

**The Fiscal Council's Opinion**  
**on the Execution of the Year 2020 Central Budget Act and the Evolution of Public Debt**

**I**

**Antecedents, legal basis of the preparation of the Opinion and its publicity**

According to Point c) Indent (1) § 23 of Act CXCV of 2011 on the Economic Stability of Hungary (henceforth: Stability Act) the Fiscal Council (henceforth: Council, FC) shall formulate its opinion on the execution of the central budget act and the evolution of public debt.

Accordingly, the FC reviewed the processes of the execution of Act LXXI of 2019 about the year 2020 central budget of Hungary (henceforth: year 2020 budget act) throughout the year and the evolution of public debt.

Following its standard practice and methodology, in its evaluation the Council was building on the antecedents related to the preparation of the year 2020 budget bill and to Act XC of year 2020.

- In its Opinion No. 4/2019/06.03. formulated about draft of the year 2020 central budget bill the Council evaluated the trends of the world economy and the risks that, when realised, would negatively affect the growth prospects of the Hungarian economy. The Council found that „the revenue and expenditure appropriations of the draft document are fundamentally in harmony with the 2018 preliminary facts and the expected for 2019 data as well as with the macroeconomic and public finance processes planned for 2020”. At the same time, as regards the performance of the revenue appropriations beyond the implementation of the macroeconomic path – the FC deemed it also necessary that the Government introduced additional measures aiming at the whitening of the economy. In its Opinion, the Council recorded that by taking into consideration the safety reserves as well, „the FC considers the 1,0 percent GDP proportionate targeted deficit calculated by the EU methodology (ESA 2010) viable. Simultaneously, this is also in harmony with the Maastricht criteria and the same share (3 percent) required by Point b) Indent (2) § 3/A of the Stability Act”. Beyond this the Council also indicated that in 2020 the „structural deficit<sup>1</sup> shall not reach the targeted 1, 0 percent however, it is close to this share thus, it would be appropriate pondering its harmonisation with the target.” In its Opinion the FC also formulated that „the evolution of the year 2019 debt indicator (68, 6 percent of the GDP) calculated at standard rate of exchange, and the year 2020 debt indicator (65, 5percent of the GDP) as presented by the draft bill are in harmony with the year 2019 and the planned for year 2020 macroeconomic and fiscal processes and thus meets the stipulation of Indent (5) Article

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<sup>1</sup> The balance of the governmental sector cleaned of the effects of the economic cycle and individual items (Stability Act, Point e) § 1)

36 of the Fundamental Law (the so-called public debt regulation).<sup>2</sup> The planned degree of the debt rate decrease is in harmony with the respective regulation of the European Union concerning public debt (the so-called „one-twentieth rule<sup>3</sup>) as well.” Beyond the above, the FC also noted that it „deems it justified to implement already in 2019 the measures strongly improving productivity and efficiency thanks to what the economic growth rate exceeding the average of the European Union can be maintained, not only in 2020 but also in the medium term.”

- In its Opinion 5/2019.07.10 formulated for the final voting on the draft of the year 2020 central budget bill the FC stated that the measure of the public debt indicator planned for 31st of December 2020 was well founded and was determined in harmony with the respective regulations of the Stability Act. In the Justification section of the said Opinion the Council expounded that it had found the planned decrease of the public debt realistic and valid, in harmony with the expected macroeconomic and public finance processes [...], and its opinion has not changed, i.e. even in case of facing unexpected external circumstances and events – primarily those unfavourably affecting the factors of economic growth – the public debt rule shall be met.” However, in order to maintain the safe and favourable public finance processes, the FC considered it appropriate to carry on responsible fiscal management.
- In its Opinion 3/2020.05.21 evaluating the draft of the year 2021 central budget bill of Hungary – including the expected performance of the year 2020 macroeconomic and public finance processes – the Council stated that „ from the aspect of planning the 2021 central budget the spreading of the Corona virus pandemic was a decisive factor as its consequences have changed fundamentally the outlooks of both the global and Hungarian economy for 2020”. Apart from this, in the Justification section the Council also noted that „this new type of epidemic that became global by March 2020 has substantially redrawn the international economic and financial processes”, and „has considerably rewritten the forecasts concerning the growth of the Hungarian economy

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<sup>2</sup> In the course of executing the regulations of Indents (4)-(5) Article 36 as well as the stipulations of Indent (2)-(3) of Article 37 of the Fundamental Law the ratio expressed as a percentage has to be taken into consideration [...], rounded to one decimal place that contains

- in its numerator the value of public debt,
- in its denominator the value of the gross national product calculated as prescribed in the EU resolution concerning the European system of the national and regional accounts (Budget Act) and stipulated by § 2 of the Stability Act.

