PUBLIC FINANCE REPORT

2023

JULY

"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)

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Analysis of the 2024 Budget Bill

2023

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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 CXCIV 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 analyses in this Report were prepared under the direction of Gergely Baksay, Executive Director for Economic Analysis and Competitiveness. This report was created by the staff of the Directorate for Fiscal and Competitiveness Analysis with the assistance of the staff of 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 22 June 2023.

Contents

1 Summary

The subject of this analysis is the 2024 budget bill, submitted to the Parliament on 30 May 2023, which we assess in the light of the MNB's fiscal forecast. As part of this analysis, the MNB prepared its own projection for the 2024 budget balance and the government debt based on the available information, and this projection is compared with the appropriation in the bill.

According to the bill, the debt-to-GDP ratio is expected to decline by 3.0 percentage points in 2024, based on which the government debt rule specified in the Fundamental Law, and assessed by the Fiscal Council in the first place, is complied with. Prior to the final vote on the Budget Act, the Fiscal Council assesses compliance with the rule of the Fundamental Law defining the reduction of government debt. The Fundamental Law and the Stability Act prescribe the reduction of the debt ratio by at least 0.1 percentage point, which is satisfied based on the bill. According to the bill, the gross debt-to-GDP ratio of the general government will decline from 73.3 per cent at end-2022 to 69.7 per cent in 2023, followed by a decrease to 66.7 per cent by end-2024. According to our forecast the debt-to-GDP ratio may decline faster in 2023, while according to our expectations, in 2024 – following a slightly smaller decrease than stated in the bill – the debt ratio will fall to 66.5 per cent. As a result of the steady decline, commenced anew in 2021, in 2024 the debt-to-GDP ratio may come close to the level registered before the coronavirus crisis in 2019, i.e. 65.3 per cent.

Based on the budget bill, in 2024 the accrual-based budget deficit target is 2.9 per cent of GDP; however, according to our forecast risks pointing to a higher deficit can be identified. Compared to the 2023 statutory appropriation of 3.9 per cent, the planned deficit-to-GDP ratio represents a decline of 1.0 percentage point. Next year's deficit target is higher than the target of 2.5 per cent of GDP planned earlier but corresponds to the figure indicated in the Convergence Programme published at the end of April 2023. The decline in deficit target compared to 2023 is supported by the high tax and contribution income, resulting from the dynamic economic growth expected for 2024, the saving on expenditures attributable to the gradual decline in world energy prices as well as by the fiscal measures included in the taxation acts submitted in parallel with the budget bill, which foster fiscal consolidation primarily by the partial maintenance of the windfall taxes and by other tax increases.

Based on the prevailing laws, the extent of the loss reimbursement liability arising due to the fact that the equity of the Magyar Nemzeti Bank is expected to turn negative, may represent a risk reaching 0.4-0.5 per cent of GDP. The activity of the central bank – economic stimulation during the crisis management followed by a series of measures to curb inflation – exerts a favourable impact on the national economy as a whole, while the costs of that are reflected in the central bank's financial results. Including the loss expected for this year, the MNB's equity will turn negative by the end of 2023; thus, in accordance with the prevailing laws, the budget incurs a reimbursement obligation from 2024, spread over 5 years. According to the prevailing legislation, the expenditure in 2024 related to the reimbursement of the loss expected for 2023 may be as high as 0.4-0.5 per cent of GDP, while the exact amount thereof is significantly influenced by the changes in the domestic economy and in the international environment.

According to our forecast, the cash-based deficit of the central budget sub-sector may exceed the expectations of the bill, which may be offset by the somewhat more favourable cash-based balance of the local government sub-sector and the positive accrual-based statistical adjustment. Based on our projection, the deficit of the central sub-sector may exceed the amount of HUF 2,515 billion stated in the bill, by about HUF 400 billion. The consolidated cash-based revenues and expenditures may fall short of the appropriations by roughly HUF 600 billion and HUF 200 billion, respectively. In 2024, the tax and contribution revenues may fall short of the appropriations primarily due to this year's lower-than-planned base of consumption and labour taxes. Our 2023 macroeconomic projection for the main tax bases (GDP growth, household consumption expenditure, wage bill growth) falls short of that in the budget bill, while the assumptions for next year are mostly identical. Among the expenditures, we anticipate a saving of over HUF 200 billion mostly in the state energy expenditures.

The budget contains the cohesion and recovery funds of the 2021–2027 EU budget cycle. The bill plans EU-related revenues to amount to HUF 2,518 billion in total, roughly three-quarters of which would come from the 2021–2027 EU budget envelope. The appropriation for expenditures related to EU transfers is HUF 3,606 billion, almost three-quarters of which is connected to the projects of the 2021–2027 programming period. For the cohesion operative programmes of the new cycle, the budget contains disbursement in the amount of over HUF 1,800 billion, most of which would presumably be advance payments. The budget appropriated more than HUF 750 billion for the programmes planned within the framework of RRF. Reaching an agreement between the Government and the Commission on the drawdown of the convergence and recovery funds of the 2021–2027 cycle is an important precondition for the realisation of the appropriation related to EU grants.

This year the growth expectation of the budget bill is at the top of the forecast band by the MNB, while it is at the middle of the band for next year. According to the macro path of the bill, the GDP may grow by 1.5 per cent in 2023 and by 4 per cent in 2024. Growth prospects are largely influenced by the time profile of inflation, domestic demand developments and uncertainties surrounding external economic activity. Major uncertainty around the developments in GDP is indicated by the wide range of market analysts' growth expectations for both this year and next. For 2023 and 2024, the projection in the budget bill anticipates an inflation of 15 per cent and 6 per cent, respectively. The forecast for this year is below the band of 16.5-18.5 per cent, forecast by the MNB, while the projection for 2024 is slightly above it. Both the bill and the MNB project dynamic growth in the gross wage bill.

If the accrual-based deficit target of 2.9 per cent of GDP is achieved, the deficit complies with the Maastricht threshold, which is a part of both the Hungarian and EU legislation. However, in 2020, the institutions of the European Union temporarily suspended the application of sanctions related to the corrective fiscal rules, but the general escape clause is expected to be repealed in 2024. In parallel with this, the transitional provision introduced in the Stability Act, which provided exemption from compliance with the requirements for the general government deficit and the medium-term budgetary objective between 2021 and 2023, will also expire as of 2024. The 2.6 per cent **structural deficit** indicated in the bill is higher than the requirement concerning the medium-term objective, but the degree of expected convergence to it has not been determined pursuant to the general escape clause, and thus compliance with the rules cannot be examined.

On 26 April, the European Commission published specific proposals for legislative changes as part of the reform aimed at modernising economic governance in the EU. Of the rules taken into consideration for the purposes of launching the Excessive Deficit Procedure (EDP), the 3 per cent Maastricht deficit target is maintained in its current form. However, under a debt-based EDP, the current rule prescribing the reduction of the debt ratio by one twentieth is replaced by a debt sustainability approach, which would be a relief to countries with high debt on the one hand, and tighten the regulation on the other hand. Namely, the sustainability of government debt would be assessed based on the risks, with a different numerical medium-term debt criterion for each Member State, to be achieved by the net expenditure path in the plan. A breach of this adjustment path would automatically trigger the launch of the excessive deficit procedure. As a result of the reform, the one-twentieth debt rule, the medium-term budgetary objective (MTO) and the significant deviation procedure (SDP) under the preventive arm are terminated. Furthermore, the proposal intends to strengthen the independence, resources and analytical capacities of fiscal councils.

2 General government balance

The budget bill sets the accrual-based government deficit for 2024 to 2.9 per cent of GDP, which represents a decline of 1.0 percentage point compared to this year's amended appropriation, which complies with the Maastricht deficit criterion, re-introduced from next year. The decline in deficit is supported by the fall in state's energy expenses, resulting from the decreasing world market prices of energy, as well as by the additional consolidation measures announced in parallel with the submission of the budget. The general government deficit is mostly the result of the deficit of the central budgetary sub-sector. The balance of the local government sub-sector may show a minor deficit, while the statistical adjustment between the cash-based and accrual-based deficit implies a fall in the accrual-based deficit (Table 1). The budget bill does not include the amount of the reimbursement for the central bank's losses, which – based on the prevailing legislation and forecasts – would amount to 0.4-0.5 per cent of GDP in 2024.

Table 1
ESA balance of the general government sector in 2024 (as a percentage of GDP)

	2024		
	Statutory appropriation	MNB forecast	Difference
1. Balance of the central sub-sector	-2.9	-3.4	-0.5
2. Balance of local governments	-0.2	0.0	0.2
3. Cash flow balance of central sub-sector and local governments (1+2)	**-3.1**	**-3.4**	**-0.3**
4. GFS-ESA difference	0.2	0.5	0.3
5. ESA balance of the general government sector (3+4)	**-2.9**	**-2.9**	**0.0**

Note: Due to rounding, differences may occur in the table.
Source: 2024 budget bill, MNB projection

The related taxation acts were also submitted in parallel with the budget bill. Those contain, in addition to the partial maintenance of the windfall taxes introduced last year, several new measures affecting the 2024 budget. Of the new measures, the partial maintenance of the windfall taxes has the greatest fiscal impact. Including this, together with other tax increases, the general government's tax and contribution revenues may rise roughly by HUF 1,000 billion. Several of the windfall taxes (retail tax, insurance tax, income tax on energy providers, telecommunication tax, airlines' contribution) are maintained in full; moreover the upper rate of the retail tax increases from 4.1 per cent to 4.5 per cent. The rest of the windfall taxes, such as the surtax on the difference between the prices of the Brent and Ural type crude oils, the tax on pharmaceutical companies, the mining royalty and part of the levy on banks related to 'extra profit' are partially phased out. The excise duty on fuel will increase, in line with the EU minimum level. In addition to this, most of the interest incomes – except for those realised on government securities and real estate investment funds – will be subject to social contribution tax from the second half of this year.

