PUBLIC FINANCE REPORT

2021
JUNE

“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 2022 Budget Bill

2021

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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 21 May 2021.

Contents

1 Summary

The subject of this analysis is the 2022 budget bill, submitted to the Parliament on 4 May 2021, 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 2022 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 budget bill, in 2022 the ESA budget deficit target will be 5.9 percent of GDP. The deficit target exceeds the 2.2 percent target foreseen in the projection of the 2021 Budget Act and in the 2020 Convergence Programme, and is higher than the 4.8 percent forecast published by the Ministry of Finance in December 2020. According to the bill, the higher deficit is justified by the measures warranted by the restarting of the economy and the restoring of growth. The planned deficit-to-GDP ratio projects a 1.6 percentage point decline in the envisaged deficit target compared to the 7.5 percent expected in this year's amendment to the Budget Act.

According to our forecast, without further amendments, in 2022 the general government deficit may be in line with the plan in the budget bill. Depending on the outcome of the macroeconomic effects of the coronavirus pandemic, the forecast prepared by the MNB shows a range estimation, into which the deficit corresponding to 5.9 percent of GDP indicated in the budget bill fits. According to our projection, expenditures may be slightly lower than the appropriation, and revenues may also fall short of what is expected by the bill, which is primarily attributable to the revenues related to transfers from the European Union. Our projection for the balance of the local government sub-sector and the sum of accrual-based adjustments corresponds to the expectation indicated in the bill. **On the basis of all the above, the 2022 deficit of the general government is estimated be within the range of 5.8–6.0 percent of GDP.**

According to the bill and the MNB forecast, the debt-to-GDP ratio is expected to decline by 0.6 percentage point in 2022. According to the bill and in line with the amended Budget Act, the gross general government debt-to-GDP ratio calculated using to the EDP methodology will decline from 80.4 percent at end-2020 to 79.9 percent in 2021, before decreasing further to 79.3 percent by end-2022. The decrease in debt ratio in 2022 indicated in the bill is nearly in line with our forecast, which contains a decline of 0.6 percentage point and a debt-to-GDP ratio of 78.3 percent for 2022, compared to the level of 78.9 percent at end-2021.

The budget bill complies with the debt rule outlined in the Fundamental Law, as the decline in the debt-to-GDP ratio is expected to exceed the required 0.1 percentage point. Based on the latest, spring 2021 forecast of the European Commission, the requirements of the European debt rule may be met if the forward-looking arm of the rule is complied with. The accrual-based balance of 5.9 percent of GDP exceeds the Maastricht threshold, which is a part of both the Hungarian and EU legislation. In 2020, the institutions of the European Union temporarily suspended the application of sanctions related to the corrective fiscal rules, and as communicated by the European Commission, the fiscal rules are expected to remain temporarily suspended in 2022 as well. At the same time, in the Hungarian legislation, the Stability Act provides a room for manoeuvre similar to the general escape clause applied by the European Union only if the GDP declines. Therefore, in addition to the amendment to the emergency government decree, the government also submitted the necessary amendment to the Stability Act to the National Assembly, and according to the bill introduced on 25 May 2021, in the 2021–2023 budget year the 3 percent deficit criterion and the rule concerning the achievement of the medium-term budgetary objective were suspended.

The 5.5 percent structural deficit indicated in the bill is higher than the requirement concerning the medium-term objective, but at the same time the rules belonging to the preventive arm of the EU fiscal framework were also suspended in 2020. The medium-term objective (MTO) framework stipulates that all Member States should reach the structural balance determined jointly with the European Commission, or approximate it to a sufficient degree. From 2020, Hungary's MTO was set at -1.0 percent of GDP. According to the bill, in 2022 the structural balance will correspond to -5.5

percent of GDP, which is higher than the requirement, but at the same time the domestic rule for the medium-term fiscal objective and the rules belonging to the preventive arm of the EU fiscal framework were also suspended.

According to the bill, the measures of the Economic Restart Action Plan together set 13 percent of the total annual Hungarian GDP in action in 2022, in an amount of more than HUF 7300 billion. Within that, domestic economic restart funds exceed HUF 3880 billion, including the newly established Investment Fund worth some HUF 550 billion, employment subsidies and training courses, the next stage of the reintroduction of the 13th month pension and the pension premium, the pay rise in the healthcare sector, home creation as well as a number of infrastructure, urban and country development projects, and also subsidies to sport, culture and churches. Expenditures related to the Paks II project will amount to HUF 270 billion in 2022. In addition to domestic funds, EU funds for restarting the economy amount to some HUF 3000 billion. Tax cuts that support undertakings and families amount to HUF 424 billion according to the bill. This amount includes the VAT and duty exemption related to home creation, the partial PIT exemption of those under 25, and the 2 percentage point reduction of employers' tax burdens.

As of 2021, in addition to the regular Multiannual Financial Framework (MFF), funds aiming at the recovery after the crisis will become available for EU member states within the framework of the Recovery and Resilience Facility (RRF), which is the largest programme of NextGenEU. The maximum amount available for Hungary from the RRF is some HUF 5900 billion, of which Hungary applied for grants amounting to HUF 2511 billion in its Recovery and Resilience Plan submitted in May. It is possible to apply for the preferential loan facility of around HUF 3400 billion until end-2023.

According to the budget plan, the amount of public investment will increase from 6.5 percent of GDP in 2021 to a historical high of 7.1 percent in 2022. The significant investment activity is supported by the fact that of the fiscal reserves the Investment Fund will account for HUF 550 billion in 2022, which – according to the government's intention – does not finance individual investment projects directly, but provides central resources for investment tasks for ministries. We expect the value of investment from domestic funds to exceed 5 percent of GDP, while the investment activity from EU funding may correspond to around 2 percent of GDP.

A higher than planned increase in nominal GDP, which may even exceed 10 percent, is able to significantly reduce the deficit and the debt ratio as well. For 2021 and 2022, the bill expects economic growth to reach 4.3 percent and 5.2 percent, respectively, which – for both years – is at the bottom of the forecast band of the central bank prepared for the March Inflation Report. If economic growth exceeds the plan, that will add to budget revenues as a result of a rise in tax bases. If the additional revenues are not spent, the budget deficit and the debt ratio as well may decline considerably in both years.

According to the bill, the budget deficit and the government debt ratio may remain high in international comparison. The budget deficit and the gross government financing need, which contains debt repayments as well in addition to the deficit, may remain high in the coming years, standing well above the levels observed in the countries of the region. The budget deficit may correspond to the EU average in 2021, as fiscal policy in the EU as a whole supports the recovery with economic stimulus programmes this year. In 2022, however, a major fall in deficit is expected to take place in the EU countries, compared to which the decline in deficit may be slower in Hungary. According to the May 2021 forecast of the European Commission, the deficit of 5.9 percent may be the third highest in the European Union, exceeding the levels seen in the countries of the region. Following the temporary increase in 2020, the debt ratio of Hungary may return to a downward path, but government debt may remain high in a regional comparison.

In 2020–2021, in order to offset the effects of the coronavirus pandemic, economic growth had to be given priority over balance, but as of 2022, with the overcoming of the pandemic, attention must be turned towards budgetary equilibrium again. Following the retreat of the coronavirus pandemic, improvement in macroeconomic data and strong economic growth will allow marked reductions of the budget deficit and thus of the government debt as of 2022, with major support from the persistently low level of interest expenditures. In 2022 it will be necessary to reduce the fiscal deficit, which is expected to be high in international comparison, in order to preserve the external balance of the Hungarian economy, maintain the primacy of the domestic funding base within government debt as well as to preserve the balance of demand and supply in the domestic economy. Accordingly, on the whole, the fastest macroeconomic recovery of the last 100 years is expected, which will allow a marked deficit reduction in 2022.

2 General government balance

The bill sets the ESA deficit of the general government at 5.9 percent of GDP for 2022, representing a 1.6 percentage point decrease compared to the revised 2021 appropriation. The balance of local governments may show a slight deficit, whereas the difference between the cash-based and accrual-based deficits may practically be zero according to the bill. Our forecast suggests that the cash-based deficit of the central sub-sector may be slightly higher than the appropriation. Our projections for the ESA bridge containing statistical corrections and for the balance of local governments are nearly the same as the values expected in the bill (Table 1).

Table 1
ESA balance of the general government sector in 2022 (as a percentage of GDP)

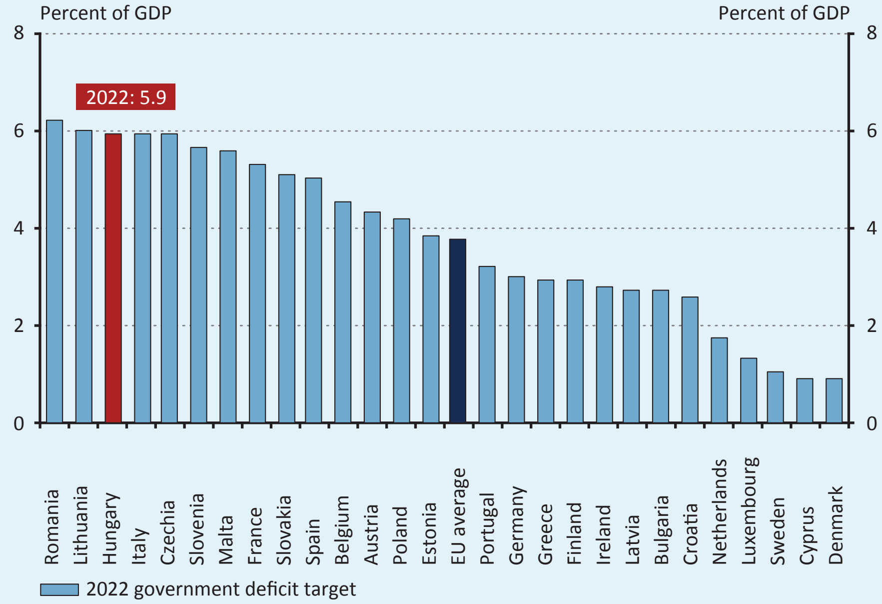
	2022		
	Statutory appropriation	**MNB forecast**	**Difference**
1. Balance of the central sub-sector	-5.6	(-5.6) – (-5.8)	0 – (-0.2)
2. Balance of local governments	-0.3	-0.3	0.0
3. Cash-based (GFS) balance of central sub-sector and local governments (1+2)	**-5.9**	**(-5.9) – (-6.1)**	**0 – (-0.2)**
4. GFS-ESA difference	0.0	0.1	0.1
5. ESA balance of the general government sector (3+4)	**-5.9**	**(-5.8) – (-6.0)**	**0.1 – (-0.1)**

Note: There may be differences in the table due to rounding.
Source: 2022 budget bill, MNB

According to our forecasts, the general government deficit may be between 5.8–6.0 percent of GDP in 2022, which is in line with the 5.9 percent indicated in the budget bill. The cash-based deficit of the central sub-sector may exceed the estimate indicated in the bill by 0.1 percent of GDP on average. The tax revenues of the central sub-sector are expected to correspond to the appropriation: payments by economic organisations and taxes on consumption may be lower, whereas taxes and contributions on labour may be higher than the estimate in the bill. Revenues related to EU funds may fall significantly short of the figures in the bill due to the high advance payment ratio indicated in our projection. The majority of expenditure appropriations are in line with our forecast; the average difference is less than 0.1 percent of GDP. A difference pointing to higher expenditure is identified in the case of the net expenditures of budgetary organisations, while expenditures related to housing subsidies, the expenditures of the Fund for Health Insurance and Defence Against Epidemics as well as net interest expenditures are projected to be lower than the appropriation in the bill.

According to the May forecast of the European Commission, the budget deficit may be the third highest within the EU in 2022, exceeding the levels of the countries of the region (Chart 1). The budget deficit may correspond to the EU average in 2021, as fiscal policy supports economic recovery in the whole EU this year. In 2022, however, a major fall in deficit is expected to take place in the EU countries, compared to which the decline in deficit may be slower in Hungary.