<sup>3</sup> According to Article 36 of the Fundamental Law as long as the public debt is exceeding half of the gross national product the National Assembly may accept only such central budget law that contains the decrease of the share of public debt to the gross national product. In harmony with the stipulation of § 4 of the Stability Act the central budget act shall determine the degree of the public debt indicator planned for the last day of the budget year. According to the amendment employed both at the preparation and the adoption of the year 2021 central budget act this share shall be determined so that the decrease of the public debt indicator compared to the reference year shall reach at least 0, 1 percent, beyond the implementation of the EU regulations concerning the public debt decrease.

<sup>4</sup> The debt rule of the European Union is defined by the EU regulation 1467/97 of 7th July 1997 and the Treaty on the Functioning of the European Union. According to the regulation the share of public debt to the gross national product (GDP) shall not exceed 60 percent. In case the public debt is exceeding this reference value, the departure shall have to be decreased annually at an average of one-twentieth part compared to the reference base of the previous three years.

as well". Additionally, the FC indicated that „Some forecasts presumed a drastic recession of the world economy that would even exceed the 2008 financial crisis". In the Justification section the Council emphasised that „the Government established three new funds to finance the measures related to the protection of the economy." [...] „The Epidemic Protection Fund shall ensure resources for medical supplies, the one-time wage supplement for healthcare providers and the extension of family allowances expiring during the crisis. The government shall use the resources of the Economic Protection Fund for the execution of the economic protection action plan, [...]. Beyond this they also established the Fund for Disease Prevention received from the European Union that serves the purpose of getting the possible supports arriving from the EU for disease prevention." The Council also fixed that: „In order to sustain Hungary's catching up it is necessary that – apart from the slowing down/stopping of the spreading of the epidemic and re-starting the economy – the domestic economy returned to the growth path in the third quarter, its capital intensive development, transfer to innovative production should continue and its competitiveness kept gaining momentum". Considering all this „the FC believes that the expectations of the government for the 2020 processes are realistic, [...] however, at the same time, it perceives certain risks as well". In its Opinion the Council also found that „the shift of the macroeconomic path is strongly affecting the expected degree of the year 2020 public debt indicator. Thus the FC acknowledges that the decreasing trend of the GDP proportionate gross public debt in the period of 2011 – 2019 is expected to turn around temporarily in 2020; according to the draft bill the degree of the public debt indicator will grow to 72, 6 percent". Additionally, the FC also expounded that „following the temporary growth in 2020, the decreasing trend of the public debt indicator shall return and it [...] shall decline".

- In its Opinion 6/2020.09.22 formulated on the basis of the first half of the year, as well as the processes of the months of July and August, about the state of the execution of the year 2020 central budget of Hungary and the expected evolution of the public debt, the FC considered that „the decisive factor of the year 2020 is the coronavirus epidemic the effects of what are strongly affecting both the Hungarian economy and the budget. [...] The effects of the pandemic have totally rewritten the economic path envisioned earlier. [...] The Council agrees with the fact that in this situation the amendment of fiscal goals becomes necessary, offering thus a greater elbow room for the Government to control the pandemic and soften the economic recession". In its Opinion the FC also indicated that „the escape clauses introduced both in the EU and the domestic fiscal frame made the overrun of the Maastricht criteria temporarily possible". As regards the evolution of the public finance deficit the Council acknowledged that „, primarily due to the state of emergency and the increasing of the expenditures required for the management of the economic consequences of the pandemic on the one hand, and the downturn of tax revenues from April – as a consequence of the economic downturn and the mitigation of employment, as well as that of the targeted tax reliefs – the deficit of the public finance central subsystem in the first half of the year amounted to HUF 1 837 billion". Substantially this is higher than the targeted deficit stipulated by the year 2020 central budget act. „The accrual-based balance of the budget in the first half of 2020