According to our forecast, the cash-based deficit of the central sub-sector may exceed that in the bill by more than HUF 400 billion. Consolidated budgetary revenues may fall short of the appropriations by some HUF 605 billion, which is primarily attributable to the realisation of tax and contribution revenues in a lower amount. The tax revenue risk appears primarily at the consumption taxes and – to a smaller extent – at the labour taxes and contributions, since our base year projection for 2023 falls short of this year's appropriations. Consolidated government expenditures may fall short of the appropriations in the bill by roughly HUF 200 billion. The difference mostly comprises the positive risk connected to the anticipated lower energy expenditures of the government. According to our forecast, the expenditures of the central budgetary organisations may exceed the appropriation, while expenditures related to the EU funds may fall short of it.

The cash-based balance of the local government sub-sector shows a deficit of 0.2 per cent of GDP in the budget bill. Our projection presumes a somewhat more favourable local government cash-based balance than the budget bill; accordingly, the balance of the sub-sector is expected to be close to equilibrium in 2024.

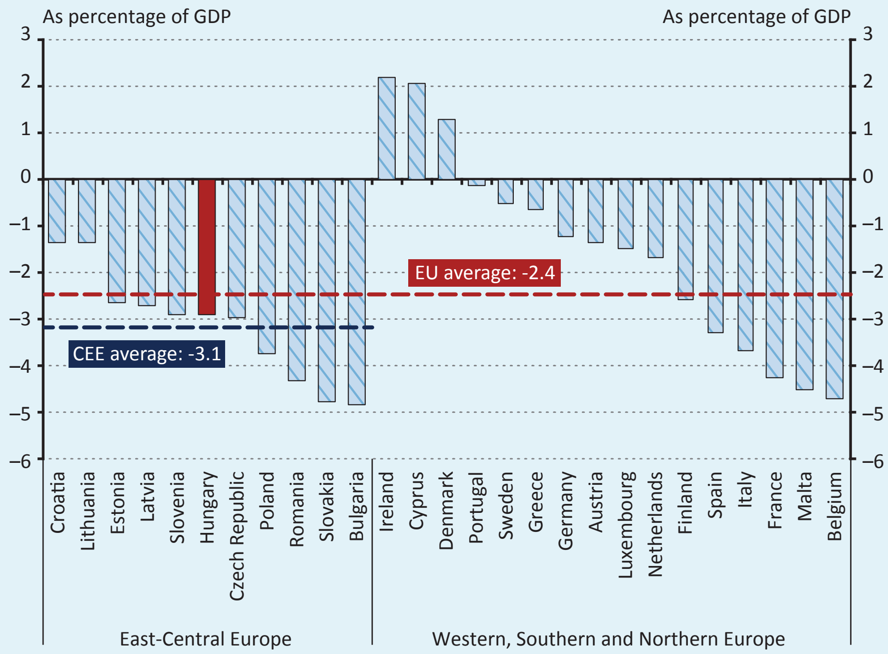
According to the budget bill, the ESA bridge, which comprises **the accrual-based and other ESA adjustments**, contains a deficit-reducing adjustment of HUF 173 billion for 2024. Tax and tax type revenues improve the cash-based balance of the budget overall due to the carry-over effect between the years. The EU settlements, and within that the disbursement of the EU advances, improve the budget balance. Moreover, the adjustments connected to enterprises and organisations classified in the government sector traditionally also improve the budget position, since the absorption of budgetary subsidies for capital expenditure is not limited to the current fiscal year. Settlements related to interest revenues and interest expenses increase the ESA deficit through the statistical adjustments. The ESA bridge expected by the MNB reckons a deficit reducing adjustment higher by almost 0.3 percentage point of GDP than the bill. The difference between the forecasts may primarily be attributable to the difference in the accrual-based adjustments of EU settlements.

Pursuant to the budget bill, in 2024, as in this year, the additional revenues related to additional growth are required to be spent on the reduction of the deficit and thus of public debt. Pursuant to the rule, if real growth exceeds the 4.0 per cent forecast in the bill, the deficit target must be reduced by an amount equalling the accrual-based annual tax and tax type revenue surplus originating from the higher than planned real growth, deducting from it the amount of pension premium that is in excess of the plan.

In 2024, total expenditure of the central budgetary reserves is HUF 1,263 billion, which corresponds to 1.5 per cent of the nominal GDP indicated in the bill. Within that the reserves for Extraordinary Government Measures, the Investment Fund and the Provisions account for the highest amount. In addition to the central reserves, the budget bill for next year preserves the Utilities Protection Fund and the Defence Fund. The appropriation of the Utilities Protection Fund is HUF 1,361 billion, which may be spent on household utilities protection, on the support of government, local government and other institutions with public functions, and also on the support of the private sector. The total amount of the appropriation for Defence Fund expenditures is HUF 1,310 billion, which includes the operating and capital expenditures of the Hungarian Army.

Hungary's 2024 deficit target of 2.9 per cent of GDP corresponds to the anticipated average of the CEE region for next year, while it exceeds the EU average of 2.4 per cent (Chart 1).

Chart 1
Government deficit forecast for 2024 in the EU



Note: Hungarian data is in line with the government target announced in the 2024 budget bill
Source: European Commission, 2024 budget bill

Box 1
Impacts of the 2024 fiscal measures

The 2024 budget bill was submitted on 30 May 2023, followed by the submission of the related taxation acts at the beginning of June, while at the end of June measures impacting family allowances were announced. Of the measures, the partial upholding of the windfall taxes has the largest fiscal impact, while the decisions resulting in the increase in revenues from excise duties represent an additional growth in revenues. New measures concerning family allowance, which may enter into force from 1 January 2024, were also announced.

As a result of the measures, revenues may increase by some HUF 1,000 billion. Most of the surplus, i.e. roughly HUF 800 billion, is related to the windfall taxes, since – contrary to the original plans – only part of those will be phased out in 2024, while the rest of them will remain in place. Several of the tax burdens on windfall taxes (special tax on retail trade, insurance tax, income tax on energy providers, telecommunication tax, airlines' contribution) will completely remain in place. Moreover the upper rate of the special tax on retail trade increases from 4.1 per cent to 4.5 per cent.

Several windfall taxes, introduced in 2022, will be phased out partially from 2024. In the case of the **levy on banks**, the surtax imposed on interest gain, fee and commission income in 2022 was replaced from 2023 H2 by the progressive surtax based on pre-tax profit. In 2024, the surtax may be reduced by 10 per cent of the increase in credit institutions' outstanding government securities portfolio compared to previous year. The **mining royalty** on hydrocarbons (crude oil and natural gas) – tripled in 2022 – will be halved, and it will still be one-and-a-half-fold of that of the former tax rate. By 2024, of the measures applicable to the **income tax on energy providers** the surtax payable based on the sales revenue of 2022 will be phased out, which in 2023 increases the budget revenues by roughly HUF 110 billion. In the case of the **pharmaceutical industry tax** introduced at the end of 2022, in 2023 taxpayers will have to pay, in addition to the tax advance for 2023, also the tax liability applicable to 2022, while in 2024 only the adjustment recognised based on the tax advance for the respective year and the annual tax returns will be payable. Revenues may be reduced further by the possibility of writing off investments and R&D expenditures, which can be enforced from 1 January 2024 up to half of the tax liability.

Table 2
Selected measures in the 2024 budget (HUF billions)

Measure	Total (HUF billion)
REVENUES	1 010
Extra profit taxes	800
Extra profit tax on banks	130
Extra profit tax on insurance companies	90
Taxes on the energy sector	370
Special tax on retail trade (surplus)	100
Pharmaceutical industry	80
Telecommunications	30
Other tax measures	210
Excise duty increase (fuel in line with EU level)	190
Social contribution tax on interest income	20
EXPENDITURES	50
End of HPS in cities, increase of rural HPS by 50 percent	20
Increase of the maximum prenatal baby support loan to HUF 11 million, limited to the age below 30	30
TOTAL	1 060

Source: Budget Act of 2024, MNB forecast

As a result of the other revenue measures, the general government may realise additional surplus revenue of over HUF 200 billion. Due to raising the excise duty on fuel, in line with the EU minimum level, tax revenues will increase by some HUF 190 billion. In addition to the 15 per cent personal income tax, which has been payable before as well, an additional social contribution tax at 13 per cent will be also imposed on interest income falling within the Personal Income Tax Act, with the exception of interest income from the investment units of real estate funds. As a result of this, the competitiveness of government securities may increase further within the various forms of savings.

The measures affecting family allowances may represent a saving of almost HUF 50 billion in total. From 2024, of the family allowances, **HPS** (CSOK) will be terminated in settlements with over 5,000 inhabitants, while the subsidy amount of the **"rural HPS"** applicable to preferred small settlements, will increase significantly (Table 2). The maximum amount of **the prenatal baby support loan** increases from the present HUF 10 million to HUF 11 million, but it will be available only to women below the age of 30. A transitional period of 1 year (2024) will be available for women aged between 30 and 40 to apply for the loan.

3 Expected developments of government debt

Based on the bill, in 2024 the government debt ratio will decline to 66.7 per cent of GDP from 69.7 per cent, anticipated for end-2023. According to the Budget Act, the debt-to-GDP ratio is expected to decline by 3 percentage points in 2024.

According to our forecast, the general government gross debt ratio will decrease from 73.3 per cent registered at the end of 2022 to 68.7 per cent in 2023, and then in 2024 by 2.2 percentage points to 66.5 per cent, as a result of the declining deficit and the growth in nominal GDP (Table 3). The MNB's nominal debt projection exceeds that included in the budget bill, while as a result of assuming a higher nominal GDP, the ratio as a percentage of GDP is slightly lower than the figure stated in the bill.

