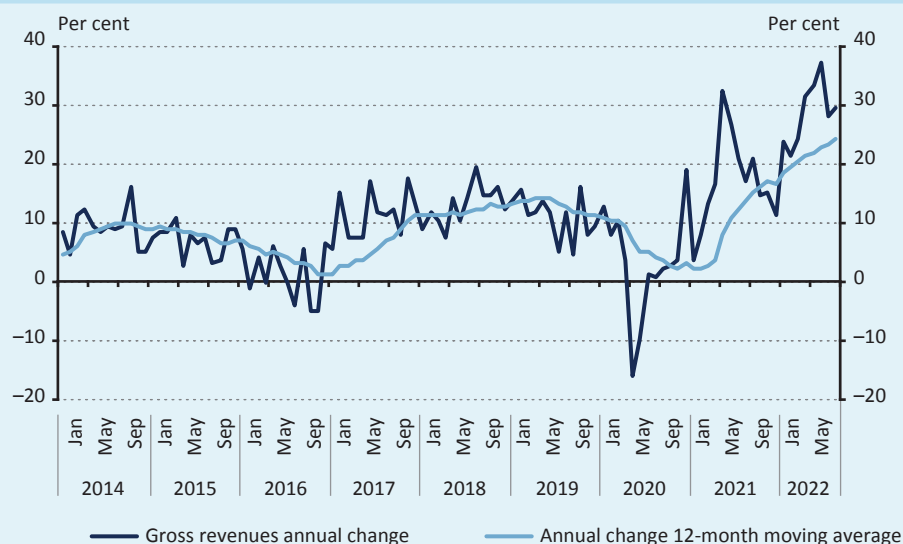
Revenues from **small business tax (KIVA)** may exceed the appropriation in the Budget Act by HUF 31 billion due to the more favourable macroeconomic conditions. In the first eight months revenues from KIVA amounted to HUF 105 billion.

Revenues from **rehabilitation contribution** may exceed the relevant appropriation by HUF 21 billion as a result of the macroeconomic developments, while in the first eight months HUF 98 billion was received under this title.

**Revenues from other centralised revenues** may exceed the appropriation by HUF 51 billion. Revenues from electronic road toll may exceed the 2022 appropriation by HUF 18 billion, due to better-than-expected developments in the economic environment. Similarly, revenues from time-based road tolls may exceed the appropriation by HUF 17 billion. The difference here as well is attributable to the macroeconomic conditions. Penalty revenues may be higher by HUF 16 billion at the end of the year compared to the appropriation. In the first eight months of the year, HUF 364 billion in revenue was received by the Treasury from the revenues recognised in this group. On the other hand, revenues from **other taxes and payments** by enterprises may fall short of the relevant appropriation by HUF 28 billion.

According to our expectations, net cash revenues from **value added tax** will amount to HUF 6,774 billion in 2022, exceeding the appropriation adopted last year by almost HUF 1,300 billion. In the first eight months of the year, 79 per cent of the appropriation was realised, gross VAT revenues rose by 29 per cent on average year-on-year (Chart 16), which shows the highest growth dynamics in the last 10 years. Since 2012, this value has averaged between 8 and 10 per cent.

**Chart 16**  
Change in gross VAT revenues year-on-year



Source: Hungarian State Treasury



In 2022 **revenues from excise duties** may amount to HUF 1,238 billion, falling short of the statutory appropriation by HUF 58 billion. The difference is partly attributable to the fact that from February **the excise duty per litre on petrol and diesel** was temporarily reduced in two steps by HUF 5 and then by HUF 20 in connection with the introduction of the cap on fuel prices. The measure was extended until the end of the year, the fiscal impact of which would be a loss of HUF 100-120 billion this year; however, this impact is mitigated by the increased demand. According to the HCSO's calendar-adjusted data, the volume of fuel retail sales rose by 30 per cent in the first seven months of the year. The fact that the **excise duty on tobacco products** increases in July 2022 and January 2023, to ensure compliance with the EU regulations, also mitigates the revenue shortfall resulting from the reduction of the excise duty on petrol. Cigarette price per piece will rise. The two-step tax increase of roughly 13 per cent may improve the balance of the budget by some HUF 15 billion this year. In addition, the excise duty on new tobacco products will be also raised, approaching the price of cigarette per piece, which will also have a fiscal effect of roughly HUF 15 billion in 2022. The fiscal impact of raising the tax on **energy and alcohol products** from 1 July may be roughly HUF 5 billion this year.

The airline tax revenue row may receive HUF 13 billion in 2022. Last year's budget has not yet calculated with this tax type, the revenues from which for the full year may amount to HUF 30 billion. The departure tax, which is a new type of tax to be paid for each person leaving Hungary is HUF 3900 for those who fly to European countries and HUF 9750 for those going to other countries, and the taxpayer is the ground service provider, which may pass the tax burden on to the airlines.

This year revenues from **insurance tax** may amount to HUF 166 billion, exceeding the 2022 appropriation by HUF 51 billion. The significant over-realisation is attributable to the surtax amounting roughly to HUF 50 billion.

According to our expectations, revenues from **telecommunication tax** will amount to HUF 75 billion in 2022, exceeding the appropriation adopted last year by HUF 22 billion. The anticipated over-realisation is attributable to the surtax charged to the telecommunication sector, the pro rata fiscal effect of which this year may be around HUF 17-20 billion. While until now the telecommunication tax was paid by phone service providers on the calls and the number of subscribers, the scope of enterprises paying the new type of surtax is wider, as it covers internet service providers as well.