altogether indicated a deficit of HUF 1 246 billion, according to the data of the preliminary financial account published by MNB (Central Bank of Hungary)". Additionally the FC found that exercising the power due to the state of emergency, the Government „amended the budget act in the spring and among others, established the Central Reserve for the Prevention of the Epidemic as well as the Economic Protection Fund and increased the targeted deficit to 3, 8 percent. In August the financial government significantly increased the forecast for the annual deficit to 7 – 9 percent of the GDP". The Council considered that „such magnitude of the deficit offers and elbow room for the introduction of additional economic protection measures that – lacking adequate target – in the opinion of the Council is justified in order avoiding further setback". In its Opinion concerning the evolution of the public debt the FC laid it down that „the degree of the gross public debt in the share of the gross national product grew from the end of 2019 share of 66, 4<sup>4</sup> percent to 71, 9<sup>5</sup> due to the excess emission made necessary because of the high cash deficit and due to the decreasing GDP". The Council acknowledged that thanks to the issuing of additional sovereign debts to finance the increasing cash deficit as well as to the possible decrease of the nominal GDP, the government debt indicator might grow to 77 percent by the end of the year". The FC also laid it down that „the risk tolerance ability of the country has increased during the past years" and, additionally, „the growing public debt is also safely manageable". Finally, the Council noted that „repositioning the economic growth to the formal path continues to require significant, targeted fiscal measures strengthening competitiveness while also taking care of the convergence of the lagging regions".

- The fact that the financial government - in its transcript of 8th of April 2021 (865/2020) - informed the Fiscal Council about its measures related to the effects of the Covid-19 epidemic also belongs to the antecedents of the evaluation of the execution of the year 2020 central budget. Due to the extraordinary circumstances the FC formulated its evaluation of the contents of the supplied document in an online meeting by taking into consideration the SAO statement, the experts' opinion of the Central Bank of Hungary and analyses prepared by additional experts. The Council published its Opinion 2/2020.04.16. the same day. The FC agreed with the Government that „the coronavirus required rapid and powerful reaction all over the world [...] and that the reaction should be focused on three major fields: managing the health challenge, the compensating the negative effects due to the unavoidable slowing down of the economy and – following the emergency situation – to re-start the economy". Additionally, with respect to the new situation, the Council agreed that re-planning the budget was unavoidable to offbeat the health and economic consequences of the pandemic.

In harmony with its established practice, when evaluating the execution of the year 2020 central budget act and the evolution of the public debt the Council based its Opinion on the written analyses and findings prepared by the State Audit Office of Hungary and the Central

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<sup>4</sup> Due to the Revisions this was amended, according to the financial account of MNB in March 2021 this is 65, 5 percent.

<sup>5</sup> Due to the Revisions this was amended, according to the financial account of MNB in March 2021 this is 70, 3 percent.

Bank of Hungary about the fiscal processes of the year 2020 annual budget. Beyond these documents the FC also reviewed the data published by the Central Statistical Office (KSH), together with the economic analyses, evaluations of domestic research, analysing institutes commissioned by the FC Secretariat and those of international organisations (European Commission, OECD, IMF, World Bank). The Council also did take into consideration the contents of Hungary's programme for 2020 – 2024 and the 2021 – 2025 Convergence Programme.

The FC shall inform about its Opinion the Speaker of the National Assembly as well as the Government and shall publish this document on the website of the National Assembly.

## II

### Opinion of the Council

At its meeting held on 15<sup>th</sup> of April, 2021 and in harmony with the stipulation of Point c) § 23 of the Stability Act, the Council reviewed the major trends of the execution of Act LXXI of 2019 about the year 2020 central budget of Hungary as well as the background of the respective processes, together with the evolution of the government debt. The Council elaborated the following Opinion:

- 1) The coronavirus pandemic diverted the Hungarian economy from the balanced and dynamic growth path in 2020 and this turn has strongly affected public finance as well. Prior to this the foundations of the domestic economy were very favourable. The first wave of the epidemic reached Hungary in the first half of the year. The performance of the economy in the first half of the year – and especially in the second quarter – produced a significant relapse. The introduced fiscal measures of the Government and the monetary political steps of the Central Bank have softened the economic consequences of the pandemic. As a result of the strong foundations of the economy, the economic protection measures introduced by the Government and the market-stabilising and economic growth-supporting programmes of MNB the economic performance of the country declined by 5, 0 percent, compared to the previous year<sup>6</sup> i.e. more favourably than predicted by the respective forecasts.
- 2) The Council finds that in 2020 the cash deficit of the public finance central subsystem amounted to HUF 5.548 billion that is fifteen times higher than the amount set by the appropriation, while it is nearly five times more than the performance of the previous year. The composition of the cash deficit of the central subsystem was the result of the balance of the followings: the central budget deficit amounted to HUF 4.953, 5 billion, the deficit of the social insurance fund was HUF 641, 8 billion and, additionally, a surplus of HUF 46, 7 billion of the separated public funds. The high cash deficit, i.e. 11, 6 percent of the GDP was mostly the consequence of the expenditures made

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<sup>6</sup> Based on the adjusted by the calendar effect data the performance of the economy mitigated by 5, 1 percent compared to the previous year.

unavoidable because of the health-, economic and social effects of the coronavirus. The deficit growth was excessively high in the fourth quarter of 2020. Within it the deficit in December amounted to HUF 2.250 billion. At the same time, part of the end of the year expenditures stood for frontload expenditures that will bring relief for the financing of the coming years. Cash expenditures partly remained within the governmental sector or were used beyond the governmental sector in a way that meant the enhancing of state assets, thus the accrual-based deficit of the governmental sector turned out to be lower, compared to the cash deficit of the central subsystem.

- a) The economic relapse was playing a decisive role in the evolution of the public finance central subsystem's revenues due to the pandemic. Beside this, with respect to the lost revenues of families and businesses, the Government introduced tax and contribution reliefs. As a consequence of these two causes the planned tax and contribution revenues lagged behind the planned amount by HUF 1 040 billion. Within this loss social contribution tax, value added tax, corporate tax and personal income tax represented the biggest share. The effect of the new taxes introduced with the purpose of promoting disease prevention – taxes burdening the retail chains and the increased special bank tax – resulted in additional revenue amounting to HUF 100 billion. Beyond this, they improved the revenue position of the central budget by centralising a share of car taxation originally due to local governments, together with the additional revenues from public asset recovery and from taxes.
- b) The significant increase of revenues can be attributed clearly to the additional expenditures related to health and economy protection measures, due to the managing of the pandemic. These expenditures were not financed fully from the additional revenues or internal re-shifting of resources thus they resulted in a huge deficit. Within the expenditures of the Epidemic Control Fund amounting to HUF 1.027, 4 billion – among others – they financed the purchasing of medical supplies and the one-time additional allowance paid to healthcare providers. From the expenditures of the Economy Protection Fund amounting HUF 4.030, 5 billion they financed the supporting of developments of micro-, small- and medium size businesses to facilitate their adjustment to the business and production challenges. From the expenditures of the Economy Protection Fund amounting to HUF 4 030, 5 billion they paid supports for micro, small and medium businesses promoting their respective investments aiming adjustment to contemporary business and production challenges, the wage supporting programme aiming job creation and job protection, the programme of large enterprise investments, priority transport related projects, the Modern Cities Programme, the development of accommodation establishments, specific capital increases (MVM, MFB, Eximbank), resource allocations for asset management foundations, a wide range of increasing competitiveness and – among others – the second phase of the National Hauszman Programme.
- 3) The Council finds that the accrual-based deficit of the governmental sector in 2020, based on the EDP report, amounted to 8, 1 percent of the GDP that is higher than the 1,

0 percent laid down by the budget act and the 3, 8 percent targeted deficit that was increased in August. At the same time, it is lower than the 8, 6 percent announced by the financial government prior to the end of the year. The increasing of the targeted deficit was made necessary because of the health and economic protection measures.