Table 3
Developments in government debt (in HUF billions and as a percentage of GDP)

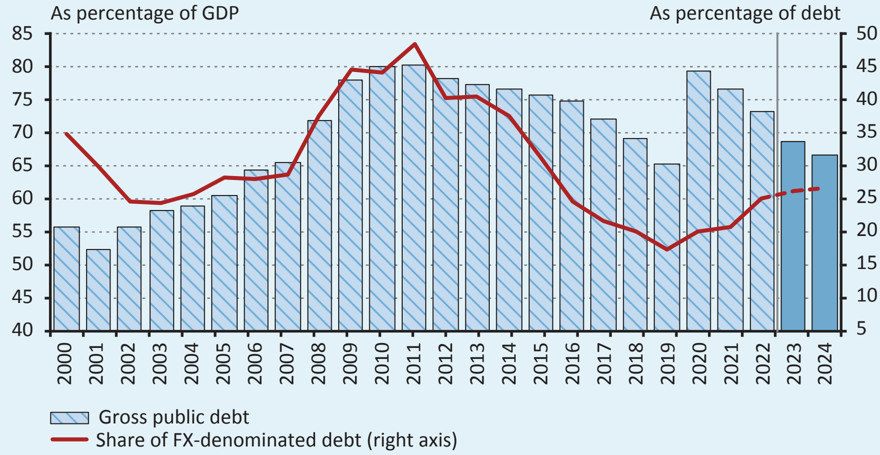
	Statutory appropriation	MNB	Statutory appropriation	MNB
	HUF billions		as a percentage of GDP*	
1. 2023 initial government debt	54,110	54,256	69.7	68.7
2. 2024 cash-based deficit of the central budget	2,515	2,920	2.9	3.4
3. Other effects	271	484	0.3	0.6
4. 2024 expected government debt (sum of 1+2+3 in HUF billions)	56,896	57,660	66.7	66.5
5. Change in government debt-to-GDP ratio in 2024 (4-1)			**-3.0**	**-2.2**

*Note: * The MNB and the Budget Act calculate with different nominal GDP. The sum of partial data may differ from the aggregated values due to rounding.*
Source: 2024 budget bill, MNB projection

The budget bill expects the nominal government debt to increase to a greater degree than the deficit this year and next. In 2024, the growth in government debt may exceed the cash-based deficit by about HUF 270 billion. The budget bill emphasises that in response to the increasing uncertainties in the markets, government debt management holds higher liquid reserves to ensure the funding of the budget and debt.

As a result of last year's foreign currency bond issues, the share of foreign exchange denominated debt within the central government debt rose to 25 per cent by the end of 2022. According to our forecast this ratio may increase further, while – in line with the target of the Debt Management Agency – it will be below the 30 per cent threshold (Chart 2). The bill anticipates positive net foreign currency issuance both for this year and next year, and thus the share of foreign exchange in the central government debt may rise to 26 per cent this year and close to 27 per cent in 2024. **In 2022, households' government securities holdings remained the highest within the EU** and looking ahead, the rise in the ratio of domestic financing may continue, also supported by the buoyant demand for retail government securities.

Chart 2
Expected developments of government debt



Source: MNB, ÁKK (Government Debt Management Agency)

4 Evaluation of the macroeconomic assumptions underlying the bill

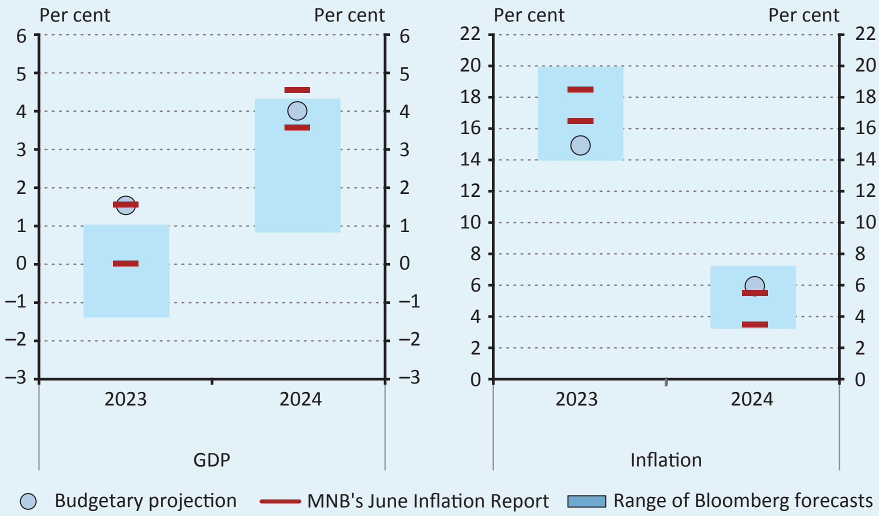
This year the growth expectation of the budget bill is at the top of the band forecast by the MNB, while it is at the middle of the band for next year. According to the macro path of the bill, the GDP may grow by 1.5 per cent in 2023 and by 4 per cent in 2024. Growth prospects are largely influenced by the time profile of inflation, domestic demand developments and uncertainties surrounding external economic activity. High uncertainty surrounding the development of GDP is indicated by the greater dispersion of market analysts' expectations for both this year and next year. (Chart 3).

According to the MNB's forecast, Hungary's GDP may grow by 0-1.5 per cent in 2023 and 3.5-4.5 per cent in 2024. In 2023 Q1, Hungary's GDP declined by 0.9 per cent, year on year. The decline was mitigated by the adjustment of agriculture after the drought of last year and by the favourable performance of public services. According to our expectations, annual growth rate may once again become positive in the second half of the year, in line with the repeated rise in real wages and the recovery of domestic demand. Due to the declining real earnings, households' consumption will decline throughout this year on the whole, and higher costs along with uncertain prospects are likely to result in the rescheduling of investments. According to the MNB projection, this year households' consumption may decline to a larger degree than shown in the budget bill. The bill anticipates a growth in investments, in line with the MNB's forecast, both in 2023 and 2024. Despite the moderate industrial production, Hungary's exports may rise this year as well, as a result of which the contribution of net exports may remain positive in 2023.

Both the bill and the MNB project dynamic growth in the gross wage bill. In 2023 wage increase in the macro path of the budget bill is above the band forecast by the MNB and it is within the band next year. This year the number of people in employment may stagnate or slightly increase, while for next year the bill expects a growth of 0.4 per cent in headcount, corresponding to the upper edge of the central bank's forecast band.

For 2023 and 2024, the projection in the budget bill anticipates an inflation of 15 per cent and 6 per cent, respectively. The forecast for this year is below the band of 16.5-18.5 per cent forecast by the MNB, while the projection for 2024 is slightly above it (3.5 – 5.5 per cent).

Chart 3
Comparison of GDP and inflation forecasts



Source: 2024 budget bill, MNB's Inflation Report (June 2023), Bloomberg (June 2023)

Table 4
Comparison of the macroeconomic forecasts (percentage change compared to the previous year)

	2022	**2023**		**2024**	
	Actual	**Budget**	**MNB**	**Budget**	**MNB**
GDP	**4.6**	**1.5**	**0.0 – 1.5**	**4.0**	**3.5 – 4.5**
Consumption expenditure of households	6.5	-0.1	(-2.1) – (-1.3)	3.2	2.2 – 3.2
Public consumption*	-1.3	0.3	0.0 – 1.8	1.1	0.7 – 1.9
Gross fixed capital formation	1.2	-4.8	(-5.9) – (-3.0)	3.7	2.7 – 5.6
Exports	11.8	4.9	3.8 – 6.1	5.9	5.2 – 7.2
Imports	11.1	1.8	0.6 – 2.8	4.3	3.5 – 5.7
GDP deflator	15.3	14.8	17.6	5.6	5.6
Inflation	**14.5**	**15.0**	**16.5 – 18.5**	**6.0**	**3.5 – 5.5**
Gross wage bill*	**19.8**	**15.5**	**12.7 – 13.5**	**10.7**	**9.8 – 11.0**
Gross average earnings	17.4	15.6	12.7 – 13.4	10.3	9.7 – 10.9
Number of employees	1.3	0.0	0.1 – 0.4	0.4	(-0.2) – 0.4

*Note: *Definition of public consumption and gross wage bill are different at the two institutions.*
Source: 2024 budget bill, MNB's Inflation Report (June 2023)

5 Detailed evaluation of the budget bill

5.1 PRIMARY REVENUES

According to our forecast, in 2024 **primary revenues of the central sub-sector of the budget** may fall short of the appropriations in the bill by HUF 605 billion in total (Table 5), which is almost fully attributable to the presumably lower realisation of the tax and contribution revenues. According to our projection, tax and contribution payments may be lower by HUF 600 billion compared to the appropriations in the bill, with positive contribution by the payments by enterprises, while the contribution of consumption taxes is smaller and the contribution of labour taxes is negative. The deviations seen in the revenues is explained by the lower basis expected for this year for most tax types, which is the result of the varying macroeconomic assumptions for 2023. This year, our assumption with regard to GDP growth, household consumption expenditure and growth in gross wage bill of the national economy falls short of the expectation of the budget, while in 2024 the macroeconomic projections connected to the main tax bases are roughly the same.

Payments by economic organisations may exceed the appropriation for 2024 by HUF 104 billion, according to our forecast. Revenue developments are largely influenced by the tax increases introduced as part of the fiscal consolidation measures for 2022-2024. Most of the measures are introduced during 2022 and will remain in place in 2024 with various modifications.

Revenues from the **corporate income tax** may be HUF 20 billion higher than the appropriation. The difference may arise from the macroeconomic developments: based on the incoming data, the tax base may rise to a higher level in 2023 than assumed by the Budget Act, which may lead to higher revenues through the base effect also in 2024.