Chart 1
Government deficit forecast for 2022 in the EU

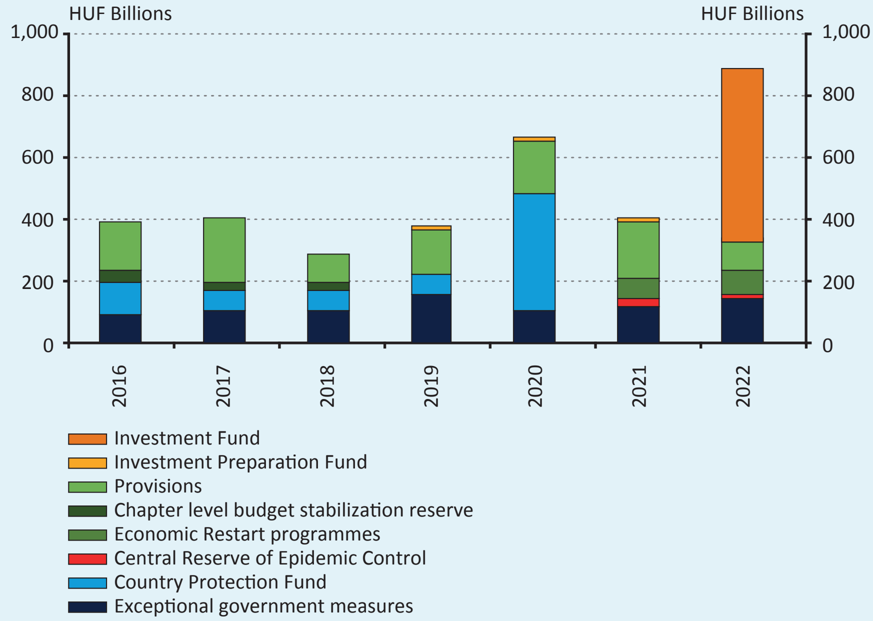


Source: Stability and Convergence Programmes, 2022 budget bill

In 2022, free central reserves in the central sub-sector amount to HUF 233 billion, i.e. 0.4 percent of the nominal GDP indicated in the bill. It consists of the appropriation of HUF 145 billion of the reserves of extraordinary government measures, the envelope of HUF 68 billion of the Economic Restart Fund and the HUF 20 billion appropriation of the central reserves for epidemic control. Further reserves are available to provide funds for future investment decisions: investment funds contain an expenditure appropriation of HUF 555 billion in total. Provisions for wages and wage-type payments amount to HUF 93 billion, which is nearly half of the appropriation with the same purpose for 2021.

Accordingly, including the Investment Fund, the planned amount of all the central reserves and reserve type appropriations for 2022 is HUF 881 billion, i.e. some 1.6 percent of GDP. It is favourable that their sum may be sufficient to safely achieve the deficit target if next year the containment of the pandemic will not result in additional fiscal expenditures. Under the subtitle Crucial Overground Construction Projects of the Government in the Economic Restart Fund chapter there is a further investment reserve envelope of HUF 40 billion, whose function in an economic sense is similar to that of the investment funds of central reserves, further expanding next year's fiscal room for manoeuvre (Chart 2).

Chart 2
Development of budgetary reserves, 2016-2022



Source: 2016 – 2022 Budget Acts

The cash-based balance of the local government sub-sector shows a deficit of HUF 156 billion in the budget bill. Our projection for the cash-based deficit is somewhat higher than the target figure; we expect the deficit of the sub-sector to be around HUF 200 billion. The higher deficit is primarily attributable to the expectation of our forecast that local governments will use up the available EU advances at an accelerating pace, in view of the final settlement deadline of the previous EU budget cycle.

According to the budget bill, the so-called ESA bridge, which comprises **the accrual-based and other ESA adjustments**, contains a deficit increasing adjustment of HUF 16 billion for 2022. The ESA bridge estimated and applied by the MNB contains a statistical adjustment corresponding to 0.1 percent of GDP that reduces the cash-based deficit. Within the statistical adjustment applied by the MNB, the statistical adjustments related to EU relations reduce the cash-based deficit by a greater amount, although in the case of the companies classified into the government sector and in the case of other organisations we expect a balance impairing effect that exceeds the estimate.

Our projection for the 2022 deficit rose by 1–1.3 percentage points compared to the 4.5–5 percent deficit forecast in the March Inflation Report. The change is primarily attributable to the application of the expenditure appropriations of the bill.

3 Expected developments of government debt

Following a temporary increase in 2020, the gross debt-to-GDP ratio of the general government will take a steadily decreasing path again. According to our forecast, it will decrease from 80.4 percent at end-2020 to 78.9 percent by end-2021 as a result of a slightly lower deficit and of an upswing in the economy. The partial use of the government deposits, which were increased considerably in 2020, contributes to the decline in government debt in 2021. According to our forecast, in 2022 the government debt ratio will decline by 0.6 percentage point to 78.3 percent in 2022. Strong economic growth and government interest expenditures staying at a low level are the main contributors to the Hungarian debt reduction, while the high deficit of the primary fiscal balance restrains the decline.

Table 2
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. 2021 initial government debt	41,223	41,223	79.9	78.9
2. 2022 cash-based deficit of the central budget	3,153	3,256	5.6	5.7
3. Other effects	338	208	0.6	0.4
4. Expected gross government debt in 2022 (sum of 1+2+3 in HUF billions)	44,714	44,687	79.3	78.3
5. Change in government debt-to-GDP ratio in 2022 (4-1)			**-0.6**	**-0.6**

*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: 2022 budget bill, MNB projection

The MNB's projections for nominal debt at end-2021 and end-2022 are nearly the same as the ones in the bill. The MNB forecast expects a slightly higher cash-based deficit and a somewhat lower other effect for 2022. The difference between the debt-to-GDP ratios is attributable to the different macroeconomic assumptions.

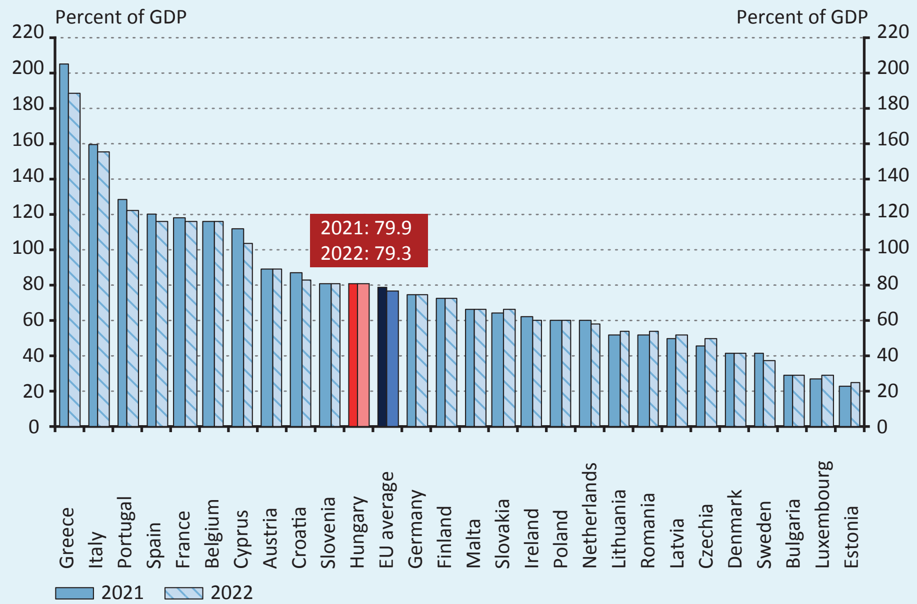
As a result of FX bond issues, the share of foreign currency within the central government debt rose to 19.9 percent by end-2020. According to our forecast, this ratio will decline to around 18 percent by end-2021, and may rise slightly in 2022, in line with the budget bill. Households' government securities holdings continued to increase during 2020, and the demand for retail government securities may remain buoyant in the future as well. As a result, the ratio of domestic financing may continue to rise.

Chart 3
Expected developments of government debt

Source: MNB, ÁKK (Government Debt Management Agency)

Following a temporary rise in 2020, the Hungarian debt-to-GDP ratio may return to a downward path in the coming years, but government debt and the gross financing need, which contains debt repayments as well in addition to the deficit, may remain high in a regional comparison. According to the bill, from 80.4 percent in 2020, the Hungarian government debt may decline to 79.9 percent and 79.3 percent of GDP in 2021 and 2022, respectively. The Hungarian debt may remain below the EU average, but in a regional comparison it may practically correspond to the debt-to-GDP ratio of Slovenia, exceeding the respective debt levels of Slovakia, Poland, Romania and the Czech Republic (Chart 4). Gross government financing need, which contains debt repayments as well in addition to the budget deficit, may decline significantly in the coming years, but may remain at a high level in EU comparison (see Special topic 2).

Chart 4
Developments of government debt in EU countries



Source: Stability and Convergence Programmes, 2022 budget bill

4 Evaluation of the macroeconomic assumptions underlying the bill

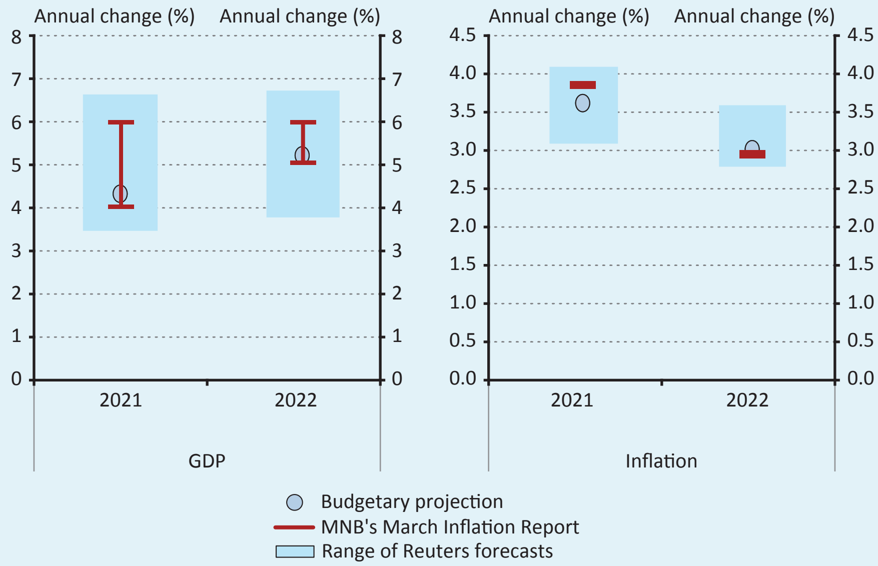
The bill expects the recovery of the Hungarian economic performance to be somewhat more protracted. The projection for GDP growth in 2021 and 2022 is at the bottom of the MNB's March forecast band, while according to current data economic growth may be even higher, and the expansion in nominal GDP may exceed 10 percent in both 2021 and 2022. In its macro path, the bill expects GDP to grow by 4.3 percent in 2021 and by 5.2 percent in 2022. According to the bill, following last year's economic downturn, economic recovery may start this year, and continue with higher growth dynamics next year. High uncertainty surrounding the growth outlook is indicated by the greater dispersion of market analysts' growth expectations for both this year and next year (Chart 5). In view of this uncertainty the MNB applies a range estimation for domestic growth in the March 2021 Inflation Report as well.