- 4) The exemption clauses put in motion both in the EU and the domestic fiscal frame due to the pandemic temporarily allowed the exceeding of the Maastricht criteria. The Hungarian deficit data of 2020 can be regarded as average in regional and international comparison. According to the November 2020 estimation of the European Commission the deficit of the governmental sector reached an average of 8, 4 percent in the European Union, while it was 8, 2 percent in the Visegrád countries.
- 5) The Council acknowledges that the decreasing trend of the GDP proportionate gross public debt that took place ever since 2011 turned in 2020. The Maastricht government debt rate grew from 65, 5 percent at the end of 2019 to 80, 4 percent by the end of 2020. Apart from the high fiscal deficit the increasing of liquid reserves (KESZ-Single Treasury Account and foreign currency deposit), the economic recession and the revaluation of the foreign currency denominated debt were also playing a role, as well. As a consequence of the year 2020 decline of gross domestic product the exemption regulation of the Fundamental Law made the increase of the government debt indicator possible.
- 6) The Council sees that within the central budget debt in 2020 the currency ration increased to 19, 9 percent, as a result of the repeated issuing of foreign currency bonds throughout the year, compared to the 17, 3 percent a year before. This however is significantly lower than the 50 percent measured at the end of 2011, during the time of the previous crisis. The issued sovereign debt means owned by households also increased in 2020 however; its share decreased from 26, 5 percent to 25, 3 percent. The fact that the remaining average maturity date of Hungarian public debt grew by more than a year, i.e. to 5, 2 years in 2020, indicates the favourable shift in the debt structure by having long maturity bonds gaining importance. According to the Council the security of financing has become more significant.
- 7) The Council finds that all in all the fiscal management in the last year – harmonised with monetary measures – provided an adequate background for managing the pandemic situation, the protection of health, and the supporting of the economic restoration. Repositioning the economy to a sustainable growth path, softening the negative effects of the epidemic and health protection require targeted fiscal management assisting competitiveness also in the future while, cohesion of lagging regions also remains important. Following the return of economic growth, restoring balance shall also remain a priority, decreasing fiscal deficit and public debt rate included.

### III Justification

#### 1. Evolution of macroeconomic conditions

Building the strong foundations for the **expansion of the economy** in the past years and reviewing the respective documents of benchmarking international organisations (IMF, European Commission, OECD, World Bank), together with analyses prepared by other research institutions, the Government was calculating with a 4, 0 percent GDP growth in 2020. The economic consequences of the epidemic however, ruined the positive expectations – not only in Hungary but in the overall world economy.

According to the latest IMF evaluation the performance of world economy decreased by 3, 5 percent in 2020; that of the developed nations by 4, 9 percent while in the emerging countries it was lower than the performance of the previous year by 2, 4 percent. From among the world's nations it was only the Chinese economy that grew in 2020 (by 2, 3 percent). The winter evaluation prepared by the World Bank mentioned a 4, 3 percent downturn of world economy. According to the winter outlook of the European Commission the economy of the Euro zone shrunk by 6, 8 percent in 2020 while that of the whole of the EU by 6, 3 percent. The emergence of the coronavirus has changed fundamentally the economic conditions and with the passage of time it became clear that the virus might provoke unforeseen consequences, its length is not calculable and it affects seriously every country, even if to slightly different degrees.

The aforementioned international organisations have amended significantly their 2020 economic forecasts adjusting them to the various waves of the coronavirus epidemic and following the evaluations of the health and economic effects/consequences.

As regards the degree of the Hungarian economic downturn, the European Commission improved it in its last, winter forecast from the summer interim estimation of 7 percent to 5, 3 percent, the OECD to 5, 7 percent, the World Bank to 5, 9 percent while the IMF to 6, 1 percent.

Our year 2020 economic performance decreased by 5, 0 percent (according to the adjusted by the calendar effect data by 5, 1 percent). The value of the GDP amounted to HUF 47 743 billion at current price. In the end the downturn was smaller than expected as well as in comparison with the EU average and thus we managed to keep the chance to return to the cohesion path.

In our unfavourable economic performance the decline of the service industry (tourism, hospitality, leisure, logistics, service export, etc.) were playing a decisive role however, it is also reflecting the declining performance of the manufacturing and building industries due to the forced shutdown in the spring.