In the case of the **special tax of financial institutions**, the surtax imposed on interest gain, fee and commission income in 2022 was replaced from 2023 H2 by the progressive surtax based on pre-tax profit. In 2024, the surtax may be reduced by 10 per cent of the increase in credit institutions' outstanding government securities portfolio compared to previous year. Based on the Budget Act, the additional revenue from the special tax may amount to HUF 132 billion.

As part of the measure concerning the **mining royalty**, the mining royalty on hydrocarbons (crude oil and natural gas) – tripled in 2022 – will be halved, and it still will be one and a half times higher that the former tax rate.

The **income tax of energy providers** is affected by several measures between 2022 and 2024. Firstly, the range of taxpayers is expanded to include bio ethanol and bio fuel producers, sunflower seed oil and starch producers as well as balancing power plants. On the other hand, the surtax to be paid by those who leave the feed-in tariff/renewable subsidy system (KÁT/METÁR) also appears here. In addition, the tax rate on this tax type also increased for 2023 and 2024 from 31 to 41 per cent. The tax rate on the profit from the difference between the prices of the Brent and Ural type crude oils was first increased from 25 per cent to 40 per cent and then to 95 per cent in 2022. This rate is also valid in 2023, although this year no tax applies to the first 7.5 dollars of the difference. By 2024, one of the consolidation measures recognised in this row, i.e. the surtax payable based on the sales revenue of 2022 will be phased out, which in 2023 increases the budget revenues by roughly HUF 110 billion. The appropriation is surrounded by three main risks: the changes in oil prices, in the dollar exchange rate and the rate of the oil price difference in 2024.

The progressive nature of the **retail tax** rate strengthens in 2024: the upper rate of the tax type increases from the present 4.1 per cent to 4.5 per cent, which may increase revenues by HUF 25 billion.

The rate of the **pharmaceutical manufacturer tax**, introduced in 2022, will be halved in 2024. This tax is a progressive tax with three rates. The tax base is the net sales assessed in accordance with the rules applicable to local business tax. The tax rates in 2023 are as follows: 1 per cent for the first HUF 50 billion of the tax base, 3 per cent between HUF 50 billion and HUF 150 billion and 8 per cent on the part over HUF 150 billion. In 2024 all rates will be halved. In 2024 revenues from this tax type will be lower by about HUF 100 billion compared to previous year, since in 2023 taxpayers will have to pay, in addition to the tax advance for 2023, also the tax liability applicable to 2022, while in 2024 only the adjustment recognised based on the tax advance for the respective year and the annual tax returns will be payable. Revenues may be reduced further by the possibility of writing off investments and R&D expenditures, which can be enforced from 1 January 2024 up to half of the tax liability.

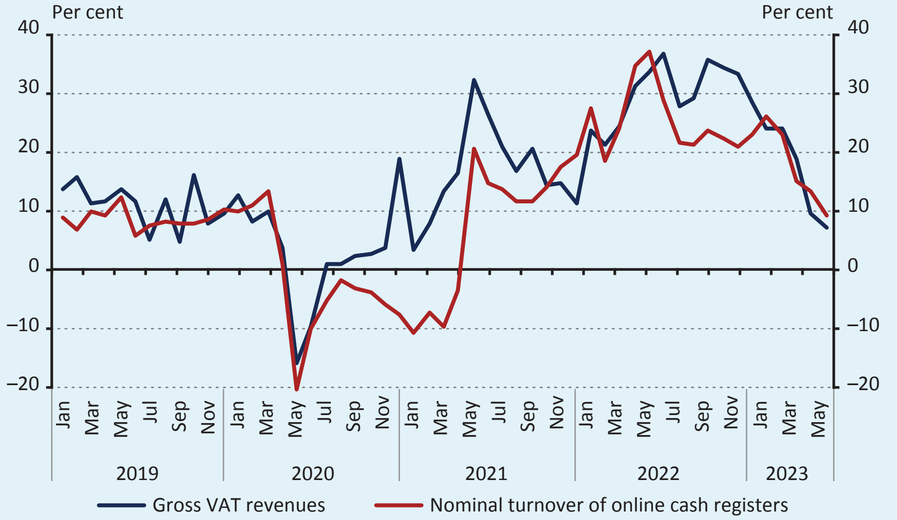
Revenues from other centralised revenues may exceed the relevant appropriation in the Budget Act by HUF 85 billion. Electronic road tolls may explain HUF 40 billion of the difference due to the base effect, since based on the payments in the first five months of the year, revenues in 2023 may exceed the appropriation for 2023 by HUF 31 billion. Penalty revenues may exceed the appropriation by HUF 16 billion, due to the difference in the projections for the 2023 revenues. The 2024 appropriation for environmental product fees declines considerably, by HUF 35 billion compared to this year’s appropriation. The deductibility of the extended manufacturer responsibility fee (EPR fee) from the product fee can be enforced in 2023 only in the second half of the year, while the measure will be in effect throughout 2024. Due to the different assumptions related to the total impact of this, product fee revenues in 2024 may exceed the appropriation by HUF 16 billion.

The budget expects to collect HUF 8,574 billion from **value added tax** on a cash basis in 2024, while our forecast anticipates revenues to be lower by HUF 503 billion, i.e. HUF 8,071 billion. The difference is fully attributable to the different expectations with regard to this year’s base. According to our forecast, the actual revenue may fall short of the amended appropriation for 2023 by HUF 570 billion, partly due to the low gross payments resulting from the decline in the volume of retail sales and the soar in reimbursements, reducing net revenues. By the end of May, gross VAT revenue dynamics decelerated to 7 per cent following the average growth of 30 per cent seen last year (Chart 4). The decline in the nominal turnover of online cash registers also reflects a slowdown in revenue dynamics.

The budget foresees revenues from **excise duties** amounting to HUF 1,678 billion in 2024, exceeding this year’s appropriation by HUF 214 billion. The annual growth is fully attributable to the rise in the excise duty on petrol and diesel fuel due to the EU minimum level. From 1 January 2024, according to the Taxation Act submitted in parallel with the budget, the excise duty on one litre of petrol and diesel fuel rises by HUF 32.55 and thus the excise duty content of one litre of petrol and diesel fuel will be HUF 152.55 and HUF 142.9, respectively. The minimum excise duty prescribed by the EU is EUR 0.359/litre for petrol and EUR 0.33/litre for diesel.

The Budget Act foresees revenues from the **telecommunication tax** to amount to HUF 96 billion next year, which is in line with this year’s budget target. The surtax concerning the telecommunication sector will bring additional revenues of some HUF 40 billion in 2023 and 2024. Whereas before the extra tax, 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. The rate of the telecommunication surtax is 0 per cent on the part of the net sales revenue not exceeding HUF 1 billion, 1 per cent on the part between HUF 1 and HUF 50 billion, 3 per cent on the part above HUF 50 billion but not exceeding HUF 100 billion and 7 per cent on the part above HUF 100 billion.

Chart 4
Gross VAT revenues and turnover of online cash registers year-on-year



Source: Hungarian State Treasury, NTCA

The budget expects to collect HUF 234 billion from **insurance taxes** in 2024, which is in line with our projection. The insurance surtax represents a tax burden of around HUF 90-95 billion this year and next year as well. The windfall tax, introduced in 2022, was modified already at the end of the year of its introduction. The tax rate almost doubled in the case of the largest insurance companies, and thus on the part of the non-life premium income exceeding HUF 36 billion the rate was increased from 7 per cent to 12 per cent, while on the part of life insurance premiums exceeding HUF 36 billion it rose from 3 per cent to 5 per cent.

According to the budget bill, HUF 39 billion is expected on the revenue row **airline tax** in 2024. The amount of the item introduced earlier as windfall tax, then permanently converted into a green tax, was diversified depending on the emission per passenger and the destination, compared to the regulation in force last year, thereby providing less polluting aircrafts with an allowance. The contribution per person is HUF 1,600–6,200 per passenger for European destinations and HUF 3,900–15,600 for destinations outside Europe, depending on the emission per person.

Revenues from **tourism development contribution** may amount to HUF 55 billion pursuant to the 2024 budget, which exceeds our projection by HUF 7 billion. From 2020, the tax at the rate of 4 per cent was extended to accommodation services, in addition to restaurants, while the VAT rate was reduced to 5 per cent. 2024 may be the first full year when these sectors will be no longer exempted from the payment, as between May 2020 and December 2021 as well as between October 2022 and March 2023 accommodation establishments and restaurants were exempted from the payment of this burden.

According to the bill, next year's estimate for the **financial transaction levy** is HUF 348 billion, which is HUF 24 billion lower than our forecast. The difference is attributable to the lower 2023 base, which may be explained by the difference between inflation assumptions.