According to our forecast, revenues from **financial transaction levy** may amount to around HUF 293 billion in 2022, exceeding last year's revenues and the statutory appropriation by roughly HUF 60 billion. In the first eight months of this year, 77 per cent of the appropriation has been realised. In the second half of the year, mostly due to the statutory amendments and the anticipated persistence of the dynamics observed in the first half of the year, we expect revenues to increase. **Amendments to the financial transaction levy:** the HUF 6 thousand upper limit of tax payment on bank transfers rises to HUF 10 thousand, and – with an unchanged rate of 0.3 per cent – the government is extending it to securities transactions as well, except for the transactions performed by the Treasury and the Post. The budget strives to extend the effect of the tax onto foreign FinTech service providers as well. The amendment of the financial transaction levy is likely to be maintained over the medium term as well, since while for most of the announced special taxes the Act specified a certain period for the fulfilment, no end date is specified for the financial transaction levy, and thus we calculate with its revenue increasing effect until the end of the forecast horizon.

In the first eight months of this year cash revenues from **personal income tax** amounted to HUF 1,620 billion, falling short of the year-on-year figure by 14 per cent. The decline in net revenue is attributable to the family tax reimbursement paid in the first half of this year, which reduced the netted cash-based fiscal revenues by roughly HUF 660 billion. On the other hand, gross tax payments rose significantly in the first half of 2022 compared to the first six months of last year. At the time of adopting the Budget Act, this year's appropriation has not yet included the effect of the tax reimbursement, which – although significantly reduces this year's expected net revenues – is mostly offset by the more dynamic than expected increase in the wage bill. Nevertheless, according to our estimate, it may still fall short of the appropriation by more than HUF 100 billion. On the other hand, the appropriation has already included the partial tax exemption for those below the age of 25, which may reduce the tax burden of the affected young people by roughly HUF 130-150 billion this year.

**Revenues from the payment of duties** and other taxes may amount to HUF 259 billion this year, exceeding the 2022 appropriation and the 2021 revenues by HUF 61 billion and HUF 35 billion, respectively. In the first eight months of this year 85 per cent of the appropriation was realised, exceeding the year-on-year revenues by 18 per cent. The difference is mostly attributable to the macroeconomic situation: i.e. to the dynamic economic recovery, rising property prices and

the increase in the number of housing market transactions, which – following the decline in 2020 – reached the pre-crisis level last year and this year.

This year, **the tax and contribution revenues of social security and extra-budgetary funds** may significantly exceed the appropriation of total of HUF 6,138 billion by roughly HUF 316 billion. Revenues may become higher despite the fact that based on the Budget Act the rate of the employer tax and contribution would have been reduced only from the second half of the year and only by 2 percentage points, while due to the cancellation of the vocational training contribution and the reduction of the social contribution tax the total tax cut amounted to 4 percentage points and it entered into force already from the beginning of this year. Accordingly, employer contributions may fall short of the appropriation by HUF 128 billion, while revenues from employee contribution may exceed the originally budgeted amount by HUF 416 billion. Of the measure affecting this year and next year, somewhat higher surplus revenue, not reaching 0.1 per cent of GDP, may come from the **public health product tax** and the public dues on **simplified employment**. On the other hand, payments of the public health product tax are reduced by the fact that most of the alcoholic beverages have been removed from the scope of the tax, which is offset by introducing tiered taxation and higher tax rate on the remaining products, and making certain new product groups taxable.

In the first eight months of 2022, HUF 761 billion was recognised in **revenues related to EU grants**, which significantly falls short of the statutory appropriation of over HUF 2,380 billion on a pro rata basis. However, based on the experience of previous years, the revenues moving in parallel with the submission of invoices are mostly received in the second half of the year, and thus in this case the pro rata realisation is relevant only to a limited degree. The realisation of our revenue projection and the appropriation is surrounded by higher than usual negative risks until such time as an agreement is reached between the Hungarian government and the European Commission. In our revenue projection of HUF 1,614 billion we expect that in the second half of the year both the Partnership Agreement and the Recovery Plan will be approved, and thus the drawdown of the funds belonging to the 2021–2027 programming cycle may commence.

### 3.4 CASH-BASED EXPENDITURES OF THE CENTRAL SUB-SECTOR

According to our forecast, **the cash-based expenditures of the central subsystem of the general government may be substantially, by almost HUF 2,700 billion higher than the budget appropriation.** The growth in expenditures occurs primarily in the central budgetary organisation, retirement provisions and net interest expenditure categories. In the case of the first, the difference is attributable to the significant increase in energy prices, the wage increase measures adopted by the government at the end of last year, the armed forces benefit brought forward to 2022 and the higher payment from the central reserve of the Economy Restart programmes. At the same time, the rise in pension expenditures is attributable to the early disbursement of the full amount of the 13<sup>th</sup> month pension and to the larger pension increases than planned in the budget.

Under the titles of **special and normative subsidies and support to the public media** we anticipate an overrun of the appropriation of HUF 576 billion in total. The higher expenditures financed the excess expenditure incurred by transport public service companies due to the rising fuel costs and furthermore, the financing of the energy provider companies' losses resulting from rising energy costs may also appear partially at this expenditure item. Furthermore, the government's wage measures raised wage costs also at the public service companies, and accordingly the respective public service companies receive additional subsidy from the central budget. In the first eight months of this year, subsidies in the amount of HUF 469 billion were paid, which is 79 per cent of the statutory appropriation. Accordingly, the payment of high amount of surplus subsidy is expected to concentrate in the last quarter of the year.

At the **social policy fare subsidy** our forecast calculates with an expenditure lower than the appropriation by HUF 5 billion. In the first eight months, expenditures in the amount of HUF 76 billion were realised under this title, which is 63 per cent of the statutory appropriation. Expenditures accelerated in the period of May-July, and thus payments until the end of August were higher by HUF 28 billion than in the same period of last year.