In order to soften the unfavourable economic consequences of the epidemic, the restarting of the economy, the protection of export markets, jobs and creating new opportunities the Government launched an Economic Protection Action Plan. In the frame of the Economic



Protection Action Plan employers and employees were granted for a given period differentiated job protection tax and contribution reliefs while small taxpayers enjoyed temporary tax waivers. Additionally, the budget tried to fix the transitory, marked downturn of demand for labour by reduced wage subsidies and – on sectoral basis – by temporary wage subsidies regarding restaurants' and leisure services. Moreover, businesses implementing staff increases despite the unfavourable economic environment also received job creating wage subsidies while the future employment of those forced temporarily to leave the labour market was assisted by the state in the form of training supports. Beyond the above, domestic businesses had the option to apply for new investment and export support incentives (support to improve competitiveness, capital guarantee, loan programmes). Large enterprises received exemption from paying corporate tax, while small and medium businesses received development resources for developments meeting the adjustment to the challenges of the times. The above measures have greatly contributed to the fact that the shrinking of our economy remained under the EU average.

The quick and efficient steps of the Central Bank of Hungary have also contributed to the mitigation of the negative consequences of the coronavirus epidemic as regards real economy and money markets. Beginning with spring 2020 the MNB's response was the significant expansion of the central bank balance sheet as a result of what the central bank ensured altogether HUF 5 900 billion worth resources for the actors of the economy up to the end of 2020. The purchase of government securities by the central bank contributed to maintaining the stable liquidity position of the government securities' market, apart from the strengthening of the monetary transmission. Apart from this, with the assistance provided by the Growth Scheme 'Hajrá' MNB ensured resources for the small and medium sized businesses to ensure their continuous existence and realising their investments while, by the Growth Bond Programme businesses could get access to long term, predictable resources. In 2020 the fact that MNB paid a historically high dividend worth of HUF 250 billion to the central budget also contributed to the financing of the state.

*On production side* the 5, 0 percent GDP decline was the result of the decline of services by 2, 7 percent, industry by 1, 0 percent, building industry by 0, 5 percent and agriculture by 0, 2 percent. The added value of industry turned out to be less, by 4, 9 percent, building industry by 9, 4 percent, services by 4, 7 percent and agriculture was less by 6, 8 percent compared to the previous year. *On consumption side* the final consumption contributed to the decline of the GDP by 1, 3 percent, the gross accumulation by 1, 5 percent, and the balance of foreign trade turnover, by 2, 1 percent. The volume of final consumption was less by 2, 0 percent while the gross accumulation was less by 5, 5 percent (within this category, the gross fixed capital stocks, by 7, 3 percent). The volume of export moderated by 6, 8 percent and that of the imports by 4, 4 percent.

It was favourable that in the second half of the year the economy was showing signs of recovery. In the fourth quarter the economic performance turned out to be greater by 1, 3 percent than the same result in the third quarter while, compared to the same quarter of the previous year, it was less by 3, 5 percent (according to the seasonal and calendar effect adjusted data it was less by 4, 1 percent). In 2020 the *industrial production* declined by 6, 2 percent following the growth (5, 6 percent) of the previous year. The low point of production

volume was in April and May (-36, 9 percent in April and -30, 8 percent in May) while, beginning with the end of the summer it kept growing month by month compared both to the same period of the previous year and the previous month. Looking at the year as a whole the decline was significant in vehicle manufacturing (11, 5 percent), while computer, electronic and optical equipment production grew by 0, 9 percent, and the production of food, drinks and tobacco goods grew by 1, 1 percent. The decline in the volume of *production in construction* was the highest in May-June and July, compared to the previous year (by 17, 4, 16, 2, and 21 percent) then they could increase production compared to the previous month however, it did not reach the result of the previous year. Thus, in the whole year the production volume decline by 9, 2 percent.