Table 5
Revenues of the central subsector – comparison of the forecasts (HUF billions)

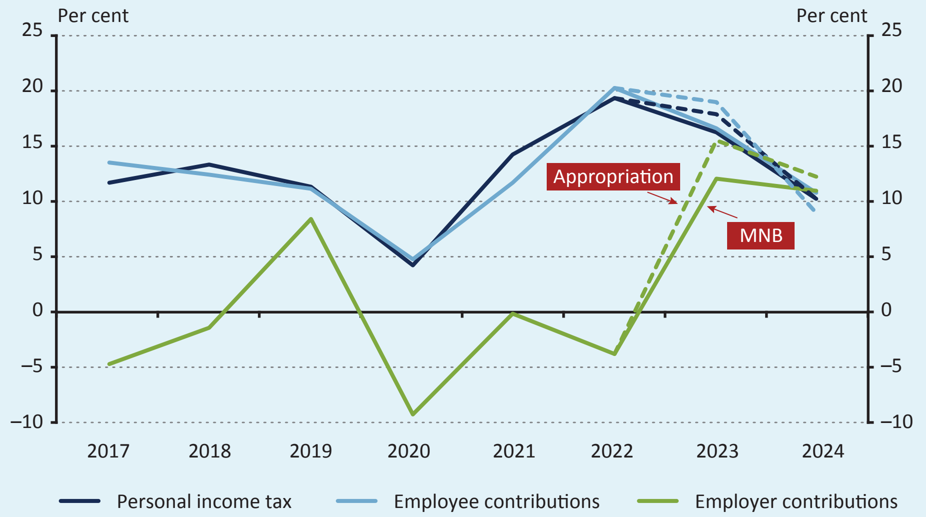
	2024		
	Statutory appropriation	MNB forecast	Difference
TAX AND CONTRIBUTION REVENUES OF THE CENTRAL SUB-SECTOR	**28,064**	**27,464**	**-600**
Payments by economic organisations	**3,773**	**3,877**	**104**
Corporate income tax	1,153	1,174	20
Special tax of financial institutions	253	250	-4
Advertising tax	0	0	0
Lump sum tax of small entrepreneurs	78	72	-5
Small business tax	228	224	-4
Utility tax	41	41	0
Eco-tax	5	5	0
Mining royalty	192	189	-3
Gambling tax	53	57	4
Other payments	25	33	8
Other centralized revenues	695	780	85
Income tax on energy providers	514	509	-5
Company car tax	81	83	2
Retail tax	250	255	5
Rehabilitation contribution	174	173	0
Pharmaceutical manufacturer tax	32	32	0
Consumption taxes	**11,041**	**10,526**	**-515**
Value added tax	8,574	8,071	-503
Excise duties	1,678	1,652	-26
Registration tax	18	21	3
Telecommunication tax	96	100	4
Financial transaction levy	348	373	24
Insurance tax	234	231	-3
Airline tax	39	33	-7
Tourism development contribution	55	46	-9
Payments by households	**4,857**	**4,812**	**-45**
Personal income tax	4,476	4,419	-57
Duties, other taxes	280	289	9
Motor vehicle tax	101	104	2
Tax and contribution revenues of extra-budgetary funds	**574**	**572**	**-2**
Tax and contribution revenues of social security funds	**7,818**	**7,678**	**-141**
Social contribution tax and contributions	7,584	7,433	-151
Other contributions and taxes	234	244	10
REVENUES RELATED TO EU FUNDS	**2,518**	**2,513**	**-6**
OTHER REVENUES	**1,227**	**1,227**	**0**
Revenues on public property	**384**	**384**	**0**
Other revenues of the central budget	**687**	**687**	**0**
Other revenues of social security funds	**45**	**45**	**0**
Other revenues of extra-budgetary funds	**111**	**111**	**0**
TOTAL REVENUES	**31,809**	**31,204**	**-605**

Note: Partly consolidated data.
Source: 2024 budget bill, MNB

According to our forecast, the revenue from **personal income tax** may be lower by HUF 57 billions than the appropriation of HUF 4,476 billion set forth in the bill. The deviation is primarily attributable to the lower base of this year resulting from the different macroeconomic assumptions (Chart 5), since the MNB's projection forecasts lower real economic and wage bill growth for this year, while the forecast range for next year essentially corresponds to the assumption in the bill. If the amended revenue appropriation for 2023 is realised, according to our forecast the budget may receive the net personal income tax revenue planned for 2024. The 2024 budget bill and the new taxation act do not contain any new measures related to personal income tax.

The revenue appropriation for **extra-budgetary funds** is HUF 847 billion for 2024, exceeding the 2023 appropriation by 12 per cent. The rise comes from primarily the social insurance contribution. Contribution revenue appropriations related to the fiscal subsidy for the Central Nuclear Financial Fund and to the innovation contribution revenues of the National Research, Development and Innovation Fund also significantly increased.

Chart 5
Revenue from tax and contribution on labour based on budget bill and MNB forecast compared to the previous year



Note: Adjusted with effect of personal income tax refund in 2022
Source: Hungarian State Treasury, 2024 budget bill, MNB

In line with the personal income tax and due to similar reasons, the **tax and contribution revenues of social security and extra-budgetary funds** may fall short of the appropriation included in the budget bill. According to our forecast, **social security contribution** and revenues from **social contribution tax** may fall short of the appropriation by merely HUF 23 billion and roughly HUF 131 billion, respectively. The bill expects the amount from social contribution tax to exceed this year's amount by 12.3 per cent, while the growth dynamics of the revenues from social security contribution is only 9 per cent (Chart 5). The aggregate difference in tax and contribution revenues is presumably attributable to the different macroeconomic assumptions related to the base year of this year, since the MNB projects lower salary and wage bill increase for 2023, while the expectations for next year are roughly the same (Table 4). The decree, submitted in parallel with the budget bill, introduces the social insurance tax payment obligation on interest income, specified in the Personal Income Tax Act (with the exception of revenues realised on the investment units of real estate funds). From H2 this year, pharmaceutical companies may write off half of their 40 per cent windfall tax, if they use it for investment or research and development.

The bill envisages **EU-related revenues** to amount to HUF 2,518 billion in total, roughly three-quarters of which would come from the 2021–2027 EU budget envelope. Namely, of the cohesion operative programmes of the new cycle more than HUF 1,000 billion is included in the appropriation, while the budget bill envisages further funds from RRF in an amount over HUF 750 billion. Accordingly, reaching an agreement between the Government and the Commission on the drawdown of convergence and recovery funds of the 2021–2027 cycle is an important precondition for the realisation of the plan.

5.2 PRIMARY EXPENDITURES

According to our forecast, the primary expenditures of the central sub-system of the budget may fall short of the appropriation in the bill by HUF 263 billion, which is partly offset by the net cash-based interest expenditures higher by HUF 63 billion (Table 7). Net expenditures of central budgetary organisations may be higher by almost HUF 160 billion, while according to our expectations expenditures related to EU funds may fall short of the figure included in the budget bill by almost the same amount. Due to the fall in energy prices, we identify a positive risk of over HUF 200 billion at the expenditures of the Utility Protection Fund.

Under the expenditure titles of **public transport and public utility services** an expenditure appropriation in the amount of HUF 1,107 billion is available for the compensation of transport services. Within this, the budget includes HUF 373 billion for the availability fee for the operation of the motorway network, which is lower than the originally planned amount following the amendment of the new 35-year concession contract. The reimbursement of costs for public companies providing public transport services will rise to HUF 734 billion next year, an increase of 3.6 per cent.

The 2024 appropriation for **housing subsidies** is HUF 182 billion, which is HUF 200 billion lower than the 2023 appropriation. In 2022, the significant decrease is mainly attributable to the phase-out of the Home Improvement subsidy, the impact of which was still felt in 2023. The assessment of around 100,000 applications for home improvement subsidies submitted in December 2022 was completed in spring 2023, and payments may have amounted to around HUF 250 billion. Under the new Budget Act, the Home Purchase Subsidy for Families (HPS) provides a higher level of support, in the form of higher amount of HPS, than in previous years for the home purchase of families with children, living in or moving to a small settlement. This is in line with the announcement of 22 June 2023, according to which HPS will no longer be available in towns after 1 January 2024, while the amount of the rural HPS will increase substantially (Table 6).

Table 6
HPS in preferred small townships (HUF)

	Renovation and modernisation of used flat			Building or purchase of new flat		
	1 child	2 children	3 children	1 child	2 children	3 children
Based on laws in force	300,000	1,300,000	5,000,000	600,000	2,600,000	10,000,000
Legislation from 1 January 2024	500,000	2,000,000	7,500,000	1,000,000	4,000,000	15,000,000
Increase of subsidy amount	**200,000**	**700,000**	**2,500,000**	**400,000**	**1,400,000**	**5,000,000**

Source: 2024 budget bill, Government's press conference 22 June 2023

The appropriation for the **National Family and Social Policy Fund** is HUF 772 billion, some HUF 20 billion higher than the expenditures planned for the previous year. Of the key items of the Fund, **in the case of subsidies to families,** the 2024 appropriation for family allowance is consistent with our projection, and is expected to amount to around HUF 307 billion, corresponding to the amount of the disbursements in 2023. The appropriation is also substantiated in the case of other items of family allowances, similarly to income substitute and supplementary social benefits as well as reimbursements provided under various titles. According to the bill, the appropriation for **benefits below the age limit** amounts to HUF 131 billion, which is HUF 6 billion higher than the appropriation in the amended 2023 Budget Act. Our forecast anticipates an expenditure of almost the same amount in 2024. The increase in expenditures is mainly due to the need for indexation as a result of higher inflation expectations, offset by a steady decline in the number of beneficiaries, which is expected to continue in the future.

The 2024 budget bill foresees a total expenditure of HUF 227 billion for **prenatal baby support**, which exceeds this year's target by HUF 49 billion. Pursuant to the bill, the scheme, which was previously announced until the end of 2022, will be extended again in 2024, but its rules will be modified. From January 2024, the maximum amount of the prenatal baby support loan will increase from HUF 10 million to HUF 11 million, while eligibility will be limited to couples where the wife is under 30. During the transitional period from 1 January 2024 to 1 January 2025, women aged 30-40 will also be eligible for the support for one year if they prove pregnancy. In the longer term, the tightening of the eligibility criteria is expected to slow down disbursements, and thus despite the higher yield environment, expenditure on the prenatal baby support subsidy may rise at a more moderate pace. The planned expenditure in the bill is broadly in line with our forecast.

According to our forecast **net expenditures of budgetary organisations** may exceed the net expenditures in the budget bill by HUF 158 billion. The main part of the difference is due to our higher expenditure forecast for the expected interest subsidies for the Baross Gábor Reindustrialisation Loan Programme and the Széchenyi Card Programme. The usual annual overspending of the appropriations which may be overdrawn represents a risk. If the provision included in the 2023 budget is overrun this year, the base effect of it may appear in the wage expenditure of the institutions next year as well.