According to our forecast, expenditures on **housing subsidies** may exceed the appropriation of HUF 382 billion by almost HUF 159 billion, primarily due to the Home Improvement Programme, launched in January 2021. By the end of the first eight months, the expenditures related to housing grants stood at 98 per cent of the appropriation. The expected annual volume of the state subsidy granted for the already ceased home savings (LTP) is gradually decreasing, and it may be around HUF 40 billion in 2022. The mortgage loan write-off for parents with three or more children is increasing year by year, and in 2022 it may exceed HUF 28 billion.

The expenditure appropriation of the **National Family and Social Policy Fund** is in line with our expectations at most of the items. The Budget Act appropriated HUF 685 billion for the expenditures of the Fund (and more than half of that for the payment of family allowances). Expenditures reached 75 per cent of the appropriation on a pro rata temporis basis. According to our projection, expenditures may exceed the appropriation by HUF 37 billion, HUF 16 billion of which is connected to income substitute and supplementary social benefits. The remaining, material part of the difference is attributable to the expenditures on early retirement benefits, justified by the faster than planned reinstatement of the 13<sup>th</sup> month pension and the mid-year pension increases.

After the first eight months, **net non-EU related expenditures of budgetary organisations and professional chapters** was HUF 5,248 billion, representing almost 76 per cent of the amended statutory appropriation. The over-realisation of the expenditure on a pro rata basis is connected to the government's wage increase measures at the end of last year, the disbursement of the armed forces' service benefit brought forward to 2022, the larger overrun of the central reserve for the Economy Restart programmes and the repeated spending of part of the payments received in the Central Residue Settlement Fund.

In the first eight months of the year, revenues of budgetary organisations and **payments directly accruing to the central budget from budgetary organisations** exceeded the year-on-year figure by about HUF 190 billion. The Budget Act contained no appropriation for the revenues of the Central Residue Settlement Fund and the Savings Fund; accordingly, the amounts received by the funds increased the gross expenditure of budgetary organisations compared to the original statutory appropriations. The two Funds received payments in the aggregate amount of HUF 866 billion until the end of August; the high amount is partly the consequence of the government's expenditure cutting measures at the end of last year.

In the first eight months of the year **gross expenditures** of the budgetary organisations and chapters together were realised in the amount of HUF 8,070 billion, exceeding 92 per cent of the statutory appropriation. Net of the amount paid to the Central Residue Settlement Fund and to the Savings Fund, gross expenditures amounted to 82 per cent of the statutory appropriation. This latter figure represents essentially an unchanged ratio compared to the expenditure ratio in the first eight months of 2021. It is a change compared to the base period that while last year the appropriation was heavily exceeded on the Central Pandemic Control Reserve, this year, due to the government's wage increase measures the largest overrun was realised on the Provisions appropriation compared to the statutory appropriation, which appeared at the institutions' gross expenditures.

Our annual projection for the net own expenditures of budgetary organisations and chapters is by HUF 1,620 billion higher than the net expenditure that can be derived from the appropriation in the Budget Act. The difference includes the impacts of the already implemented expenditure increasing measures (e.g. wage increases, disbursement of armed forces' benefits earlier, and the overrun of the Economy Restart programmes' reserve appropriation to date). At the end of the year, the government's expenditure cutting measure of HUF 542 billion, announced early this summer, will be implemented, which will curb fiscal expenditures primarily in the third quarter.

**Table 9**  
**Partially consolidated cash expenditures of the central sub-sector (HUF billions)**

	2022				
	Statutory appropriation	January – August realisation	Percentage of appropriation	MNB forecast	Difference (MNB – appropriation)
<b>PRIMARY EXPENDITURE ITEMS</b>	<b>23,343</b>	<b>16,543</b>	<b>71%</b>	<b>26,038</b>	<b>2,696</b>
Special and normative subsidies and support to the public media	590	469	79%	1,166	576
Social policy fare subsidy	120	76	63%	115	-5
Housing grants	382	375	98%	541	159
National Family and Social Policy Fund	685	516	75%	722	37
Net own expenditures of central budgetary organisations and chapters	6,937	5,248	76%	8,557	1,620
Expenditures related to EU funds	3,001	2,246	75%	3,010	9
Support to local governments	873	716	82%	1,072	199
Contribution to the EU budget	565	396	70%	588	23
Central reserves	894	0	0%	159	-734
Other expenditures	1,074	650	61%	1,127	53
<b>Expenditures of extra-budgetary funds</b>	<b>557</b>	<b>332</b>	<b>60%</b>	<b>586</b>	<b>29</b>
EREF – Passive allowances	105	66	63%	109	4
EREF – Active allowances	120	85	71%	128	8
Other expenditures	332	180	54%	349	17
<b>Expenditures of social security funds</b>	<b>7,665</b>	<b>5,521</b>	<b>72%</b>	<b>8,395</b>	<b>730</b>
PIF – Pensions	4,163	3,153	76%	4,748	585
HIF – Disability and rehabilitation benefits	301	226	75%	338	36
HIF – Cash benefits	586	404	69%	626	40
HIF – Medical and preventive care	2,123	1,436	68%	2,209	86
HIF – Net expenditures of the drug budget	344	210	61%	335	-9
Other expenditures	148	91	62%	139	-9
<b>NET INTEREST EXPENDITURES</b>	<b>1,265</b>	<b>982</b>	<b>78%</b>	<b>1,934</b>	<b>669</b>
<b>TOTAL EXPENDITURES</b>	<b>24,607</b>	<b>17,526</b>	<b>71%</b>	<b>27,972</b>	<b>3,365</b>
<b>BALANCE</b>	<b>-3,153</b>	<b>-2,873</b>	<b>91%</b>	<b>-4,425</b>	<b>-1,272</b>

Source: 2022 Budget Act, Hungarian State Treasury, MNB September 2022 Inflation Report

In the first eight months of the year HUF 716 billion was paid from the budget to **support local governments**, which equals to 82 per cent of the statutory appropriation. Consistently with the September Inflation Report, our projection calculates with central support of HUF 1,072 billion, on the one hand due to the reallocation from reserve appropriation, and on the other hand due to the implementation of the government decision providing surplus subsidies primarily for capital formation purposes.