According to both forecasts, the contribution of domestic demand items to growth may be positive following the crisis caused by the coronavirus. Nevertheless, our forecast suggests that the structure of economic growth in the coming years may be different from the macro path of the bill. The proposal of the Ministry of Finance expects stronger expansion in consumption as well as a more protracted recovery of investment and export performance. According to the MNB's forecast, in addition to currently ongoing capacity expansions, new development projects and expanding corporate lending will contribute to the increase in investment activity. The bill presumes a stronger growth in household consumption next year, which may also be supported by wage developments expected by the MNB to be more favourable. According to the macro path of the bill, Hungary's investment and export performance may expand more dynamically as of 2022. Industrial production and goods exports developed more favourably during the new waves of the pandemic. According to the MNB forecast, although there were disruptions in production chains at the beginning of the year, they can be considered temporary, and they do not affect longer-term prospects. A recovery in services, however, may only commence after the desired rate of vaccination is reached and restrictions are lifted.

The bill foresees slighter labour market adjustment, while the expectations concerning employment and increases in wages are typically at the top of or slightly above the band forecast by the MNB. In line with that, the wage bill projection indicates greater expansion than the central bank; the difference is mainly explained by the wage index. The pandemic may affect this year's pay rises to the greatest degree. Following that, wage dynamics may strengthen in parallel with economic reopening but will still fall short of the degree observed prior to the crisis.

For this year the bill foresees somewhat lower inflation, whereas according to both forecasts the price index next year is expected to stabilise around the 3 percent inflation target again.

Chart 5
Comparison of GDP and inflation forecasts



Source: 2022 budget bill, Inflation Report (March 2021), Reuters (March 2021)

Table 3
Comparison of macroeconomic forecasts (percentage change compared to the previous year)

	2020	2021			2022		
	Actual*	Budget	MNB	Difference	Budget	MNB	Difference
GDP	**-5.0**	**4.3**	**4.0 - 6.0**	**(-0.3) - (1.7)**	**5.2**	**5.0 - 6.0**	**(-0.2) - (0.8)**
Consumption expenditure of households	-2.5	3.4	2.6 - 4.5	(-0.8) - (1.1)	6.0	3.8 - 4.9	(-2.2) - (-1.1)
Public consumption	2.8	0.8	2.5 - 2.8	1.7 - 2.0	-1.9	1.4 - 2.5	3.3 - 4.4
Gross fixed capital formation	-7.3	4.2	5.0 - 7.2	0.8 - 3.0	7.2	6.4 - 6.6	(-0.8) - (-0.6)
Exports	-6.8	6.4	8.1 - 9.7	1.7 - 3.3	10.5	7.4 - 8.0	(-3.1) - (-2.5)
Imports	-4.4	5.2	6.8 - 8.3	1.6 - 3.1	10.0	6.4 - 6.9	(-3.6) - (-3.1)
GDP deflator	5.7	3.7	4.2	0.5	3.8	3.5	(-0.3)
Inflation	**3.3**	**3.6**	**3.8 - 3.9**	**0.2 - 0.3**	**3.0**	**2.9 - 3.0**	**(-0.1) - (0.0)**
Gross wage bill	**6.0**	**8.0**	**6.7 - 8.4**	**(-1.3) - (0.4)**	**9.8**	**8.4 - 8.6**	**(-1.4) - (-1.2)**
Gross average earnings	9.7	7.0	6.4 - 7.1	(-0.6) - (0.1)	7.7	7.1 - 7.5	(-0.6) - (-0.2)
Number of employees	-0.9	0.0	(-0.7) - (0.2)	(-0.7) - (0.2)	1.1	0.7 - 1.1	(-0.4) - (0.0)

*Note: * The Hungarian Central Statistical Office revised the series of the gross domestic product after the publication of the most recent Inflation Report (March 2021) that has already been taken into account in the budget bill.*

Source: 2022 budget bill, Inflation Report (March 2021)

5 Detailed evaluation of the budget bill

5.1 PRIMARY REVENUES

According to our forecast, **in 2022 the primary revenues of the central sub-sector of the budget** may be HUF 129 billion lower in total than the appropriations in the bill (Table 4). Within that, the tax and contribution revenues may nearly correspond to the appropriation in the bill. According to our projection, revenues may be lower in the case of the corporate income tax, which may be attributable to the difference in the assessment of the developments in revenues in 2021 and of macroeconomic trends. Moreover, according to our forecast, VAT revenues may also slightly fall short of the appropriation, and the difference is caused by the higher consumption dynamics presumed in the bill for both 2021 and 2022. Revenues from the social contribution tax and contributions may exceed the appropriation. Moreover, according to our forecast, the cash-based revenues related to EU funds may come in lower than the appropriation in the bill.

The appropriation concerning the **payments by economic organisations** is HUF 32 billion higher compared to the MNB forecast. The appropriation expects corporate income tax revenues to be HUF 86 billion higher than our forecast, which may be attributable to the differences in assumptions regarding macroeconomic developments in 2022 and their impact on the corporate income tax base. Revenues from small taxpayers' itemised lump sum tax may be HUF 9 billion higher than the appropriation, because of the difference in estimates regarding the number of taxpayers. Revenues from the small enterprise tax may exceed the relevant appropriation by HUF 4 billion; the difference is explained by the various estimates for the number of taxpayers in 2022. In the case of the special tax of financial institutions, revenues may exceed the appropriation by HUF 16 billion. The difference may be justified by the difference between the forecasts for the size of the tax base in 2022. The appropriation of other payments by economic organisations is HUF 29 billion lower than our relevant projection – mainly due to a base effect.

On a cash basis, the budget expects to receive HUF 5444 billion from the **value added tax** in 2022, exceeding our projection by HUF 49 billion and the amended 2021 appropriation by 8.1 percent. The difference may partly be attributable to the different consumption assumptions. Revenues in 2022 will be reduced by the tax cut from 27 percent to 5 percent for newly purchased or built homes. The measure is applicable from 1 January 2021 to 31 December 2022 (until 31 December 2026 with transitional provisions), facilitating the acquiring of flats smaller than 150 m^2 and houses with an area of less than 300 m^2.

For 2022 the budget appropriation of revenues from **excise duties** is HUF 1296 billion, which is HUF 17 billion less than our forecast and 3.8 percent higher than the amended 2021 appropriation.

According to the bill, next year's estimate for the **financial transaction levy** is HUF 233 billion, which is HUF 9 billion lower than our forecast. The difference is attributable to the lower 2021 base, which may be explained by the difference between macroeconomic assumptions.

Table 4
Revenues of the central sub-sector – comparison of the forecasts (HUF billions)

	2022		
	Statutory appropriation	MNB forecast	Difference
TAX AND CONTRIBUTION REVENUES OF THE CENTRAL SUB-SECTOR	**18,453**	**18,473**	**20**
Payments by economic organisations	**1,960**	**1,928**	**-32**
Corporate income tax	589	503	-86
Special tax of financial institutions	61	77	16
Retail tax	76	73	-3
Mining royalty	38	43	5
Gambling tax	**34**	**30**	**-4**
Income tax on energy providers	55	50	-4
Lump sum tax of small entrepreneurs	237	245	9
Small business tax	121	125	4
E-road toll	263	264	1
Utility tax	53	54	1
Other taxes and payments	433	462	29
Advertisement tax	0	0	0
Consumption taxes	**7,200**	**7,183**	**-16**
Value added tax	5,444	5,395	-49
Excise duties	1,296	1,313	17
Registration tax	25	22	-2
Telecommunication tax	53	61	7
Financial transaction levy	233	242	9
Insurance tax	115	118	3
Tourism development contribution	34	32	-2
Payments by households	**3,156**	**3,155**	**0**
Personal income tax	2,867	2,849	-17
Duties, other taxes	199	218	19
Motor vehicle tax	91	89	-2
Tax and contribution revenues of extra-budgetary funds	**441**	**444**	**4**
Tax and contribution revenues of social security funds	**5,697**	**5,763**	**66**
Social contribution tax and contributions	5,537	5,585	48
Other contributions and taxes	160	178	18
REVENUES RELATED TO EU FUNDS	**2,386**	**2,226**	**-160**
OTHER REVENUES	**573**	**584**	**11**
Other revenues of the central budget	**425**	**434**	**10**
Other revenues of social security funds	**35**	**37**	**1**
Other revenues of extra-budgetary funds	**113**	**113**	**0**
TOTAL REVENUES	**21,412**	**21,283**	**-129**

Note: Partly consolidated data.

The budget appropriation of the **personal income tax** is HUF 2867 billion, which is practically in line with our forecast. The revenue expected for 2022 represents an increase of 5.5 percent compared to the amount of this year's amended estimate. The bill contains the partial income tax exemption of people under the age of 25 years, which, according to the annex to the bill, may reduce budget revenues by some HUF 140 billion, i.e. 0.25 percent of GDP. Pursuant to the measure, the consolidated tax base of people who have not reached the age of 25 will be exempt from paying the personal income tax up to the degree of the whole-economy gross average earnings in July of the previous year.

The estimate for the **tax and contribution revenues of social security and extra-budgetary funds** amounts to a total HUF 6138 billion, which falls short of our forecast. The difference is primarily attributable to the difference between the projections concerning the size of the subsidies paid within the framework of the Job Protection Action Plan: compared to our forecast, the annex to the bill contains a higher amount of utilisation, which reduces the size of the tax revenues indicated in the appropriation. According to the bill, in 2022 the tax and contribution revenues of social security and extra-budgetary funds will increase by 7.1 percent compared to the amended 2021 budget appropriation. The expansion, which is somewhat lower than the assumption for the dynamics of the increase in the gross wage and salary bill, is primarily attributable to the further reduction of the social contribution tax in H2 as well as to the phasing out of the vocational training contribution also in that period. According to our projection, the budget appropriation may be slightly exceeded by the revenues from the vocational training contribution in the case of the extra-budgetary funds and by the payments related to the public health product tax in the case of the social security funds.

According to the bill, next year's appropriation of **revenues from duties** amounts to HUF 199 billion, which is HUF 19 billion lower than our forecast. Firstly, the difference may be explained by the different macroeconomic assumptions, and secondly, our forecast expects a lower decline in revenues as a result of a measure introduced as of this year, i.e. the exemption from duty of the homes purchased using the Home Purchase Subsidy Scheme for Families (HPS).

The appropriation of **motor vehicle tax revenues** is HUF 91 billion, although our assumption is HUF 2 billion lower. The underlying reason for the difference is that compared to the year 2021 base, for 2022 we only take into account the increase in revenues resulting from the change in the stock of vehicles.

The appropriation concerning the **revenues from EU programmes** amounts to a total HUF 2386 billion, of which more than HUF 1530 billion is related to the 2014–2020 programmes. According to the bill, some HUF 854 billion may be received from the 2021–2027 envelope, of which RRF funds may amount to nearly HUF 350 billion. The revenue plan is nearly HUF 340 billion higher than the amended 2021 appropriation. According to our forecast, revenues may fall short of the plan due to the high advance payment ratio expected in expenditures. The budget bill does not provide any details of its expectations regarding invoiced payments and the expected payment of advances, which fundamentally determine the level of cash-based revenues.

As of 2021, in addition to the regular Multiannual Financial Framework (MFF), funds aiming at the recovery after the crisis and financed from common EU debt will become available for EU Member States within the framework of the **Recovery and Resilience Facility (RRF)**, which is the largest programme of NextGenEU. The maximum amount available for Hungary from the RRF programmes is some HUF 5900 billion, of which – for the time being – Hungary applied for grants amounting to only HUF 2511 billion in its Recovery and Resilience Plan submitted in May. For drawing the RRF funds, which can primarily be spent on structural reforms and investment related to the country-specific recommendations, the submitted plan has to be approved by the European Commission and the European Council as well. Following approval, Hungary may receive an advance amounting to more than HUF 320 billion, and then will be allowed to draw the remaining part until 2026, in parallel with the achievement of the targets. It is possible to apply for the preferential loan facility of around HUF 3400 billion until end-2023.

5.2 PRIMARY EXPENDITURES

According to our projection, in 2022 **the primary expenditures of the central sub-sector of the budget** may be HUF 33 billion lower in total than the appropriations in the bill (Table 5). The majority of expenditure appropriations are in line with our forecast; the average difference is a mere 0.1 percent of GDP. A difference pointing to higher expenditures is identified in the case of net own expenditures of central budgetary organisations, whereas – according to our projection – expenditures related to EU transfers fall short of the appropriation in the bill.