The appropriation for expenditures related to **EU transfers** is HUF 3,606 billion, almost three-quarters of which is connected to the projects of the 2021–2027 programming period. For the cohesion operative programmes of the new cycle, the budget contains disbursement in the amount of over HUF 1,800 billion, most of which would presumably be advance payments. The budget appropriated more than HUF 750 billion for the programmes planned within the framework of RRF. Under the Rural Development Programme and the Rural Development Measures of the CAP Strategic Plan, HUF 650 billion would be disbursed, most of which is part of the increased co-financing, and thus no EU transfer is expected. According to our expectations the expenditure may fall short of the appropriation due to the slower than expected progress in negotiations on the availability of the funds of the new cycle.

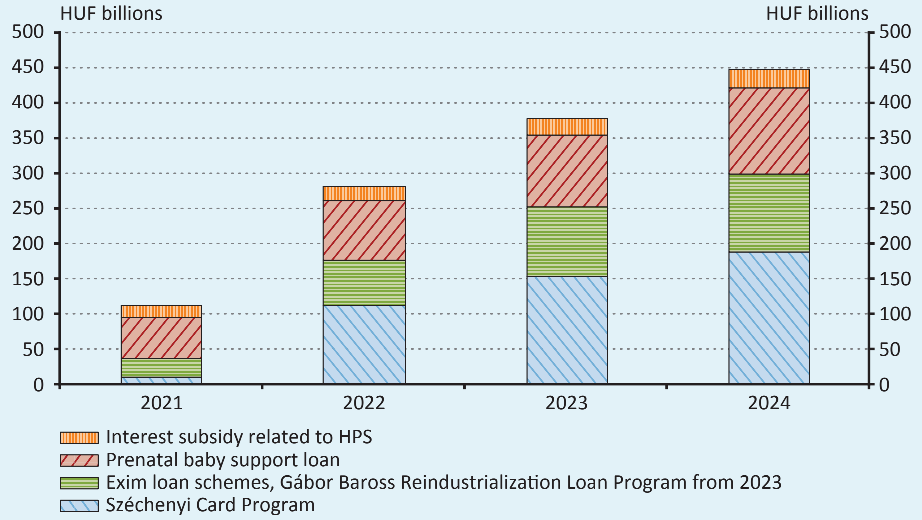
The planned appropriation **for local government subsidies** is HUF 1,050 billion, an increase of 8.3 per cent compared to the 2023 statutory appropriation. In addition to this amount, local governments may also receive central utility protection subsidy from the Utility Protection Fund. The bill includes HUF 83 billion for utility subsidy for the sub-sector under the title of local governments compensation. The use of this envelope will be decided by individual government decisions. The Utility Protection Fund's expenditure appropriation is uncapped, thereby creating the cover for a possible new energy price shock affecting the sub-sector.

The appropriation of the **Utility Protection Fund** in the 2024 budget bill is HUF 1,361 billion, which is HUF 1,219 billion lower than the HUF 2,580 billion appropriation in 2023. Within this, the planned expenditure on household public utility protection will decrease by HUF 541 billion, subsidies for state, local governments and other public institutions by HUF 466 billion, while subsidies for the private sector will decrease by HUF 212 billion. The significant fall in expenditures is attributable to the decline in energy prices after the 2022 peak, due to which our forecast anticipates an additional positive risk of around HUF 200 billion in 2024. Next year, the budget will continue to cover the necessary expenditures partly from the surtaxes on the energy sector, the mining royalty, airline tax, the telecommunication tax and the pharmaceutical industry payments, and partly through central subsidies (HUF 488 billion).

Expenditure of the Defence Fund will increase to HUF 1,310 billion in 2024 from HUF 842 billion of this year. The Defence Fund includes the operating and capital expenditures of the Hungarian Defence Forces, while the appropriations for salaries continue to be budgeted under the appropriations for the Ministry of Defence. The total amount of the Fund's expenditure appropriations is HUF 1,310 billion, of which HUF 773 billion is for operating expenditure and HUF 537 billion for investment and renovation. The Defence Fund's expenditure appropriation for next year is almost 56 per cent higher than the corresponding expenditure appropriation in the 2023 Budget Act. Within the Fund's expenditure, it is particularly the operating costs that increase dynamically, as there is an almost 2.2-fold rise in operating expenditures planned for 2024 compared to that of this year. The rate of increase in capital expenditures is close to 11 per cent.

The expected budget expenditures related to state interest-subsidised lending programmes may rise to 0.5 per cent of GDP, and may be even higher if the pace of disbursements is faster than expected (Chart 6). The largest expenditure item is related to the Széchenyi Card Programme, under which the government expects to disburse new loans in the amount of HUF 1,550 billion this year, in addition to the HUF 2,000 billion disbursed until the end of 2022. State interest subsidies for corporate lending facilities typically amount to 9-10 percentage points. 60 per cent of the current portfolio has a maturity of 3 years or less, suggesting that a material decline in the outstanding portfolio may start in 2024 and accelerate significantly by the end of 2025. The remaining portfolio has a maturity of 7-10 years, and thus part of the interest subsidy expenditure will burden the budget in the long term.

Chart 6
Budgetary expenses of government subsidised loans



Source: Government's final budget account in 2021, preliminary data and estimation for 2022, 2023 Budget Act, 2024 budget bill

Table 7
Expenditures of the central subsector – comparison of the forecasts (HUF billions)

	2024		
	Statutory appropriation	MNB forecast	Difference
PRIMARY EXPENDITURE ITEMS	**31,619**	**31,356**	**-263**
Transport and public utility services	**1,107**	**1,107**	**0**
Support to the public media	**126**	**126**	**0**
Housing grants	**182**	**182**	**0**
National Family and Social Policy Fund	**772**	**773**	**1**
Other family subsidies (Prenatal baby support loan, Student loan)	**255**	**252**	**-3**
Net own expenditures of central budgetary organisations and chapters	**7,747**	**7,905**	**158**
Expenditures related to EU transfers	**3,606**	**3,450**	**-156**
Support to local governments	**1,050**	**1,050**	**0**
Contribution to the EU budget	**692**	**692**	**0**
Defence Fund expenditures	**1,310**	**1,310**	**0**
Utility Protection Fund (UPF)	**1,361**	**1,122**	**-239**
Central reserves (without UPF)	**1,263**	**1,263**	**0**
Expenditures on public property	**534**	**534**	**0**
Other expenditures	**702**	**694**	**-8**
Expenditures of extra-budgetary funds	**627**	**622**	**-5**
NEF - Passive expenditures	50	50	0
NEF – Active allowances	130	125	-5
Other expenditures	447	447	0
Expenditures of social security funds	**10,286**	**10,275**	**-11**
PIF - Pensions	6,011	6,052	41
HIF - Disability and rehabilitation benefits	391	381	-10
HIF - Cash benefits	825	761	-64
HIF - Medical and preventive care	2,553	2,578	26
HIF - Net expenditures of the drug budget	342	338	-4
Other expenditures	164	165	1
NET INTEREST EXPENDITURES	**2,705**	**2,768**	**63**
TOTAL EXPENDITURES	**34,324**	**34,124**	**-200**
BALANCE	**-2,515**	**-2,920**	**-406**

Note: Partly consolidated data.
Source: 2024 budget bill, MNB

The total expenditure of **central reserves** is HUF 1,263 billion, of which the reserve for Extraordinary Government Measures decreased to HUF 220 billion from HUF 255 billion of the base year, the reserve allocated to Investment Fund increased to HUF 292 billion from HUF 200 billion of the base year, provisions rose to HUF 743 billion from HUF 515 billion of the base year, while the reserve for pandemic control expenditures remained unchanged. The balance of the provisions will cover, among other things, the wage increase for teachers, the additional wage expenditure related to next EU Presidency, the budgetary compensation resulting from the increase in the minimum wage and the guaranteed wage minimum, the subsidy for the wage improvements of universities financed from public endowments, and the wage subsidies for social human service workers resulting from previous government decisions.

The 2024 expenditure appropriation for **extra-budgetary funds** amounts to HUF 662 billion, representing an annual increase of 11.6 per cent. Similarly to previous years, almost two-thirds of the expenditure will be realised by the National Employment Fund. Within that, the largest increase is in the planned expenditures related to the Start Public Work Scheme and unemployment benefits. The bill calculates with an expenditure of HUF 125 billion **for the Start Public Work Scheme**, which is almost the same as our projection. Compared to our expenditure expectations for 2023, the 2024 target represents an increase of around HUF 5 billion.

Our projection for the expenditures of social security funds is essentially the same as the appropriation in the bill for 2024. Based on our forecast, pension benefits may exceed the appropriation in the budget bill by HUF 41 billion, while health insurance expenditures may fall short of it by HUF 52 billion.