**Box 3**

**Amendment of the cap on public utility prices and other energy-related measures after drafting the Budget Act**

**The soar in energy prices is a significant burden on the budget.** While prior to the second half of 2021 energy prices on the free market were close to the capped price, the costs of maintaining the price cap on public utilities were lower. By contrast, the world market price of the two key energy products – i.e. natural gas and electricity – has significantly increased compared to the pre-crisis levels. In the absence of measures – if high energy prices persist – it would generate excess expenditures for the budget in 2022 in an amount as high as HUF 1,600 billion in respect of natural gas and electricity together.

**According to the government decree dd. 21 July, the administrative price of household gas and electricity was abolished for the part over the average consumption, and a market price for households was introduced, which is more favourable than the actual market price, but reflects energy market trends better.** Based on the detailed rules published on 21 July, the following key changes entered into force from 1 August. In the case of electricity, at levels below the national average annual household consumption of 2,523 kWh, the previous administrative price of HUF 36.9 /kWh will continue to apply, while above that the household market price of HUF 70.1 /kWh will apply. The previous administrative price of HUF 102/m<sup>3</sup> of natural gas is applied up to a consumption of 1,729 m<sup>3</sup> per year, and above this volume the higher regulated price of HUF 747/m<sup>3</sup>, which better reflects market prices, is charged pursuant to the decree.

**As a result of the measure, the budget expenditure on subsidies for household energy consumption could be lower by HUF 210 billion this year and by around HUF 430 billion next year.** The household market prices specified in the decree will be reviewed quarterly; the tariffs introduced with effect from August are valid until 31 December 2022.

**The government decided to provide small and medium-sized enterprises with operating and investment grants of HUF 200 billion in total in two years.** This year, the grant may amount to HUF 100 billion, of which the government will use HUF 75 billion to compensate for the increase in operating costs and a further HUF 25 billion to support energy efficiency investments by SMEs. Of the earmarked amount of HUF 200 billion, HUF 100 billion will be used to support SMEs in 2023 as well. A factory rescue programme to support energy-intensive industrial corporations is also under development.

**Due to the extreme volatility of European and world market energy prices, the MVM Group has signed a deferred payment agreement with Gazprom,** which will significantly increase the company's leeway for financing and its liquidity security. Deferred payment is permitted between October 2022 and March 2023, above the price fixed in the contract; the accumulated arrear will be payable in three instalments until 2026.

**The MVM Group also decided to extract 800 million cubic metres of cushion gas from the storage facility in Hajdúszoboszló,** the utilisation of which could contribute to maintaining the cap on utility prices and provide an opportunity to implement new energy security improvements. In parallel with the extraction of cushion gas, the company aims to increase the capacity of the Zsana storage facility and expand compressor capacity. It also assesses the possibilities of carbon dioxide storage and other alternative energy utilisation at the Hajdúszoboszló storage facility.

Expenditures incurred under the **contributions to the European Union budget** expenditure appropriation amounted to HUF 396 billion until end of August, corresponding to 70 per cent of the appropriation in the Budget Act. We expect the payment obligation to increase, since the growth rate of the Hungarian economy last year exceeded the previously expected rate, which increased Hungary's share in the European Union under the GNI-based accounting. Our current forecast expects the expenditure to exceed the appropriation by HUF 23 billion.

**Other expenditure of the central subsector may amount to around HUF 1,127 billion this year**, which is by HUF 53 billion higher than the amount of the same type of expenditures included in the Budget Act. Within this, we anticipate an excess expenditure of HUF 63 billion under expenditures related to state asset management, while in the case of expenditures related to state guarantees we calculate with a saving of HUF 20 billion at an annual level, in view of the low realisation in the first eight months.

The **Central Reserve appropriations** of the Budget Act together contained a reserve of HUF 894 billion, of which HUF 159 billion is available to the government for the last four months of the year. At the end of 2021, the government decided to reduce the deficit target as a percentage of GDP from 5.9 per cent to 4.9 per cent. As part of the expenditure-cutting measures, HUF 400 billion of the HUF 550 billion Investment Fund envelope was blocked, reducing central reserves to HUF 494 billion, or 0.9 per cent of GDP as assumed at the time of planning. Of the central reserve appropriations, the appropriations that may be overrun (Central Reserve for Economic Restart Programmes, Central Reserve for Disease Control and Provisions appropriation) have been exceeded, while the appropriation available from September from the reserves that may not be exceeded amounts to HUF 159 billion in total.

Within the expenditures of the **extra-budgetary funds** the expenditures under the passive expenses of the Employment Fund may be some HUF 4 billion higher than the appropriation. Due to the favourable labour market trends in the first half-year, expenditures reached merely 63 per cent of the appropriation.

In the first eight months of 2022 **the Start Labour Programme expenditures** of the central budget fell short of the year-on-year payments by HUF 18 billion. Until the end of the first half-year, subsidies and subsidy advances were disbursed in the amount of HUF 85 billion. Last year, direct expenditures on public employment amounted to around HUF 130 billion, while this year we anticipate a saving of a few billions compared to last year.