The appropriation of special and normative subsidies increases by HUF 15 billion compared to the appropriation for 2021. Of the appropriation of HUF 479 billion, the budget foresees the spending of nearly HUF 443 billion on subsidising the companies that provide public transport services, including the refunding of the costs of suburban public transport. The cost refund of railway passenger transport will increase by 6.5 percent, while the cost refund of public bus services will decline by 5.5 percent compared to the base appropriation. The changes are attributable to the harmonising of railway and bus services through the termination of parallelisms.

The appropriation of the **social policy fare subsidy** will decline by HUF 18 billion compared to the 2021 target figure. Considering that major savings on expenditures are expected in the case of this type of subsidy in 2021 on the basis of the 2021 Q1 expenditures, we believe that the estimate for next year is well-founded. Pursuant to the authorisation stipulated in Annex 4 to the bill, this appropriation may be exceeded even without a subsequent amendment.

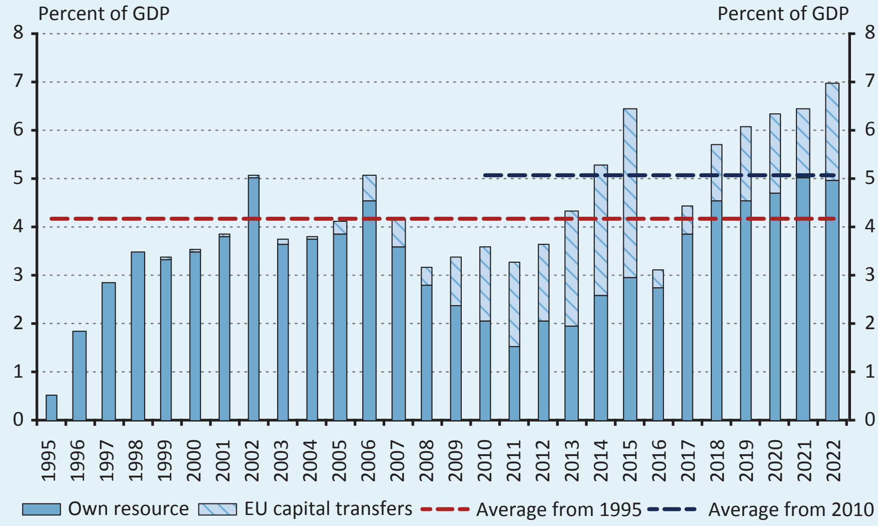
The appropriation of **home building subsidies** amounts to HUF 382 billion, which is HUF 132 billion higher than the year 2021 budget appropriation (HUF 250 billion), and exceeds our expectation as well by HUF 20 billion. This major increase is primarily attributable to the expenditures of the home renovation subsidies launched in 2021. In view of the expenditures related to the new subsidy programme, as opposed to previous years, we expect the appropriation to be exceeded in 2021; housing subsidy expenditures may amount to around HUF 360 billion.

The appropriation of the **National Family and Social Policy Fund** corresponds essentially to the expenditures planned for the previous year. Of the key items of the Fund, **in the case of subsidies to families,** the 2022 appropriation for family allowance is consistent with our projection, and is expected to amount to nearly HUF 310 billion. The appropriation may also be in line with our projection in the case of other items of family allowances, similarly to income substitute and supplementary social benefits as well as reimbursements provided on various grounds.

Net expenditures of budgetary units and chapter-managed appropriations excluding the revenues and expenditures of EU programmes may amount to HUF 6861 billion on the basis of the appropriations in the bill, representing a 2.0 percent increase in expenditures compared to the appropriations of the same structure in the bill amending the 2021 budget. Based on the appropriations of the bill it can be established that most of the 2020 and 2021 wage measures were carried over in the personal allowances items of the chapters. Our projection for the gross expenditures of budgetary institutions contains HUF 47 billion higher expenditures than the bill. HUF 30 billion of the difference is explained by the fact that on the basis of our expectation for the wage trends in 2020 we projected higher wage outflows compared to next year's plans; the provisions set aside for pay rises may also be surpassed according to our expectations. We expect additional expenditures in an amount of HUF 63 billion in the case of chapter-managed appropriations. Based on past data, partly the costs planned for defence measures against terrorism and related to migration may be higher than the statutory appropriation (both appropriations are open on the top), and we expect higher future expenditures for large families' car purchase subsidies (the programme ends at end-2022, and therefore we expect a surge in demand in the second half of next year). On the whole, net expenditures are expected to exceed the appropriations by HUF 53 billion – disregarding the effect of using the fiscal reserves.

If the all the funds foreseen in the 2022 budget to be spent on investment are used, the investment expenditure of the government sector at current prices may be around 7.1 percent of GDP next year, which is a historical high. This historically high expenditure exceeds the 6.5 percent expenditure-to-GDP ratio of 2021, and it is higher than and structurally different from the previous high seen in 2015, as expenditures related to the Operational Programmes accounted for more than half of the 2015 investment expenditure, which reached 6.5 percent of GDP. Investment expenditures related to the Operational Programmes are expected to be around 2 percent of GDP next year, while investment expenditures from own funds may exceed 5 percent of GDP. The significant investment activity is supported by the fact that a new expenditure appropriation appeared among the fiscal reserves. It is the Investment Fund, which will have an important role in restarting the economy. The Investment Fund contains an expenditure appropriation of HUF 550 billion, and according to the Government's intention it will not directly finance individual projects, but will provide central funding to ministries for investment tasks stemming from the government programme.

Chart 6
Investment expenditures of the government sector as percentage of GDP, 1995-2022



Source: HCSO, 2022 budget bill

The appropriation of **the support to local governments** declines by some HUF 36 billion compared to the target figure in the 2021 amendment. Earmarked subsidies for accumulation purposes will decrease in nominal terms compared to the original 2021 budget appropriation, and the fulfilment of the general support to operations in 2021 Q1 indicates that the subsidy appropriation raised within the framework of the amendment in 2021 may be exceeded. Following from the trends, expenditures in 2022 may also exceed the appropriation.

As **contribution to the EU budget**, the bill foresees a payment obligation of HUF 565 billion, which is HUF 115 billion higher than the original 2021 statutory appropriation, but contains a HUF 50 billion lower payment obligation compared to the raised amount set forth in the amendment to the 2021 Budget Act. The decline in expenditures compared to the base period is the result of the fact that due to previous years' higher growth rates, subsequent GNI-based payment obligation arose for Hungary in 2021, and thus it is justified to plan a lower contribution compared to the base year.

The central reserves appropriation contains total expenditures of HUF 882 billion, and this amount is HUF 436 billion higher than the central reserves in the act amending the 2021 budget. Of the central reserve appropriations, the amount of **free reserves, which expand the government's room for manoeuvre, is HUF 233 billion in 2022** (as the sum of the HUF 145 billion envelope for extraordinary government measures, the HUF 68 billion central reserves of the economic restart programmes as well as the HUF 20 billion in the row Central Reserves for Epidemic Control). Provisions for wages and wage-type payments amount to HUF 94 billion, and this latter envelope is nearly half of the appropriation with the same purpose for 2021. The bill contains further extraordinary reserve appropriations as well; central reserves include the Investment Fund with HUF 550 billion and the Investment Preparation Fund with HUF 5 billion. Further investment reserves amounting to HUF 40 billion are foreseen in Chapter XLVII of the bill, under the title Crucial Overground Construction Projects. The function of this reserve appropriation in the budget is similar to that of the Investment Fund.

Table 5
Expenditures of the central sub-sector – comparison of the forecasts (HUF billions)

	2022		
	Statutory appropriation	MNB forecast	Difference
PRIMARY EXPENDITURE ITEMS	**23,300**	**23,332**	**33**
Special and normative subsidies and support to the public media	**580**	**580**	**0**
Social policy fare subsidy	**120**	**120**	**0**
Housing grants	**382**	**357**	**-25**
Family allowances, social benefits	**588**	**588**	**0**
Early retirement benefits	**97**	**99**	**2**
Net expenditures of central budgetary institutions and chapters	**9,863**	**9,914**	**52**
Net own expenditures	6,861	6,914	53
Expenditures related to EU transfers	3,001	3,000	-1
Support to local governments	**873**	**873**	**0**
Contribution to the EU budget	**565**	**565**	**0**
Central reserves	**881**	**881**	**0**
Other expenditures	**1,129**	**1,129**	**0**
Expenditures of extra-budgetary funds	**557**	**563**	**6**
EREF – Passive allowances	105	105	0
EREF – Active allowances	120	126	6
Other expenditures	332	332	0
Expenditures of social security funds	**7,665**	**7,662**	**-2**
PIF - Pensions	4,163	4,208	46
HIF - Disability and rehabilitation benefits	301	293	-9
HIF - Cash benefits	586	576	-10
HIF - Medical and preventive care	2,123	2,108	-14
HIF - Net expenditures of the drug budget	344	327	-16
Other expenditures	148	150	2
NET INTEREST EXPENDITURES	**1,265**	**1,206**	**-59**
TOTAL EXPENDITURES	**24,564**	**24,538**	**-26**
BALANCE	**-3,153**	**-3,256**	**-103**

Note: Partly consolidated data.

The total appropriation of **extraordinary government expenditures and other expenditures** rises by HUF 94 billion compared to the 2021 target figures. The increase is attributable to the combined effect of several factors; the bill does not contain any justification concerning the rise in individual items.

Expenditures related to state property are foreseen in the bill to amount to a total HUF 800 billion. Compared to the current 2021 budgetary appropriations, the expenditures include additional expenditures of HUF 289 billion. Within the composition of expenditures, the amount of the capital increase to Paks II Nuclear Power Plant Private Limited Company increases significantly, from HUF 116 billion earmarked for 2021 to HUF 270 billion next year.

The enforcement of guarantees expenditure appropriation is related to the government measures of the Economic Restart Action Plan. Accordingly, the amount of the guarantees to the corporate sector increases, and the number of credit schemes with state guarantees rises. The appropriation exceeds the one in the 2021 Budget Act by HUF 9 billion.

In the case of the expenditures of the **separate state funds**, our forecast for the passive expenditures of the newly named **Economic Restart Employment Fund** practically corresponds to the HUF 105 billion appropriation. We expect expenditures to be higher by a mere HUF 5 billion due to the uncertainty around the labour market recovery following the coronavirus pandemic. The expenditure for the Start public work scheme in the 2022 budget is HUF 45 billion lower compared to the 2021 appropriation.

The expenditure appropriation for **medical and preventive care** amounts to HUF 2123 billion in 2022, which is nearly HUF 14 billion higher than our projection, and at the same time it exceeds the 2021 appropriation by HUF 556 billion. The objective of the additional fund is to strengthen the respect for those who work in healthcare and to improve the quality of primary care as well as to procure and supply high-value medicaments and devices. The 2022 budget contains the expenditures allotted to the second phase of the multi-year comprehensive pay rises for doctors working in primary and specialty care, which started in 2021, and also covers the wage increase of skilled healthcare workers in the year under review. The pay rise for those working in healthcare is justified by the whole-economy wage increase as well, which is covered by the significant rise in the appropriation.

Gross expenditures on **drug subsidies** are planned to amount to HUF 450 billion in the 2022 budget, which is HUF 18 billion higher than the 2021 appropriation. Our projection falls some HUF 16 billion short of the planned amount of net expenditures.

In the case of **cash benefits**, the appropriation for sick pay amounts to HUF 182 billion, while in 2022 the budget foresees HUF 267 billion and HUF 128 billion to be spent on childcare fee (and adoption allowance) and on infant care allowance, respectively. The expenditures foreseen for the three main types of transfers exceed their 2021 sum by HUF 80 billion in total, which is primarily attributable to the expected dynamic growth in the gross wage and salary bill, and it results in further additional expenditures that as of 1 July 2021 the amount of the infant care allowance rises from 70 percent of the gross income to its 100 percent. Our projection presumes annual expenditures to be some HUF 10 billion lower in total in the case of cash benefits, as following the peak of the coronavirus pandemic we expect a decline in the number of days spent on sick leave and in the temporary rise in the number of beneficiaries stemming from the extension of the eligibility period to receive childcare fee.