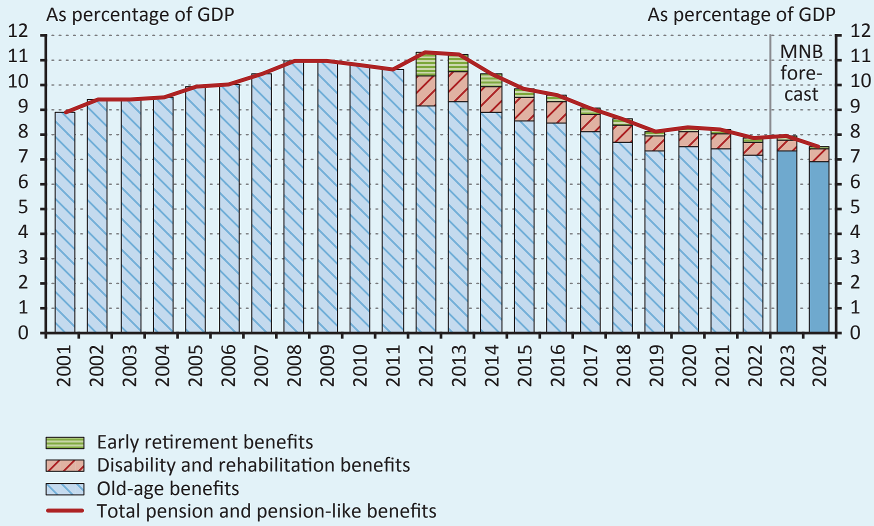
The expenditure planned in the bill for the **Pension Fund** is HUF 6,020 billion in total for 2024. The **retirement provisions** paid from the Fund account for most of the expenditures, for which the appropriation in the 2024 bill is HUF 6,011 billion in total, exceeding the amount of the amended appropriation for 2023 by HUF 465 billion. The amount of pension benefits to be paid from the Fund is broadly in line with our forecast, which exceeds the sum of the appropriations for 2024 by merely HUF 41 billion. The middle of the band of the macroeconomic path that serves as a basis for our forecast assumes an annual average 17.5 per cent price level increase this year, and 4.5 per cent in 2024, which justifies a 2.5 percentage points higher pension increase this year and 1.5 per cent lower pension increase next year compared to the budget. Expenditure on **pensions and pension-type benefits** (pensions, early retirement benefits, disability and rehabilitation benefits) may continue to decline as a percentage of GDP next year, as in previous years (Chart 7). The decline as a percentage of GDP is attributable to the gradual increase in the pensionable age, the fall in the number of those eligible for early retirement and disability benefit, and the indexation lagging behind the growth rate of nominal GDP, the impact of which is partly offset by the reinstatement of the 13th-month pension. The bill anticipates HUF 9 billion for the **other expenditures** of the Pension Fund, which corresponds to our forecast.

Within pension expenditures, the bill anticipates an expenditure of HUF 4,522 billion for **old-age pensions over the retirement age**, which falls short of our projection by HUF 33 billion. The difference is primarily attributable to the different assumptions regarding the inflation developments in the period of 2023-2024. The rise in the pensionable age for old-age pension ended in 2022, as a result of which the fall in the number of beneficiaries will gradually come to an end.

The 2023 bill anticipates an expenditure of HUF 467 billion under the appropriation **for old-age pension for women available after a 40-year eligibility period**, which corresponds to the amount projected by us. In the case of the early retirement benefit for women, the termination of raising the pensionable age at the end of 2022 has an opposite effect on the number of beneficiaries, since the assessment of pensions once again has become continuous, and thus, according to our expectations, in parallel with reaching the pensionable age for old-age pension the number of those receiving early retirement benefit will decrease in 2024.

In the case of **retirement provision to relatives** the 2024 budget bill appropriates an expenditure of HUF 551 billion, and within that widow's pension and orphan's allowance amount to roughly HUF 503 billion and HUF 49 billion, respectively. The appropriation in the 2024 bill is also almost the same as our forecast in the case of retirement provision to relatives.

Chart 7
Total pension and pension-like benefits between 2001 and 2024



Note: The data show between 2001 and 2011 the expenses of pension-like benefits based on the final budget accounts, which do not correspond to the categories of the accounting system introduced from January 2012. As of 2012, the category of "old-age benefits" includes old-age pensions above the age limit, disability pensions above the age limit, service-related retirement benefits that can be used by women with 40 years of eligibility, and retirement provision to relatives. The data for 2022 show the preliminary cash flow data, for 2023 and 2024 show our forecast.

Source: Hungarian State Treasury, Government's final budget accounts, MNB forecast

The 2024 budget bill presumes the disbursement of **pension premiums** amounting to HUF 21 billion on the basis of the 4.0 per cent real growth indicated in the macroeconomic outlook that serves as a basis for planning the budget. Based on the middle of the band of the macroeconomic forecast that is consistent with the MNB's June 2023 Inflation Report, a real growth of 4.0 may be assumed in 2024, and thus our forecast reckons a pension premium in the same amount of the bill. The 2024 budget bill anticipates an appropriation of HUF 449 billion for the disbursement of the **13th-month pension,** which exceeds by HUF 31 billion the 2023 amended appropriation and roughly corresponds to our projection. Those eligible for the 13th-month benefit include, in addition to those receiving old-age pension and retirement provision to relatives, also those receiving disability and rehabilitation benefits.

Accordingly, pursuant to the 2024 budget bill, the appropriations belonging to the expenditures of the **pensions and pension-like benefits** amount to a total HUF 6,533 billion. According to our forecast, in 2024 the budget may spend HUF 6,565 billion on these benefits (Table 8), which broadly corresponds to the sum of the government's targets.

Table 8
Comparison of the 2024 statutory appropriation and our projection for pension and pension-type benefits (HUF billions)

	Appropriation	MNB forecast	Difference
I. Pension expenditures	**6,011**	**6,052**	**41**
1. Old-age pensions	4,989	5,022	32
1.1 Old-age pensions over the retirement age	4,522	4,555	33
1.2 Early retirement benefit for women	467	467	-1
2. Retirement provision to relatives	551	554	3
2.1 Orphan care	49	47	-1
2.2 Widow's pension	503	506	4
3. One-time subsidy	1	1	0
4. Provision for pension premium	21	21	1
5. 13th-month pension	449	454	5
II. Early retirement benefits	**131**	**133**	**1**
III. Disability and rehabilitation benefits	**391**	**381**	**-10**
Total pensions and pension-like benefits	**6,533**	**6,565**	**33**

Source: 2024 budget bill, MNB

The expenditure appropriated to the debit of the **Health Insurance Fund** is nearly HUF 53 billion higher than our projection. The difference is primarily due to the fact that in our forecast we assumed lower utilisation of the cash benefits, which will be offset partially by the expected higher realisation of the medical and preventive care benefits.

The expenditure appropriation for **medical and preventive care** amounts to HUF 2,553 billion, which is HUF 26 billion less than our forecast. On the other hand, the bill expects expenditures to exceed the 2023 amended appropriation by HUF 247 billion in 2024, which is mostly attributable to the wage review of ancillary staff and healthcare workers in two steps (from 1 July 2023 and 1 March 2024). At the same time, it is a positive risk that, depending on adequate leeway, the budget may also cover these expenditures from regrouping across appropriations.

Gross expenditures on **drug subsidies** amount to HUF 500 billion in the 2024 budget bill, which is HUF 28 billion higher than this year's appropriation. Nevertheless, our projection suggests that the expenditure on drug subsidies may be by HUF 4 billion lower than the forecast.

The amount of the appropriations for **cash benefits** exceeds our forecast by nearly HUF 65 billion. The appropriation for expenditures on **sick pay** is HUF 248 billion for 2024, which is HUF 23 billion higher than the 2023 level. In view of the fading of the pandemic, in the case of the sick pay expenditure we expect the number of people applying for this benefit to significantly decline, and thus our projection is lower compared to the bill. The appropriation for **childcare fee and adoption allowance** is HUF 392 billion for 2024, which is nearly HUF 49 billion higher than the expenditure level planned for 2023, which is mostly explained by the substantial growth in gross average earnings. The bill foresees HUF 172 billion to be spent on **infant care allowance**, which exceeds the appropriation for 2023 by nearly HUF 18 billion. Our projection expects the childcare benefit to be lower by HUF 27 billion, while in the case of the infant care allowance our forecast almost corresponds to the appropriation.

According to the bill, the appropriation for **disability and rehabilitation benefits** amounts to HUF 391 billion, which is HUF 16 billion higher than the amended appropriation for 2023. Our projection expects expenditures to be lower by HUF 10 billion in 2024, resulting from the slow but consistent decline in the number of eligible persons.

5.3 INTEREST BALANCE

The statutory appropriation for the gross accrual-based interest expenditure as a percentage of GDP at 3.8 per cent is somewhat below our expectation. In our forecast we expect gross ESA interest expenditures to be 3.9 per cent in 2024 as a result of the different underlying macroeconomic assumptions (Chart 8). The slight annual increase in government interest expenditures is the result of the high inflation in 2023, which increases the interest rate on inflation-indexed government securities in 2024.

The budgetary appropriation for **net cash-based interest expenditures** is HUF 63 billion lower than our projection. Our forecast is higher than the appropriation both for the gross interest expenditures and interest revenues. In addition to the different macroeconomic assumptions, the difference may be also attributable to the projection related to the underlying issuance structure.

Chart 8
Development of gross interest expenditures in accrual term (as a percentage of GDP)

Source: Eurostat, MNB forecast

6 Legal compliance of the bill

The reform of the EU economic governance and fiscal framework is in progress at present as well (see the special topic). The rules are likely to become somewhat simpler, and several indicators and procedures may be terminated. In the corrective arm, the Maastricht 3-per cent deficit criterion and the 60 per cent debt ratio criterion are likely to be maintained, while the one-twentieth debt reduction rule is expected to be abolished. In the preventive arm, the medium-term budgetary objective (MTO) and the related significant deviation procedure (SDP) are likely to be abolished. The MTO would be replaced by a medium-term country-specific debt path and a net expenditure path outlined in the fiscal-structural plans to be submitted, which would, however, be more closely linked to the debt-based Excessive Deficit Procedure (EDP) in the future.

6.1 THE DEBT RULE OF THE FUNDAMENTAL LAW

According to the budget bill and based on the MNB's projection, the gross public debt-to-GDP ratio will decrease in 2024; accordingly, the bill satisfies the debt rule requirement specified in the Fundamental Law. Pursuant to the Fundamental Law, as long as the debt ratio exceeds 50 per cent of GDP, the government debt ratio has to decline by 0.1 percentage point, which is projected to occur in 2024 according to both expectations. According to the bill, following the 69.7 per cent expected for the end of this year, the government debt indicator will decrease by 3.0 percentage points to 66.7 per cent in next year. Based on the MNB forecast, the debt-to-GDP ratio may decline by 2.2 percentage points in 2024. However, the state of emergency introduced in view of the war situation in a neighbouring country allows exemption from the compliance with the provision.