**Until the end of August 2022 expenditures of the social security funds amounted to HUF 5,521 billion in total, corresponding to 72 per cent of the statutory appropriation for this year.** In the case of pensions and pension-type benefits actual payments exceed the pro rata amount of the appropriations by 13 per cent, which is mostly the consequence of the disbursement of the 13<sup>th</sup> month pension in February and the pension increases over the macroeconomic expectations underlying the budget. Expenditures on medical and preventive care were somewhat higher, while the balance of drug reimbursements and the expenditures on other benefits in kind fell short of the pro rata level of the appropriations.

**Consolidated expenditures of the Health Insurance Fund reached HUF 2,361 billion at the end of August 2022, which is 68 per cent of the expenditure appropriation for the full year.** Expenditures on cash benefits from the Fund exceed the pro rata amount of the appropriations by 2 per cent, which is the combined result of the wage dynamics exceeding the expectations underlying the budget and the more moderate growth in the number of beneficiaries. In August, expenditures on disability and rehabilitation benefits exceeded the pro rata appropriation by 8 per cent due to the pension increases. Expenditure on benefits in kind, except for medical and preventive care, fall short of the appropriations on a pro rata basis.

**Expenditures on medical and preventive care amounted to HUF 1,436 billion at the end of August 2022, which is almost 68 per cent of the annual appropriation.** In 2022, the expenditure appropriation for medical and preventive care rose significantly, by HUF 556 billion, compared to previous year. The difference is since the 2021 budget did not include any expenditure related to the multi-step wage increase for doctors working in state and local government healthcare institutions starting in 2021, and to the wage subsidies for general practitioners and dentists operating as entrepreneurs, while this year's Act already considers the effects of these measures. Our projection exceeds the 2022 appropriation by roughly HUF 86 billion, mainly due to an increase in material expenditures related to healthcare services as a result of rising inflation.



**The net expenditure for drug reimbursement was HUF 210 billion at the end of August 2022, which corresponds to 61 per cent of the appropriation.** According to our forecast, net expenditures may fall short of the appropriation by HUF 9 billion; this difference is primarily attributable to the higher gross revenues, while based on available data, annual disbursements are likely to fall short of the appropriated amount until the end of 2022.

**Cash benefits disbursed from the Health Insurance Fund amounted to HUF 404 billion at the end of August 2022, corresponding to 69 per cent of the appropriations.** According to our annual forecast, total expenditure on cash benefits may exceed the appropriations by HUF 40 billion, while the more moderate dynamics of the number of beneficiaries compared to our previous assumption, which will persist until the end of the year, may substantially reduce this difference.

**Under the title of invalidity and rehabilitation benefits, HUF 226 billion was disbursed until August 2022, which corresponds to 75 per cent of the annual appropriation.** The deviation of 12 per cent compared to the pro rata amount of the appropriation is primarily attributable to the disbursement of the 13<sup>th</sup> month benefit and the pension increase in excess of the previously planned rate. Our projection expects expenditures to be higher by HUF 36 billion in 2022; of this, HUF 14 billion is attributable to the reinstatement of the 13<sup>th</sup> month pension faster than previously planned and HUF 26 billion to the indexation that became necessary primarily due to the higher inflation expectations, which is partly offset by the decline in the number of beneficiaries.

**In the case of the Pension Insurance Fund, the 2022 Budget Act calculates with an expenditure of HUF 4,170 billion, of which HUF 3,157 billion, or nearly 76 per cent of the appropriations, have been paid by the end of August.** The excess expenditure compared to the pro rata amount of the appropriations was incurred in the category of **pensions** disbursed from the Fund, while **other expenditures** were somewhat lower. By August 2022, the amount of pension benefits disbursed from the Fund was HUF 521 billion, exceeding the year-on-year figure by almost 13 per cent. According to our forecast the annual pension expenditures may exceed last year's figure by HUF 630 billion. The significant difference is attributable to the following developments:

- As a result the price increases over the budgetary expectations, the government decided on **supplementary pension increases of 0.6 per cent in June 2021 and 1.2 per cent in November**, the carry-over effect of which is estimated at HUF 52 billion in 2022.
- **In January 2022, a 5 per cent pension increase was implemented at the beginning of the year, followed by a further 3.9 per cent supplementary increase in July.** According to a government decree published on 5 October, there will be a **further supplementary increase of 4.5 per cent in November**. The annual budget impact of the pension increases implemented in 2022 is about HUF 370 billion in the case of provisions disbursed from the Pension Insurance Fund, of which the increase in July amounts to roughly HUF 164 billion. According to a government decree published on 5 October, there will be a further supplementary increase of 4.5 per cent in November, the budget impact of which is around HUF 200 billion in the case benefits paid from the Fund.
- The fact that in February 2022 – faster than originally planned by the government – **the full amount of the 13<sup>th</sup> month pension was reinstated** significantly contributed to the rise in expenditures compared to previous year. A year earlier, 25 per cent of the January benefit was paid to the eligible beneficiaries, and at the time of planning the 2022 budget, the government calculated only with a 13<sup>th</sup> month benefit corresponding to 50 per cent of the monthly provision. The fiscal impact of the measure was HUF 334 billion in the case of benefits disbursed from the Pension Insurance Fund, more than half of which was not taken into consideration by the Budget Act.
- **The 2022 Budget Act anticipated the payment of a pension premium of HUF 68 billion from the Pension Insurance Fund, but based on the latest real economic expectations and on the government's decision the disbursement is likely to amount to around HUF 20-25 billion.** Pursuant to the Pension Act, a pension premium may be paid if the rate of expected GDP growth, calculated at constant prices, exceeds 3.5 per cent and the general government's accrual-based current year fiscal balance target is expected to be met. Pursuant to the Act, the pension premium is calculated as the product of one quarter of the November benefit (but not more than HUF 20,000) and the part of the expected real increase in excess of 3.5 per cent (but not more than four times). The government decree published on 5 October

specified a multiplier of 0.5 per cent, and thus the maximum amount of the premium to be paid to the beneficiaries is HUF 10,000. In addition to those receiving old-age pension and retirement provisions to relatives paid from the Pension Insurance Fund, those receiving disability, rehabilitation and early retirement benefits are also entitled to the premium, which represents an additional expenditure of around HUF 3 billion for the budget.