The budget bill foresees accrual-based expenditures to amount to a total HUF 107 billion in the case of the **prenatal baby support**. The expenditures indicated in the bill are only slightly lower than our forecast, which may be explained by the lower use compared to the statutory appropriation.

In total, the **cash-based expenditures** related to the prenatal baby support amount to HUF 91 billion in the budget bill, and within that the interest rate subsidy of the prenatal baby support may be HUF 42 billion in 2022. Our forecast expects a higher interest rate subsidy, i.e. HUF 69 billion for 2022. The difference may result from two factors: the different estimates for the increase in loans outstanding and the number of new contracts, and on the other hand, for the degree of the interest rate subsidy. Our projection is based on the assumption that recourse to the prenatal baby support may be high in 2022 as well, in view of the fact that according to the currently valid rules this benefit can be applied for until end-2022. Our forecast presumes 58 thousand new contracts to be concluded in 2022, and thus new lending may amount to around HUF 568 billion next year.

When quantifying the total budgetary effect of the prenatal baby support, not only cash-based expenditure needs to be taken into account **but also that the estimated amount of the waiver of the principal upon the birth of the second and third child should be recognised in the ESA deficit at the time of lending.** According to the rules of European Union statistics, if the future debt write-off is certain, its anticipated amount should be recognised in the accrual-based deficit upon the disbursement of the loan. Although in the case of the prenatal baby support the actual debt write-off occurs when the child is born, this has to be taken into account in the ESA statistics upon the disbursement of the loan in the form of an estimate. In our forecast, remission of debt is expected to amount to HUF 97 billion in 2022. In addition, in the case of the prenatal baby support, after the second or third child born in the year under review, the amount of the child-raising subsidy (which may amount to some HUF 35 billion in 2022) actually disbursed in the cash transactions has to be deducted from the amount of the ESA adjustments. On the basis of our projection, the prenatal baby support may result in a HUF 165 billion ESA deficit effect in the budget in 2022, taking account of the cash-based expenditures as well as the effect of statistical adjustments.

Pursuant to the 2022 budget bill, the appropriations belonging to the expenditures of the **pensions and pension-like benefits** amount to a total HUF 4,561 billion. According to our estimation, in 2022 the budget may spend a total HUF 4,600 billion on pensions and pension-like benefits (Table 6), equalling 8.1 percent of GDP.

The 2022 appropriation for **retirement** provision paid from the Pension Fund amounts to HUF 4,163 billion in total. Our forecast presumes that the expenditures will be HUF 46 billion higher in 2022. The difference is attributable to differences in the base year projections, in headcount assumptions and in macroeconomic paths. The difference between base year projections is attributable to the inflation forecasts: the 2021 budget bill foresees a 3 percent consumer price index, while the MNB's March Inflation Report expects it to be 3.8–3.9 percent in 2021. For 2022, the bill presumes inflation to be 3 percent, whereas the MNB's March Inflation Report presumes a 2.9–3.0 percent inflation. Nevertheless, it is important to mention that pursuant to a Government Decree of 18 May 2021 – instead of the usual November date – a supplementary pension rise is taking place in June, amounting to 0.6 percent, and it will be effective retroactively as of 1 January 2021 for all pensions and pension-like benefits.

The 2022 appropriation for the largest pension expenditure item, **old-age pensions over the retirement age**, amounts to HUF 3,189 billion, whereas our forecast includes HUF 30 billion higher expenditure. The difference may partly be attributable to the difference in headcount estimates and partly to the different base due to the higher 2021 inflation projection. According to our estimate, the effect of the November supplementary pension rise may amount to some HUF 30 billion in 2021 in the case of old-age pensions of those who reached the retirement age, provided that inflation is in the range of 3.8–3.9 percent. New old-age pensions are expected to be determined throughout 2022, as for those born in 1957 the retirement age corresponds to 65 years, and thus the raising of the retirement age that had started in 2014 comes to an end.

Table 6
Comparison of the 2022 appropriation of the expenditures on pensions and pension-like benefits and our forecast (HUF billions)

	2022 Budgetary appropriation	2022 MNB forecast	Difference (forecast - appropriation)
I. Pension Fund	**4,163**	**4,208**	**46**
1. Old-age pensions	3,521	3,553	32
1.1 Old-age pensions over the retirement age	3,189	3,218	30
1.2 Early retirement benefit for women	332	335	3
2. Retirement provision to relatives	413	410	-3
3. One-time subsidy	1	1	0
4. Provision for pension premium	68	82	13
5. 13th-month pension	160	164	3
II. Early retirement benefits	**97**	**99**	**2**
III. Disability and rehabilitation benefits	**301**	**293**	**-9**
Total pensions and pension-like benefits	**4,561**	**4,600**	**39**

Source: 2022 budget bill, MNB

Women are entitled to receive pension below the age limit after a 40-year eligibility period. In the case of these provisions, the appropriation practically corresponds to our forecast; expenditures in 2022 may amount to some HUF 335 billion. As regards the early retirement benefit of women, we continue to expect increasing utilisation, considering the fact that an increasing number of women complete the 40-year eligibility period necessary for early retirement as the retirement age of old-age pension gradually rises.

A new measure in the case of **retirement provision to relatives** is that the monthly minimum amount of orphan allowance will increase from the current HUF 24 500 to HUF 50 000 as of 1 January 2022. The increase applies to the orphan allowances that are already being paid and to the newly granted ones as well. As a result of the measure, next year the amount of allowances paid to the beneficiaries may increase by HUF 8 billion.

The 2022 budget bill calculates with the payment of pension premium in 2022 in the amount of HUF 68 billion, based on the 5.2 percent real GDP growth included in the macroeconomic path. The MNB's macroeconomic forecast prepared for its March Inflation Report projects GDP growth to be between 5.0 and 6.0 percent in 2022. Accordingly, the amount of the pension premium estimated on the basis of this band exceeds the amount planned in the budget bill by HUF 13 billion.

The gradual reintroduction of the **13th month pension**, which started in 2021, will continue in 2022. In February 2022, pensioners will receive an additional amount corresponding to two weeks' pension. According to the 2022 budget bill, in the case of the provisions paid from the Pension Fund, the disbursement of the second phase of the 13th month pension may amount to HUF 160 billion in 2022, which practically corresponds to our projection.

The 2022 budget bill plans the **expenditures of EU programmes** to amount to HUF 3001 billion, exceeding the amended 2021 appropriation by more than HUF 400 billion. The expenditures related to cohesion policy, rural development and other programmes belonging to the 2014-2020 programming period may amount to nearly HUF 1,350 billion according to the plan. The expenditures related to the 2021–2027 programmes may even exceed HUF 1600 billion, with the disbursements within the framework of the Recovery and Resilience Facility (RRF) amounting to HUF 450 billion of it. Taking into account the difference between expenditure and revenue appropriations, significant advance payments are presumed for 2022 as well, but their planned amount is not indicated in the bill (Table 7).

Table 7
Revenues and expenditures related to EU subsidies in the budget bill (HUF billions)

	Revenue	Expenditure
Széchenyi 2020	1,443	1,270
Post-2021 Cohesion Operational programmes	500	1,105
Recovery and Resilience Facility (RRF)	348	450
Other	95	176
Total	**2,386**	**3,001**

Source: 2022 budget bill

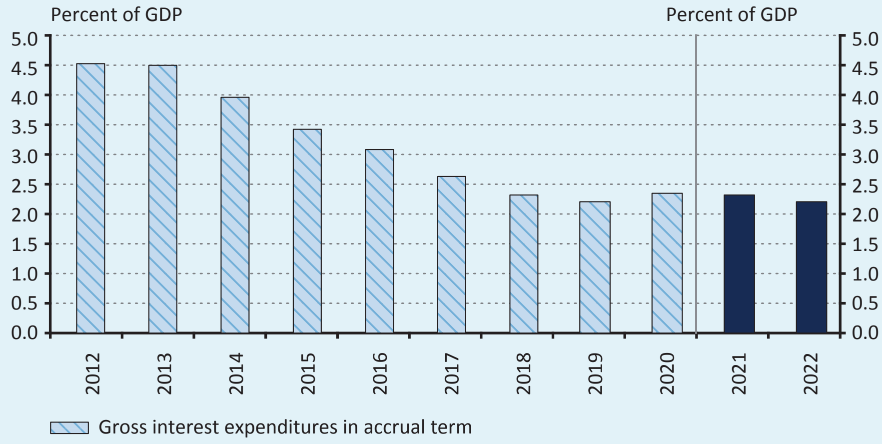
For the historically high expenditure appropriation to materialise and for significant disbursements to take place in 2022 in relation to the new cycle, the European Commission should approve Hungary's operational programmes, the related tenders should be announced and evaluated, and contracts should be signed with the beneficiaries.

5.3 INTEREST BALANCE

The statutory appropriation of net accrual-based interest expenditures slightly exceeds our expectation. Interest expenditures may correspond to 2.4 percent of GDP according to the statutory appropriation. In 2020, following seven years of steady decline, government interest expenditure increased temporarily as a result of a rise in government debt and a fall in economic growth. Looking ahead, however, we expect continued decrease in expenditures. The difference may be partly attributable to the difference in the assumptions regarding expected yields. Nevertheless, according to our forecast, the decrease may only be slow. The underlying reason is that the historically low yield levels did not decline significantly further any more, but they stagnate at low levels, and thus a major part of the government debt became repriced, and the yield level of a smaller and smaller portion of the debt is declining.

The appropriation for the **net cash-based interest expenditure** exceeds our projection by HUF 59 billion. Our forecast expects nearly the same gross interest expenditures, while it is higher than the appropriation in the case of interest revenues. The differences may be attributable to the difference in the projections for the underlying output structure, and after taking into account the data of past years as well, our projection also takes account of debt management operations.

Chart 7
Changes in gross accrual-based interest expenditures (as a percentage of GDP)



Source: Eurostat, MNB forecast

6 Legal compliance of the bill

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 2022; accordingly the bill satisfies the debt rule requirement specified in the Fundamental Law. Pursuant to the Fundamental Law, until the debt ratio exceeds 50 percent of GDP, the government debt ratio has to decline, and it will do so in 2022 according to both forecasts. According to the bill, following the 79.9 percent expected for the end of this year, the government debt indicator will decrease by 0.6 percentage point to 79.3 percent in 2022. Based on the MNB forecast, the debt-to-GDP ratio may also decline by 0.6 percentage point in 2022.

6.2 THE 3-PERCENT DEFICIT RULE OF THE STABILITY ACT

The expected 2022 budget balance exceeds the 3 percent set forth in the deficit rule of the Stability Act, but this requirement was suspended in line with EU rules. 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 percent of GDP. The budget bill foresees a 5.9 percent deficit-to-GDP ratio in 2022, which does not comply with the deficit target set forth in the Stability Act. An exemption from compliance with the requirement would be if the real value of the gross domestic product declined, but that will not happen according to either the macroeconomic projection that serves as a basis for the Budget Act or the MNB forecast. Therefore, in addition to the amendment to the emergency government decree,[1] according to the Government's bill[2] introduced on 25 May 2021, with the necessary amendment to the Stability Act, the 3 percent deficit criterion is suspended in the 2021–2023 fiscal year.