6.2 THE 3-PER CENT DEFICIT RULE OF THE STABILITY ACT

The budget deficit target for 2024 satisfies the deficit rule of the Stability Act. In the 2024 fiscal year, the transitional provision providing exemption from compliance with the Act – based on which in the fiscal years of 2021-2023 it was not necessary to comply with the deficit rule – is expected to lapse. Article 3/A (2) b) of Act CXCIV of 2011 on the Economic Stability of Hungary provides that the general government deficit shall not exceed 3 per cent of GDP. According to the budget bill, in 2024 the deficit will correspond to 2.9 per cent of GDP, which would comply with the deficit target set forth in the Stability Act.

6.3 THE DEBT RULE OF THE STABILITY ACT

The debt ratio foreseen in the 2024 budget bill is in line with the debt formula specified in the Stability Act. According to the provision, the year-end value of the government debt indicator has to be determined in a way that the annual decline in the debt-to-GDP ratio must reach at least 0.1 percentage point, while the EU rules regarding the reduction of public debt are complied with. The existing 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 by a satisfactory pace. The appropriate pace of debt ratio reduction is defined by the one-twentieth rule still in force, 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 Union uses three types of methodologies (forward-looking, backward-looking and cyclically adjusted) to calculate the degree of the change in the government debt ratio, and it is sufficient to comply only with one of them. If the debt reduction projected in the bill and the Convergence Programme's projections for cyclical developments are achieved, all the EU debt reduction rules calculated using the methodology are expected to be met. At the same time, the date of phasing out the general escape clause that partly and temporarily suspends the application of EU rules was postponed by the European Commission to 2024.

6.4 REQUIREMENT PERTAINING TO THE STRUCTURAL BALANCE OF THE GENERAL GOVERNMENT

The 2.6-per cent structural deficit in the budget bill does not fulfil the medium-term budgetary objective. Article 3/A (2) a) of Act CXCIV of 2011 on the Economic Stability of Hungary provides that the balance of the government sector must be determined in a way that is in line with the achievement of the medium-term budgetary objective (MTO). The Hungarian MTO in 2024 represents a structural balance equalling -1 per cent of GDP. The structural balance is the cyclically adjusted government balance net of one-off and other temporary items. The 2024 budget bill projects a structural balance of -2.6 per cent to the accrual-based deficit of -2.9 per cent of GDP, which does not reach the medium-term budgetary objective. The transitional provision in the Stability Act, providing exemption from the medium-term budgetary objective rule, is expected to lapse in 2024, and thus the budget will once again have to comply with the requirement. Based on the 2023 Convergence Programme Hungary's structural balance will reach the current target of -1 per cent only in 2027.

6.5 RULES OF THE CORRECTIVE ARM OF THE STABILITY AND GROWTH PACT

In 2020, by activating the general escape clause, EU institutions partly and temporarily suspended the application of the EU fiscal rules, although the suspension will end in 2024. Under the clause, Member States were exempt from the sanctions applied in the case of breaching the rules of the corrective arm, but at the same time the European Commission continued to examine the compliance with the rules in the EDP reports, which are still prepared.

The **Maastricht 3-per cent deficit** criterion defines that the accrual-based deficit of the Member States must not exceed 3 per cent of GDP. The 2.9 per cent deficit-to-GDP target in the budget bill complies with the requirement.

The **EU debt rule** states that the Member States' gross, consolidated government debt ratio calculated at face value must not exceed 60 per cent of GDP, and in case it does, the debt ratio must be diminishing at a satisfactory pace. The appropriate decrease in the debt is quantified by the one-twentieth rule currently in force, 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. Pursuant to the bill, in 2024 the government debt-to-GDP ratio will decline by 3.0 percentage points compared to this year, while the MNB expects a decrease of 2.2 percentage points, which would be in line with the requirements of the rule.

6.6 RULES OF THE PREVENTIVE ARM OF THE STABILITY AND GROWTH PACT

The framework related to the **medium-term budgetary objective** (MTO) provides that Member States should achieve the structural balance designated jointly with the European Commission or converge towards it on the designated adjustment path to a sufficient degree. Hungary's MTO for the coming year is -1.0 per cent of GDP. According to the bill, in 2024 the structural balance will correspond to -2.6 per cent of GDP, and thus - as in the previous years - the deficit on the structural balance will be higher than the medium-term objective still in force.

The EU **expenditure benchmark** enters into force if the requirement related to the MTO is not complied with, and it is intended to ensure convergence to the medium-term objective. According to the benchmark, compared to the previous year, the general government's net primary expenditures may increase by no more than the potential long term GDP growth rate, unless the increasing expenditures are offset by other, discretionary revenue measures. Considering that the rule has been suspended due to the effect of the general escape clause, and the European Commission did not determine the two-year degree of structural adjustment expected by the adjustment path, the expenditure rule for Hungary has not been defined, and thus compliance with the latter also cannot be assessed for 2024.

7 Special topic

7.1 REFORM PROCESS OF ECONOMIC GOVERNANCE IN THE EUROPEAN UNION

On 26 April, the European Commission published specific proposals for legislative changes of the reform aimed at modernising economic governance in the EU. According to the Commission, the reform of the Stability and Growth Pact is necessary, because the rules became increasingly complex, relying too much on unobservable indicators (output gap, structural balance), the economic policy often remained pro-cyclical and the weight of individual Member States' special features was also low. The proposed amendments published by the European Commission cannot be considered as a final legislation, as the rules may still change depending on further negotiations.

The Commission would apply the new regulatory framework from the 2024 fiscal year. Therefore, when publishing the proposals, the institution pressed for a rapid agreement and called on the European Parliament and the Council to finalise the changes to the regulatory framework quickly. If the amendments are adopted this year, the first quarter of 2024 could be the first quarter for the Commission and Member States to develop new fiscal plans.

Overall, the proposed changes concern three pieces of legislation: the regulation containing the **corrective arm** of the Stability and Growth Pact (Maastricht indicators, EDP) **will be amended**; the regulation containing the **preventive arm** (MTO, expenditure rule, SDP) **will be replaced**; and the directive including the requirements for **the budgetary framework of the Member States will be amended** (statistical accounting, medium-term planning requirements).

The **cornerstone of the proposal is a new national medium-term fiscal-structural plan to be submitted**, which **aims to bring Member States' debt ratios to sustainable levels**. The time horizon of the plan is at least four years, but this can be extended by the Member State by three years at the most, if it proposes structural and investment reforms.

For those Member States with high deficit or high debt, the Commission will prepare a preliminary technical trajectory, while for the others it will only provide information. If a country has a deficit exceeding 3 per cent of GDP or a debt ratio above 60 per cent, the fiscal structural plan to be submitted by the Member State is preceded by a technical trajectory prepared by the Commission, based on the institution's own debt sustainability analysis (DSA). For the other Member States, i.e. those with deficits below 3 per cent and debt below 60 per cent, the Commission provides only technical information.

As a result of the reform, **the one-twentieth debt reduction benchmark, the medium-term budgetary objective (MTO) are terminated**, as well as the conditions prescribing the structural adjustment necessary for that and the significant deviation procedure (SDP) under the preventive arm. **The key indicator for assessing the performance of the designated budget path is the net expenditure path.** Net expenditure includes all expenditures except EU-funded grants, interest expenditures and unemployment benefits, less the one-off discretionary revenues.

Among the rules considered for the launch of the Excessive Deficit Procedure (EDP), the 3-per cent Maastricht deficit target will be maintained in its current form, while the debt rule will change for Member States where the debt-to-GDP ratio exceeds 60 per cent. A minimum adjustment benchmark of 0.5 per cent of GDP per year will be introduced for the budget deficit, but the **deficit-based EDP remains unchanged**. **On the other hand, in the case of** the **debt-based EDP, several changes will enter into force**. The current rule prescribing the reduction of the debt ratio by one twentieth is replaced by a debt sustainability approach, which would be a relief to countries with high debt. On the other hand, the EDP linked to debt would be significantly tightened, as the assessment of the sustainability of government debt would be risk-based, with a different numerical medium-term debt criterion for each Member State, to be achieved by the net expenditure path in the plan. **A breach of this adjustment path would automatically trigger the launch of the excessive deficit procedure.**

The Commission proposes that Member States should produce an annual progress report on compliance with the plan, replacing the current Stability and Convergence Programmes. The level and composition of possible sanctions may also change under the proposed reform. If a Member State departs from the planned expenditure path, it may be necessary to set a stricter path, EU funds may be suspended, and financial sanctions will remain in place for euro area Member States, but to a lesser extent than today. The reports produced and reforms undertaken should take into consideration the common EU priorities and be consistent with the previously agreed Recovery and Resilience Plans.

There is an intention to strengthen the independence, resources and analytical capacities of fiscal councils. According to the proposal, national fiscal councils should prepare and examine current-year and multi-year macroeconomic, general government and debt sustainability analyses and policy impact assessments and – if they agree – approve medium-term paths prepared by governments.

The focus of the Macroeconomic Imbalance Procedure (MIP) may be more forward-looking than today, but this procedure is not affected by any change in legal terms. Based on the proposal of the Commission, economic policy dialogue between Member States and the EU may intensify in the future, and the emerging macroeconomic imbalances can be addressed in a timely manner in national medium-term fiscal structural plans.

The escape clauses applied under the rules are maintained. With a view to preventing the negative impacts on the economy and budget of a single country or of the community as a whole, the applicability of the two escape clauses, i.e. the country-specific clause and the general escape clause, remains in force.

Charles Robert

(1308 – 1342)

King Charles I. was one 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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