- The rise in expenditures is also attributable to the **growth in average provisions** resulting from the replacement effect; on the other hand, the fall in the number of eligible beneficiaries acted towards a decline in expenditures, which is primarily the consequence of **raising the pensionable age to 65 years from 1 January 2022**.

Expenditure on **pensions and pension-type benefits** (old-age pensions, early retirement benefits, disability and rehabilitation benefits) amounted to HUF 3,449 billion in total at the end of August 2022, exceeding the year-on-year disbursements by HUF 570 billion and by more than 13 per cent the pro rata amount of the appropriations.

The **expenditures related to EU grants** amounted to HUF 2.246 billion by August 2022, which is almost 75 per cent of the appropriation of HUF 3,000 billion. More than two thirds of the disbursement may have connected to advances. If the plans submitted by the government are accepted by the Commission, the appropriation related the 2022 EU expenditures may be realised.

In the case of the **Széchenyi 2020 programmes related to the 2014–2020 EU budget cycle** and the Rural Development Programme, the value of the tenders announced for the transitional years of 2021 and 2022 was close to HUF 13,500 billion by the end of August. Payments related to the 2014–2020 cycle amounted to around HUF 12,060 billion at the end of the eighth month, while advance payments for the 2021–2027 Széchenyi Plan Plus framework programme rose over HUF 760 billion. However, the European Commission has not yet approved the Partnership Agreement setting out the national operational programmes for 2021–2027.

According to our projection, **gross accrual-based interest expenditure** may rise to 2.8 per cent of GDP at the end of 2022, exceeding the original statutory appropriation. The rise in interest expenditure is mainly attributable to rising government bond market yields, the impact of which is mitigated by the fact that due to the extension of the maturities of government debt only around a quarter of the government debt comes from new issuance in 2022, while the debt elements not extended accrue interest at lower rates that were typical in previous years. **Net cash-based interest expenditures** amounted to roughly 78 per cent of the annual appropriation in the first eight months of 2022. However, due to the higher interest payment anticipated in the rest of the year, at the end of the year the cumulative interest expenditure may exceed the appropriation. Our projection expects net interest expenditures to exceed the statutory appropriation significantly, which is attributable – in addition to our expectation of higher interest revenues – to our forecast of higher gross interest expenditure.

### 3.5 BALANCE OF THE LOCAL GOVERNMENT SUBSYSTEM

According to the plans in the budget, **cash-based balance of local governments** may be a deficit of HUF 156 billion in 2022. Our forecast for the September Inflation Report projected a cash surplus of HUF 17 billion for this year. The better-than-expected balance at the time of drafting the Budget Act is essentially the result of the larger subsidy received from the central budget. The accrual-based deficit of the subsector is likely to show a moderate surplus, similarly to last year.

### 3.6 STATISTICAL CORRECTIONS (ESA BRIDGE)

The 2022 Budget Act was approved by assuming an ESA statistical correction of HUF -16 billion, increasing the cash deficit with this amount. In the EDP report published on 30 September, the HCSO forecast for 2022 already included a cash balance-improving statistical correction of HUF 239 billion. Our forecast, which is consistent with the September Inflation Report, calculates with a deficit-reducing statistical correction of HUF 524 billion for 2022. In connection with the personal income tax reimbursement, we calculate with a cash balance-improving correction of about HUF 660 billion. According to our expectation, the statistical corrections related to EU programmes will modify the balance of the EU cash revenues and expenditures by about HUF 395 billion toward a lower ESA deficit. Net expenditures of organisations classified into central government sector may increase the deficit of the general government's accrual-based balance by roughly HUF 740



billion. Of the other corrections, transactions connected to the Prenatal Baby Support loan may exceed ESA expenditures by roughly HUF 30 billion, while revenues from the sale of carbon dioxide quotes may generate an additional fall in ESA revenues in the amount of HUF 175 billion. On the other hand, the statistical adjustments for interest income and interest expenditure together reduce net cash interest expenditure by HUF 330 billion.

### 3.7 EXPECTED DEVELOPMENTS OF GOVERNMENT DEBT IN 2022

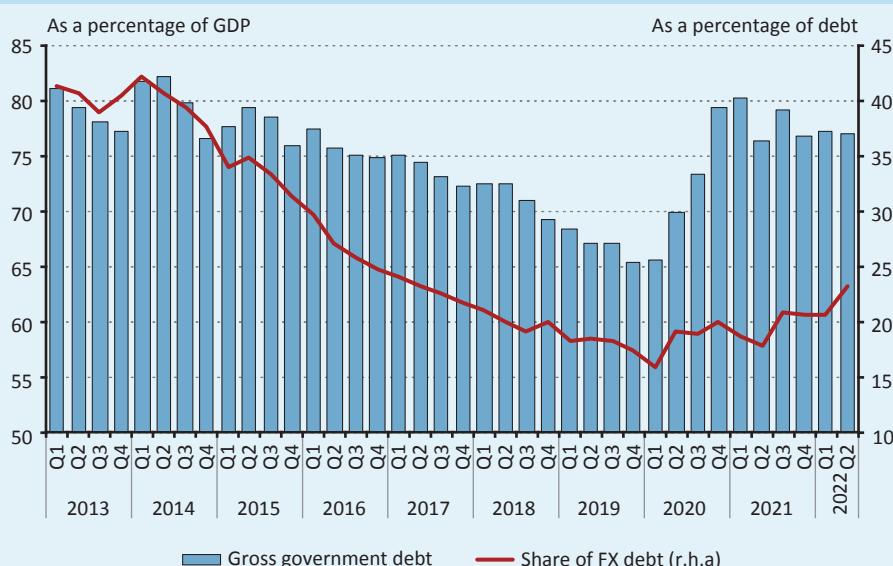
**According to the financial account data, at the end of 2022 H1, the gross public debt ratio stood at 77 per cent of GDP (Chart 17).** The debt ratio increased by 0.6 percentage point compared with the same period of the previous year and by 0.2 percentage point compared to the end-2021 value. The rise in government debt in the first half of the year was caused by high net issuance of nearly HUF 2,700 billion, while dynamic GDP growth partly offset the increase in the rate. The foreign currency ratio of the central government debt rose to 23.1 per cent in the second quarter of 2022 from 20.6 per cent registered at the end of last year, due to the issuance of foreign currency bonds.