6.3 THE DEBT RULE OF THE STABILITY ACT

The debt ratio foreseen in the 2022 budget bill is in line with the debt formula specified in the Stability Act, provided that the reduction of the debt ratio continues to a sufficient degree in 2023. 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 European debt rule states that the Member States' government debt ratio must not exceed 60 percent of GDP, or if it does, the debt ratio must be reduced by a satisfactory pace. The appropriate decrease in the debt is defined by the one-twentieth rule, according to which the debt ratio should be reduced by one twentieth of the part that exceeds 60 percent 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. Apparently, using the backward-looking method, the EU debt rule is not expected to be complied with. Nevertheless, based on the latest, spring 2021 forecast of the European Commission, the 2022 debt ratio is in line with the requirement according to the cyclical and forward-looking methodologies. For examining the cyclically adjusted rule, using its own methodology the Commission calculates the impact of the macroeconomic cycle on the debt ratio, then assesses the compliance with the requirement on this basis.

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[1] Government Decree 196/2021 (IV. 28.) on the application of certain rules of the Act on Hungary's Economic Stability in an emergency, Section 1
[2] https://www.parlament.hu/irom41/16367/16367.pdf

6.4 REQUIREMENT PERTAINING TO THE STRUCTURAL BALANCE OF THE GENERAL GOVERNMENT

The 5.5-percent 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 2022 represents a structural balance equalling -1.0 percent of GDP. The structural balance is the cyclically adjusted government balance net of one-off and other temporary items. According to the 2022 budget bill, in that year the general government will not be influenced by any one-off revenue, thus it assigns a -5.5 percent structural balance to the accrual-based balance of -5.9 percent of GDP. Accordingly, the structural deficit will not fulfil the medium-term budgetary objective. Therefore, in addition to the amendment to the emergency Government decree,[3] the government also submitted the necessary amendment to the Stability Act to the National Assembly, and according to the bill[4] introduced on 25 May 2021, in the 2021–2023 budget year not only the 3 percent deficit criterion, but the rule concerning the achievement of the medium-term budgetary objective will also be suspended.

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

By activating the general escape clause, the application of the EU fiscal rules was temporarily suspended in 2020, and, as indicated by EU institutions, the suspension is expected to remain in place in 2022 as well.[5] Member States are exempt from the sanctions applied in the case of breaching the rules of the corrective arm, but at the same time the European Commission continues to examine the compliance with the rules in the EDP reports, which are still prepared. If the fiscal rules entered into force again, of the requirements belonging to the corrective arm of the EU fiscal framework the budget bill would not comply with the Maastricht criterion, while the degree of the decrease in debt would be compliant if the debt ratio declined to a sufficient degree after 2022. The EU debt rule states that the Member States' gross, consolidated government debt ratio calculated at face value must not exceed 60 percent 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, according to which the debt ratio should be reduced by one twentieth of the part that exceeds 60 percent on average over three years. According to the bill, the government debt-to-GDP ratio will decline by 0.6 percentage point in 2022, and in line with that the MNB also expects a 0.6 percentage point decrease. The developments in the government debt ratio comply with the one-twentieth rule only if the debt ratio declines in the coming years as required (see the debt rule of the Stability Act).

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

The structural deficit target foreseen in the bill does not comply with the requirements belonging to the preventive arm of the EU rules. At the same time, the activation of the general escape clause suspended not only the application of the preventive rules but also their examination.

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 was set at -1.0 percent of GDP. According to the bill, in 2022 the structural balance will correspond to -5.5 percent of GDP, and thus – as in the previous years – the deficit on the structural balance will be higher than the medium-term objective. Nevertheless, compliance with the rule is temporarily not examined by the European Commission.

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[3] Government Decree 196/2021 (IV. 28.) on the application of certain rules of the Act on Hungary's Economic Stability in an emergency, Section 1

[4] https://www.parlament.hu/irom41/16367/16367.pdf

[5] Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact (20 March 2020), Statement of EU ministers of finance on the Stability and Growth Pact in light of the COVID-19 crisis (23 March 2020), Letter of the European Commission to the Minister of Finance of Hungary (19 September 2020), Communication from the Commission to the Council: One year since the outbreak of COVID-19: fiscal policy response (3 March 2021)

The EU **expenditure benchmark** enters into force if the requirements related to the MTO are 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 due to the effect of the general escape clause last year the European Commission did not determine the two-year degree of structural adjustment expected for the convergence to the adjustment path, the expenditure benchmark was not defined, and thus compliance with the latter also cannot be assessed.

7 Special topics

7.1 RESTORING GROWTH AND BUDGETARY EQUILIBRIUM FOLLOWING THE TWO CRISES

Rapid recovery following the coronavirus pandemic creates more favourable circumstances of restoring the balance of the budget compared to the protracted financial crisis a decade ago. At the beginning of the economic crisis caused by the coronavirus pandemic, the Hungarian economy had strong fundamentals, which allowed significant room for manoeuvre for adequate measures to be taken. In 2020, the Hungarian economy was structurally stronger, and crisis management by the central bank and the government was more efficient than in 2009. Consequently, economic recovery is much faster than 10 years ago. These create adequate fundamentals for a rapid restoration of budgetary equilibrium.

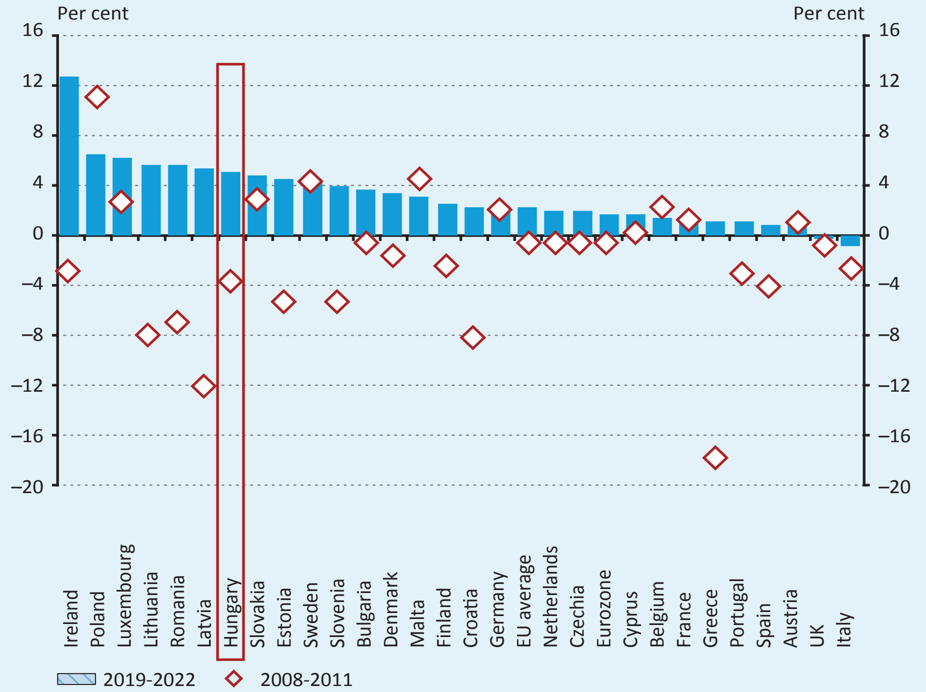
Following the global financial crisis, recovery of the economy took several years, and the Hungarian GDP reached its pre-crisis level only in 2014. As a result of the unsustainable trends prior to 2008, the volume of investment slowed down, and household consumption also fell, and while the former reached its pre-crisis level only in 2015, the latter reached it in 2016. Following the crisis, the decline in corporate and household loans lasted until as long as 2016. As a result, household loans outstanding fell short of their pre-crisis level even at end-2019, while corporate loans outstanding only slightly exceeded the end-2008 level. Economic recovery was also hindered by the fact that the employment rate was only 50.7 percent.

Following the financial crisis, decline in the budget deficit was achieved in spite of low growth and a high level of interest expenditures. After the financial crisis, the economic downturn in 2009 was followed by moderate growth in 2010 and 2011, then by a decline in GDP in view of the European debt crises in 2012. Accordingly, fiscal consolidation was not supported by economic growth. In addition, an unfavourable consequence of the tight monetary policy was that government securities market yields remained at high levels, and government interest expenditures rose to 4.6 percent of GDP by 2012. It also made the achieving of the 3 percent deficit target more difficult, as that required a surplus of the primary balance due to the high interest expenditures.

As a result of the fiscal consolidation launched in 2010, the budget deficit declined to below 3 percent within a short time despite the slow macroeconomic recovery. Following a surge observed in the year of the crisis, the budget deficit already fell to 4.4 percent in 2010. After the consolidation of the fiscal balance, as of 2012 – according to the then applicable methodology already as of 2011 – the deficit stabilised below the 3 percent Maastricht threshold. The turn in the budget allowed the government debt ratio to take a declining path as of 2012 and to decrease steadily until 2019, which was unique in the European Union, to 65.5 percent of GDP.

As opposed to the previous crisis, recovery in Hungary is currently supported by favourable investment trends and labour market developments as well as by stable credit markets. Accordingly, the fastest post-crisis economic recovery of the past 100 years is expected this year, and thus economic performance may reach the end-2019 level by the end of this year. This is considered to be a rapid recovery in international comparison as well (Chart 8). Expected developments in investment in the recovery phase starting in 2021 are much more favourable, and the volume of projects may exceed the 2019 level by 2022. Recovery in investment is supported by the favourable interest rate environment, buoyant lending activity, the extension of the payment moratorium as well as by government and central bank programmes (FGS Go!, BGS). **As opposed to the previous crisis, corporate and household loans outstanding may increase considerably in the period ahead**, and the roughly double-digit dynamics may persist in household and corporate lending in spite of the coronavirus pandemic. As a result, by end-2022 household and corporate loans outstanding may reach 143 percent and 128 percent of the end-2019 levels, respectively.

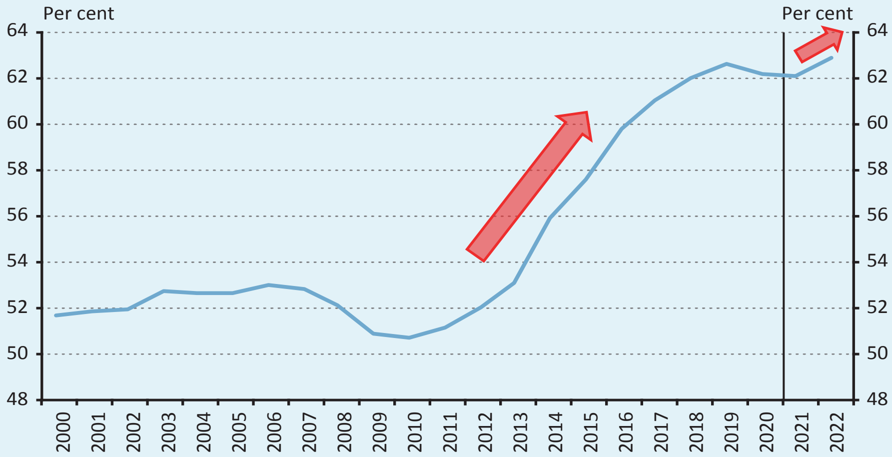
Chart 8
GDP growth developments in EU countries



Note: In the case of Hungary, the figure refers to the midpoint the forecast band of the recent Inflation Report (March 2021).
Source: European Commission, MNB

The stable labour market contributes to households' favourable income position. Unemployment and employment remained at relatively favourable levels during the coronavirus pandemic as well. The rate of unemployment in Hungary remained one of the lowest in international comparison in 2020, and it may exceed the 2019 level by a mere 0.5 percentage point by 2022. The employment rate remained at 62.1 percent in 2020 as well. **Wage increase** in Hungary was one of the most favourable in Europe in 2020. The dynamics of the rise in real wages may continue to be above the rate of the years that followed the previous crisis. Rapid increase in wages and consumption results in a major expansion in the tax revenues of the budget. The increase in household **consumption** may also be much faster compared to the previous crisis. Starting from this year, following the opening of the economy, the recovery in consumption may take place faster, and may be higher than before the pandemic already in 2021. Households' low debt-to-GDP ratio, high financial wealth and savings rate all contribute to the upswing in consumption.

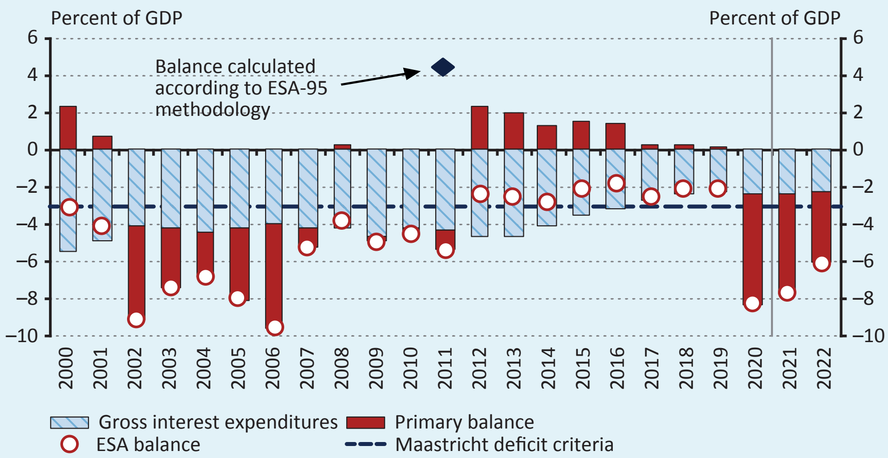
Chart 9
Development of the employment rate



Note: Estimates for 2021-2022 are based on the midpoint of the forecast band of the recent Inflation Report (March 2021).
Source: HCSO, MNB

The more benign economic situation also allows fiscal consolidation to take place faster than after the financial crisis. Following the 2008 financial crisis, in spite of the slower economic recovery and general government imbalance, fiscal consolidation was achieved by 2011–2012 as a result of innovative reforms. Rapid economic growth after the coronavirus pandemic and the low level of interest expenditures may contribute to faster fiscal consolidation. Namely, after 2013, government interest expenditure fell to one half, i.e. 2.2 percent of GDP by 2019 (Chart 10). Although in 2020 it increased to 2.4 percent as a result of the rising debt, it is still historically low. Therefore, a major decline in the budget deficit mainly requires the reduction of the considerable deficit of the primary balance. Persistently high deficit and debt entail inflation risks, and make market financing of the budget more difficult if large central banks start to phase out quantitative easing.

Chart 10
Development of the budget balance in Hungary (2000-2022)



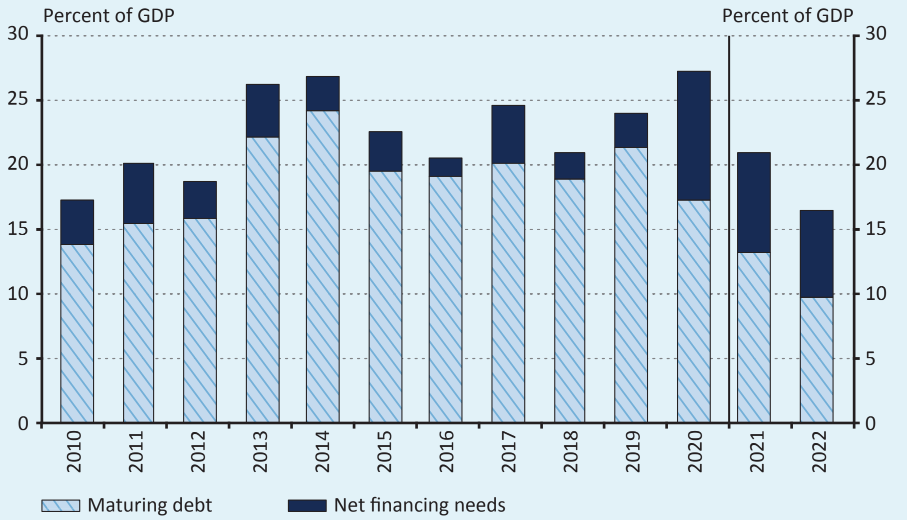
Source: Eurostat, Hungarian Central Statistical Office, MNB

7.2 DEVELOPMENT OF GROSS FINANCING NEEDS

As a result of the crisis caused by the coronavirus pandemic, gross financing needs of the budget as a percentage of GDP increased in the European Union as a whole, and nearly doubled on average, reaching some 23 percent last year, which was primarily attributable to significantly rising budget deficits. Gross financing needs in the euro area was somewhat higher, exceeding 24 percent in 2020. Gross financing need is the sum of budget deficit and maturing debt, which depends on the amount of outstanding debt and its term.

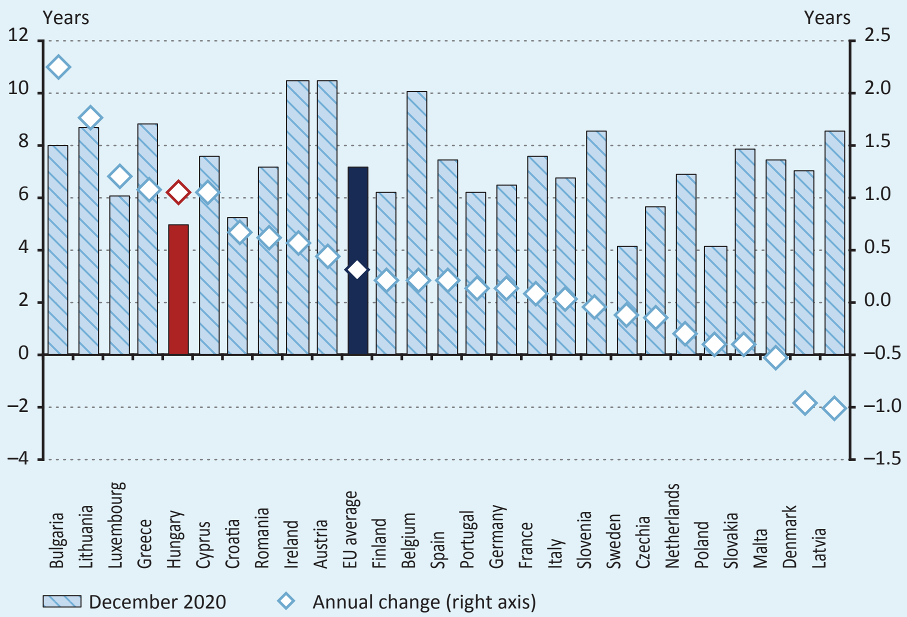
Hungary's gross financing need was between 20–25 percent of GDP between 2015 and 2019, increasing to 27.3 percent in 2020 due to a surge in deficit (Chart 11). As a result of an increase in the longer-term bonds outstanding and the holdings of the Hungarian Government Securities (MÁP) Plus the average residual maturity of the Hungarian government debt rose by more than 1 year in 2020, which contributed to the decline in maturing debt in Hungary (Chart 12).

Chart 11
Development of gross financing needs in Hungary (2000-2022)



Source: European Commission, ÁKK (Government Debt Management Agency)

Chart 12
Average term-to-maturity of government debt and its annual change

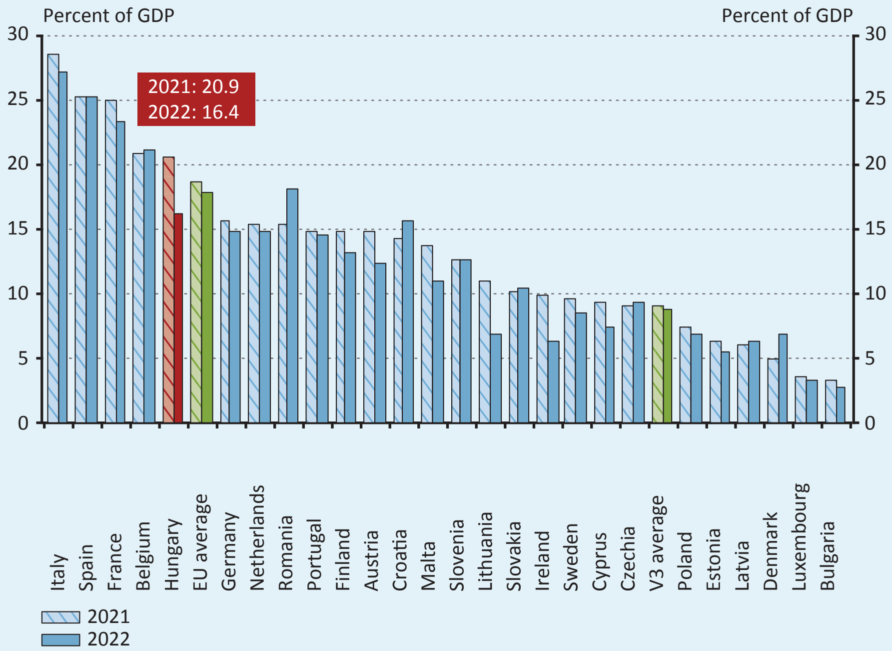


Source: ECB

Although Hungary's gross financing need is expected to decline considerably after 2020, it may still be nearly twice as much as the regional average in 2022 (Chart 13). In the next two years, gross financing needs may stagnate around 9 percent of GDP in the countries of the Visegrád region. Compared to that, Hungary's gross financing need may be more than twice as much in 2021 and nearly twice as much in 2022. Gross financing needs in the EU is expected to decline to 19 percent of GDP on average in 2021, decreasing further by 1 percentage point to 18 percent in 2022 according to the forecast of the Commission. Gross financing needs may be somewhat higher in the euro area: 20.5 percent of GDP in 2021 and 19.4 percent in 2022. The gradual decline is a result of the expected decrease in budget deficits, while in Hungary the main contributor is the extension of the maturity of government debt, on the whole, however, financing need may still remain at a high level.

Looking ahead, financing need may decline in Hungary as well in view of the decrease in maturing debt and the lower budget deficit. Gross financing need may decrease significantly in the next two years as a result of a decline in debt repayment due to the extension of the maturity of government debt and as a result of the decreasing deficit. Financing need may decline to 20.9 percent of GDP in 2021 and to 16.4 percent in 2022. A major decline in deficit in parallel with the extension of the maturity of debt would further facilitate the convergence of Hungary's gross financing need to the regional level.

Chart 13
Developments of the expected gross financing needs in EU countries



Source: European Commission, ÁKK (Government Debt Management Agency)

7.3 RECOVERY AND RESILIENCE PLAN OF HUNGARY

In order to manage the economic crisis caused by the coronavirus pandemic, the European Union created the Next Generation EU fund with an envelope of more than EUR 800 billion at current prices, with the Recovery and Resilience Facility (RRF) accounting for most of it. The RRF provides a preferential loan facility of EUR 390 billion as well as grants amounting to nearly EUR 340 billion for EU Member States. The funds of the RRF can be used for structural reforms and investment implemented between February 2020 and August 2026. For drawing the funds, Member States have to compile utilisation plans, in which they take into account the country-specific recommendations of the Commission prepared within the framework of the European Semester. Following the submitting of the plans, the Commission has 2 months for approval, then, if supported by the European Council, Member States may receive an advance corresponding to 13 percent of the amount they applied for. Until 20 May 2021, 18 Member States submitted their respective recovery plans to the Commission (Table 8).