**According to our forecast, consistent with the September Inflation Report, upon the fulfilment of the budget deficit target, gross government deficit as a percentage of GDP may fall to 76.0 per cent by the end of 2022 from 76.8 per cent registered at the end of last year.** This year, as a result of the dynamic growth in nominal GDP, the more moderate debt issuance expected in the second half of the year and the decline in the outstanding government deposits, the government debt ratio will decline pending the fulfilment of the Government Debt Management Agency's issuance plan. The government debt ratio may decrease annually by almost 1.5 percentage points on average over the forecast horizon and may thus fall around 72 per cent by the end of 2024.

**According to our forecast, as a result of the substantial foreign currency debt issuance in 2022, the foreign currency ratio of central government debt may be 25.5 per cent at the end of the year.** Demand for retail government securities, and particularly for inflation-indexed securities, may continue this year as well. As a result of the increasing ratio of longer-term government securities, we expect that the average term-to-maturity of the Hungarian government debt will increase further.

**Chart 17**

**Quarterly gross government debt as a percentage of GDP and the share of FX debt within the central government debt**



Source: Government Debt Management Agency, MNB

## 4 Compliance with the fiscal rules

There are a total of eight fiscal rules that pertain to the Hungarian general government between 2021 and 2022, with four Hungarian and four European Union requirements, of these, only the debt rule in the Hungarian Stability Act is effective in this period. There are two overlaps between the rules: the 3 per cent Maastricht deficit criterion and the regulations regarding the medium-term budgetary objective. The other two Hungarian rules include the debt rule in the Fundamental Law and the debt rule specified in the Stability Act. The requirements that only appear in the European Union's legal framework are the expenditure benchmark and the Maastricht debt rule.

As regards **the debt rule of the Fundamental Law**, Hungary's debt ratio was always over 50 per cent of GDP; therefore, in accordance with the rule, it must be reduced.<sup>2</sup> Compliance with the debt rule is a condition for the adoption of the budget, which is verified by the Fiscal Council. The 2021 Budget Act was passed in 2020 to include the expected reduction of the government debt ratio in line with the outlook at the time, thus compliance with the rule was ensured. However, on the basis of the escape clauses, the provisions of the rule may be deviated from during the year in the event of an enduring and significant national economy recession or the introduction of a special legal order.<sup>3</sup> Economic downturn should be interpreted as permanent and significant if the real value of the gross domestic product declines for a year or more, while special legal order means state of national crisis, state of emergency, state of preventive defence, state of terrorist threat, unexpected attack and state of danger.<sup>4</sup> The crisis developed as a result of the coronavirus pandemic and the state of emergency ordered due to the war in Ukraine in 2022 have triggered the escape clause, which overrode the debt rule last year and this year as well. Even so, the debt ratio declined by 2.5 percentage points in 2021 and is expected to fall again this year, so the rule would be met in both years.

The other Hungarian fiscal rule applicable to public debt is the **debt rule** of the Stability Act. The requirement stipulates that, with the simultaneous enforcement of EU regulations, the debt-to-GDP ratio must decrease by at least 0.1 percentage point per year.<sup>5</sup> The debt ratio was reduced by 2.5 percentage points last year and may fall by a further 0.8 percentage points this year, in line with the debt rule in the Stability Act.

The **Maastricht deficit criterion**, included in both the Hungarian and the EU fiscal framework, specifies that the accrual-based deficit of the general government may not exceed 3 per cent of GDP.<sup>6</sup> According to our forecast, the general government deficit is projected to be 7.1 per cent of GDP in 2021, which is although higher than the threshold set by the requirement, but the Maastricht deficit target is subject to an escape clause under both the EU and Hungarian fiscal frameworks. The general escape clause put in place in the EU allows for a temporary deviation from the budget balance reference value and from the medium-term budgetary objective and the adjustment path leading to it, provided that this does not endanger fiscal sustainability in the medium-term.<sup>7</sup> Subject to the escape clause, according to the rules in the corrective arm of the Stability and Growth Pact, thus, in the event of a deficit criterion, according to the discretionary decision, EU institutions will not initiate an excessive deficit procedure, and their activities are limited to formulating revised country-specific economic policy recommendations. Based on the decision of the EU organisations, the application of the general exemption clause continued in 2022.<sup>8</sup> In the Hungarian legal order, the decrease in the real value of gross domestic product exempts from the compliance with the 3 per cent deficit rule.<sup>9</sup> The general government deficit as

<sup>2</sup> Fundamental Law of Hungary, Article 36(4)–(5), Article 37(2)–(3)

<sup>3</sup> Fundamental Law of Hungary, Article 36(6), Article 37(3)