Table 8
Funding requests in the submitted RRF plans (EUR billion, data as at 20 May)

	Grant	Loan	"National co-financing"	Total	Requested loans
Austria	3.5	0	1	**4.5**	0%
Belgium	5.9	0	0	**5.9**	0%
Cyprus	1	0.2	0	**1.2**	17%
Denmark	1.6	0	0	**1.6**	0%
France	40.9	0	0	**40.9**	0%
Greece	17.8	12.7	0	**30.5**	100%
Croatia	6.4	0	0	**6.4**	0%
Poland	23.9	12.1	0	**36.0**	35%
Latvia	1.8	0	0	**1.8**	0%
Lithuania	2.2	0	0	**2.2**	0%
Luxembourg	0.1	0	0	**0.1**	0%
Hungary	**7.2**	**0**	**0**	**7.2**	**0%**
Germany	25.6	0	2.3	**27.9**	0%
Italy	68.9	122.6	0	**191.5**	100%
Portugal	13.9	2.7	0	**16.6**	19%
Spain	69.5	0	0	**69.5**	0%
Slovakia	6.6	0	0	**6.6**	0%
Slovenia	1.8	0.7	0	**2.5**	22%
Total	**298.6**	**151.0**	**3.3**	**452.9**	-

Source: European Commission

Hungary sent its Recovery and Resilience Plan to European Commission on 11 May, applying for a grant of HUF 2511 billion (EUR 7.2 billion). If the plan is adopted, Hungary may receive an advance of more than HUF 320 billion this year for the implementation of RRF projects.

Public health (HUF 857 billion) and sustainable traffic (HUF 631 billion) are the most important ones of the 9 thematic target areas of the submitted plan (Table 9). Hungary would spend HUF 281 billion on competitive labour, HUF 262 billion on energetics as well as HUF 231 billion on the demography and public education components from the recovery funds.

Table 9
Components of the Recovery and Resilience Plan of Hungary

Component	Requested sum (HUF billions)
A. Demography and Public Education	231
B. Highly trained, competitive workforce	281
C. Catching-up municipalities	77
D. Water management	44
E. Sustainable Green Transport	631
F. Energy (green transition)	262
G. Transition to a circular economy	103
H. Health	857
I: Non policy-related country-specific recommendations	24
TOTAL	**2,511**

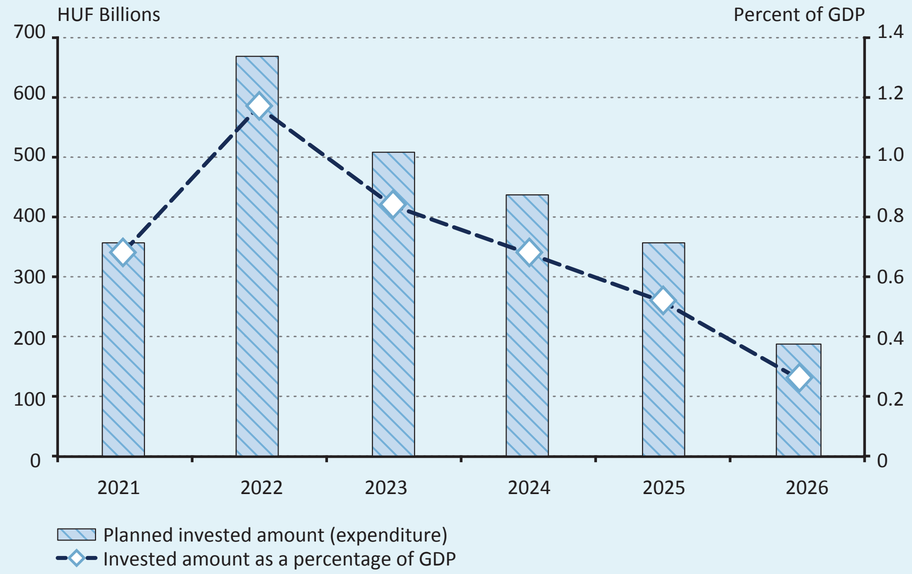
Source: Recovery and Resilience Plan

Wage adjustment for doctors, modernisation of the health system as well as the development of city and suburban transport are the measures of the plan that have the highest funding requirements. According to the government's calculations, 23 percent of the objectives in the plan serve digitalisation, while 41 percent serve climate protection purposes, and thus both figures comply with the expectations of the Commission. A major portion of the objectives in the plan are in line with the proposals in the MNB's 330-point Competitiveness Programme.

According to the plan, the utilisation of the RRF funding may be the highest in 2022, reaching HUF 670 billion (Chart 14). It significantly exceeds the HUF 450 billion RRF expenditure appropriation estimated in the 2022 budget bill. According to the plan, annual RRF utilisation may be between 0.2 percent and 1.2 percent of GDP until 2026. On the basis of the appropriations of the budget, cash-based revenues related to recovery funds may amount to HUF 326 billion in 2021 and to some HUF 350 billion in 2022. In the case of the RRF, revenues will be connected to the fulfilment of the objectives determined in the projects and to the submitting of the invoices; the former will be recognised bi-annually.

Hungary did not indicate any intention to draw the preferential loan of some HUF 3400 billion (EUR 9.6 billion). Member states may apply for the funds of the RRF credit line amounting to EUR 390 billion in total and planned to be covered by common bond issue until end-2023.

Chart 14
Planned use of RRF funds

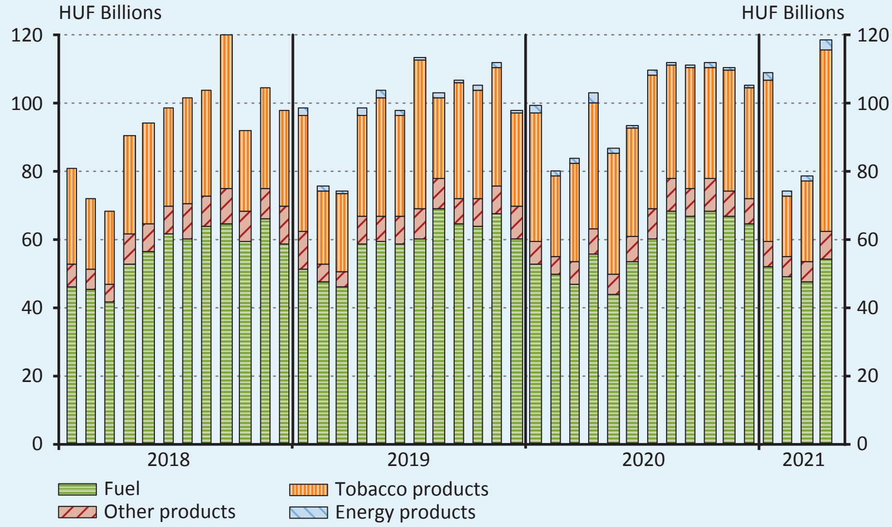


Source: Recovery and Resilience Plan of Hungary

7.4 SPECIAL RULES ON EXCISE DUTY

In 2020, revenues from excise duties amounted to HUF 1196 billion, more than half of which (HUF 688 billion) was from excise duty paid on fuels, one third from excise duty on tobacco products (HUF 400 billion), while the remaining amount consisted of revenues from other excise duties including, inter alia, on alcohol products (HUF 90 billion) and the excise duty on energy products (HUF 17 billion).

Chart 15
Developments of monthly excise duty revenues



Note: As of 2019, excise duty of energy products was integrated into the regulation of general excise duty.
Source: Hungarian State Treasury

Consumer prices of items affected by excise duties (tobacco products, fuels, spirits) increased considerably in the past 1 year. The prices of spirits and tobacco products increased by 12.2 percent on average. Within that, tobacco product prices were 20.1 percent up compared to April 2020, mainly as a result of the rise in the excise duty on this product group. Vehicle fuel prices rose by 39 percent year on year, primarily in view of last year's low base. Since April 2021, the Hungarian Central Statistical Office has been applying a new methodology to calculate core inflation, and the new indicator does not contain the price changes of spirits and tobacco products.

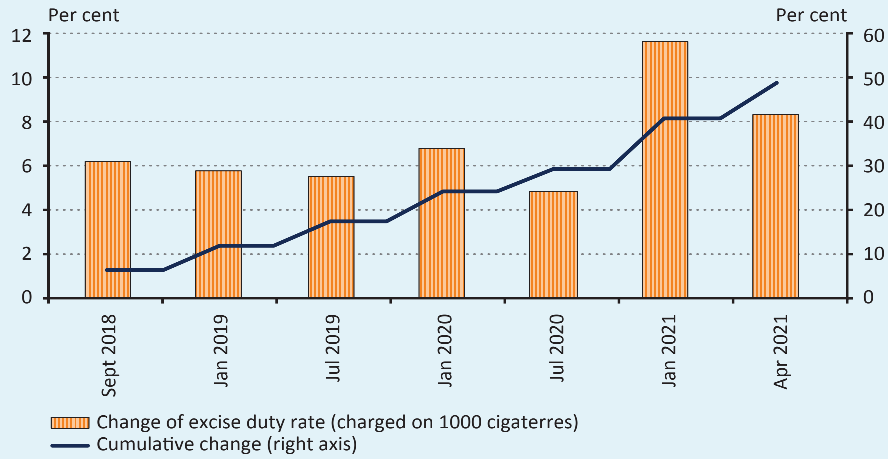
Excise duty on tobacco

Starting from 2018, the rate of the excise duty on tobacco products increased in 7 steps in order to comply with EU legislation (Chart 16). The consequence of the increase is that the tax rate rose by 50 percent, and the fiscal effect is around HUF 100 billion in the period between 2018 and 2021. The excise duty to be paid on tobacco products was last raised on 1 April; this year's two-step tax increase of 20 percent may improve the balance of the budget by some HUF 35–40 billion. Both the tax on 1000 cigarettes and the price of a pack of cigarettes have increased by 50 percent since 2018.

Pursuant to the current rules, the tax should be at least EUR 90 per 1000 cigarettes, and should reach 60 percent of the weighted average price, or should be minimum EUR 115 per 1000 cigarettes, and in this latter case the ratio to the price does not matter. A transitional period until 31 December 2017 was granted to Hungary to gradually raise the excise tax on cigarettes until it reaches the required threshold. Accordingly, after 1 January 2018 the minimum tax on cigarettes required by EU excise rules should have been applied in Hungary as well. Nevertheless, the tax rate applied in Hungary at present does not reach the EU threshold.[6]

[6] https://eur-lex.europa.eu/legal-content/HU/TXT/HTML/?uri=CELEX:62019CJ0856&from=EN

Chart 16
Changes of excise duty charged on 1000 cigarettes from 2018

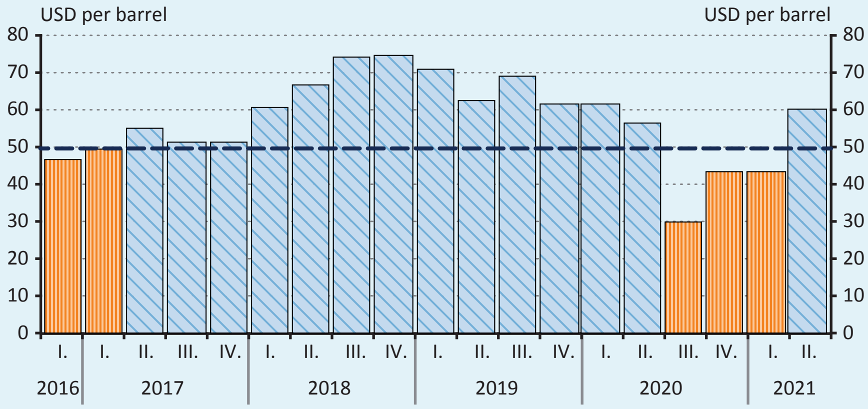


Source: Act LXVIII of 2016 on Excise Duties

Excise duty on fuel

The excise duty to be paid on fuel consumption rose between 1 July 2020 and 31 March 2021 as a result of the lower world market price of crude oil (Chart 17). Pursuant to the Act on Excise Duties adopted by the National Assembly in June 2016, the tax rate on fuels is linked to the world market price of crude oil, and the tax may be adjusted every quarter depending on the world market price of crude oil. Pursuant to the Act on Excise Duties,[7] 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. If the world market price of Brent crude is USD 50 or if it declines to below that level, the excise duty on petrol and on diesel oil increases by HUF 5 and HUF 10 per litre, respectively. Tax rates in a given 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, and this average price is also made public on the website of the NTCA.

Chart 17
Average price determined by Brent daily quotation data, required to determine the mineral oil tax rates



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

[7] Act LXVIII of 2016 on Excise Duties

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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