<sup>4</sup> Fundamental Law of Hungary, Articles 48 to 54

<sup>5</sup> Section 4(2a) of Act CXCV of 2011 on the Economic Stability of Hungary

<sup>6</sup> Section 3/A(2b) of Act CXCV of 2011 on the Economic Stability of Hungary

<sup>7</sup> Articles 5(1), 6(3), 9(1) and 10(3) of Council Regulation (EC) No 1466/97; Articles 3(5) and 5(2) of Council Regulation (EC) No 1467/97;

<sup>8</sup> 2022 European Semester - Spring Package, European Commission, page 12, [https://ec.europa.eu/info/system/files/2022\\_european\\_semester\\_spring\\_package\\_communication\\_en.pdf](https://ec.europa.eu/info/system/files/2022_european_semester_spring_package_communication_en.pdf)

<sup>9</sup> Section 7(1)–(2) of Act CXCV of 2011 on the Economic Stability of Hungary

a percentage of GDP will exceed the 3 per cent threshold this year as well, but the relevant paragraph of the Stability Act has been amended, and thus – pursuant to the transitional provision – the rule does not apply in the 2021-2023 fiscal years.

Pursuant to the rules on the **medium-term budgetary objective** that are also part of the Hungarian and EU legal frameworks, the balance of the general government must be determined in a way that it should be in line with achieving the medium-term budgetary objective.<sup>10</sup> The objective is measured by the structural balance, which refers to the cyclically adjusted balance net of one-off and other temporary items. For Hungary, the medium-term budgetary objective (MTO) is -1 per cent of GDP between 2021 and 2023. Following the entry into force of the general escape clause in the European Union, during the period of its effect, the Commission will not sanction or examine compliance with the rules of the preventive arm of the Stability and Growth Pact. Thus, Member States will be temporarily exempted from the medium-term budgetary objective or, in the event of non-compliance, from the **expenditure benchmark** designating the adjustment path. The rule in the Hungarian legislation applicable to MTO has been modified, and thus – under the transitional provision of the Stability Act – it is not necessary to comply with this requirement between 2021 and 2023.

The **European debt rule** states that the Member States' government debt ratio must not exceed 60 per cent of GDP, or if it does, the debt ratio must be reduced at a satisfactory pace. The appropriate decrease in the debt is quantified by the one-twentieth rule, according to which the debt ratio should be reduced by one twentieth of the part that exceeds 60 per cent on average over three years. Based on its own forecast, the European Commission calculates the extent of the change of the debt ratio using three different methodologies (forward-looking, backward-looking and cyclically adjusted), and if the one-twentieth drop is satisfied based on any of them, the rule is deemed to have been complied with.

Hungary's gross government debt ratio is over 60 per cent of GDP in both years under review, requiring an annual reduction in debt. The general escape clause may remain in force also in 2022; nevertheless, according to the forecast of the European Commission, this year Hungary's government debt as a percentage of GDP would comply with the provisions of the suspended debt rule, while last year it would have slightly fell short of it.<sup>11</sup>

<sup>10</sup> Section 3/A(2a) of Act CXCV of 2011 on the Economic Stability of Hungary

<sup>11</sup> Report from the Commission – Report prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, European Commission, 23 May 2022, Table 4

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# Charles Robert

(1308 – 1342)

King Charles I. was one of the most significant rulers of Hungary. He eliminated the anarchy that came about at the end of the Arpadian age, restored the prestige of royal power and its real influence as well as managed to put the economy back on its feet again. King Charles could well be called the new founding father of Hungary, since he could make Hungary a unified and great economic power even in the state of feudal division. A Hungarian king of French ancestry, the descendant of the Capeting dynasty and member of the Anjou family with great influence in Europe, Charles could only take the throne after considerable struggle.

Charles laid royal power onto new foundations and introduced profound reforms. The old and rebellious nobility was replaced by noblemen loyal to him and seized lands were divided up among them, but only as an office fief for the time they held a royal office. The king became even stronger after establishing a new military organisation with the royal banderium, shire banderium and cuman light cavalry.

He pursued a peaceful foreign policy establishing dynastic ties with neighbouring states, which enabled his son to become heir to the Polish crown. At the congress of Visegrád in 1335 (which is also the basis of our current neighbourhood policy) with the Polish and Czech king present, among others decision was made to create a new trade route,

Charles strengthened royal power in terms of finances as well by filling up the treasury. Since Hungary was the primary source of gold and silver in Europe, Charles put mining and trading under close royal control. Charles shared a significant part of royal revenues from mining lease paid for mining precious metals with the owner of the land to facilitate the discovery of new mines. He forbade the export of precious metals; gold and silver had to be given to newly established minting chambers at a price set by the king.

Instead of numerous various currencies, he started minting the silver denarius with a permanent value, then coining golden florins modelled on the golden coins of Florence with the silver farthing becoming its change. Charles abolished the practice of former rulers to inflate money by occasionally reducing the precious metal content of minted coins.

He increased royal revenues by imposing a new tax. Gate tax was levied for each land that had a gate wide enough to let through a cart laden with hay. Customs duty was introduced set at 1/30 of the value of goods exported to or imported from the west or north and 1/20 of southbound goods. Relying on sound economic foundations, in the second part of Charles' reign numerous gothic buildings were constructed, e.g. the royal palace in Visegrád and the Diósgyőr Castle. However, only traces of many of these buildings were left to posterity due to the Turkish devastation.

A Hungarian king with a truly outstanding life, Charles passed away after his 40-year-long reign, and left a strong and rich kingdom to his son. The political ambitions of the Hungarian Anjou dynasty were embodied in Louis the Great, Sigismund and Matthias Corvinus who restored the bygone glory of royal power, but the first stones in this path were laid by Charles I.

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