In the last five years the **investment rate** exceeded both the average of the Visegrád countries and of the European Union. This result can be attributed to the improving domestic economic environment, the significant utilisation of the EU resources and the strong capital attracting abilities. Finally and altogether, in 2020 this rate was 27, 3 percent, slightly exceeding the 27, 1 percent in 2019. The coronavirus epidemic already broke the trend of continuous expansion of investments in the first quarter and the volume of developments was lagging behind the result of the same period of the previous year by 0, 4 percent. The braking effect of the epidemic was markedly manifested in the second and third quarters when the volume of investments fell back by 8, 6 percent, respectively by 10, 8 percent in comparison to the same period of the preceding year. The decline was somewhat moderate in certain fields (healthcare, IT, communication, commerce, public administration); respectively a certain amount of slight expansion was also visible. Mostly the large companies (primarily foreign groups and state owned companies) were the ones that mitigated their investments (among those, the launching of several big investments supported also by the government were postponed). The decline that was a characteristic feature in the first three quarters was followed in the fourth quarter by improvement as developments grew by 4, 8 percent compared to the previous quarter and by 2, 5 percent compared with the same period of the preceding year. The volume of national economy investment throughout the year declined by 3, 8 percent; within this building industry investments by 2, 8 percent, the machine and equipment investments by 5, 4 percent. From among the most significant investing sectors the performance of processing industry fell back by 8, 1 percent, transport and storage by 9, 5 percent, compared to the previous year. At the same time the performance of investments in the health industry increased by 15, 5 percent and in case of real estate transaction by 16, 1 percent. It is remarkable that in 9 cases in 2020 new investments in the range of HUF 50 – 100 billion and in 13 cases new investments in the range of HUF 10 – 40 billion were announced. These in perspective mean new jobs (partly with the contribution of the government) and shall increase the economic potential.

**The number of newly built/delivered homes** increased by 34 percent in 2020 (28 208 new homes were delivered). The highest number of homes were built in Budapest (6 341 homes) and the number of newly occupied homes grew in each settlement type. The number of building permits issued in 2020 and the number of new homes to be built on the basis of simple notification amounted to 22 556 that represented less by 36 percent compared to the previous year. Lagging behind was typical in each settlement type; by 39 percent in county

towns, by 32 percent in the other towns and by 14 percent in municipalities. Housing mobility might be affected by the preferential home creation and renovation discounts announced in the meantime.

The **gross and net average salary** grew equally by 9, 7 percent in comparison to the data of the previous year as consumption prices grew by 3, 3 percent while real earnings grew by 6, 2 percent. The average gross earning of those working full time was HUF 403 600 – based on businesses employing at least five people, together with fiscal organisations and non-profit organisations – while the national economy level average salary amounted to HUF 268 400. Non-regular earnings (bonuses, rewards) exerted considerable effect on the evolution of the average earnings together with the pre-determined increases of minimum wages and the guaranteed wage minimum, the continuing wage increases of healthcare providers and the special bonus paid to them during the year.

The average number of **employees** throughout the year was 4 603 thousand that is less by 41 thousand compared to the data of the previous year however, it was an encouraging sign that by December the average number of employed between the 15 - 75 age group became 4 633 thousand. In case of the 15 – 74 age group the employment rate increased to 62, 1 percent, following the decline in the first half of the year (lagging behind the data of the previous year by 0, 5 percent). In comparison to the previous year the number of unemployed grew by 38 thousand to 198 thousand while the unemployment rate grew by 0, 8 percent and reached 4, 1 percent. As a consequence of the declining performance, due to the epidemic, the number of those seeking jobs and registered at the National Employment Agency grew to 291 thousand by December (that is more by 56 thousand than a year earlier). The aforementioned governmental measures promoted the reversion of the labour market. Thanks to these approximately one million employees received labour market or training support in 2020. According to the December calculations of the Ministry of Finance the above measures protected 600 thousand jobs.<sup>7</sup>

The options for **commercial accommodations** were also affected by the protection measures serving the purpose of controlling the coronavirus epidemic respectively, the travel restrictions. Following the outbreak of the pandemic (in the second quarter) tourism practically stopped. At the same time, following the reliefs introduced after the first wave of the epidemic domestic tourism flourished to be followed by another setback and the reintroduction of restrictions accompanying the resurgence of the epidemic in the fourth quarter. For the year as a whole, the number of guest nights spent in hotels, pensions, camping sites, dwelling house sites and community accommodations was less by 58 percent (13 million nights) than in the previous year. Accordingly, the gross revenues also declined by 59 percent compared to the previous year (resulting in foregone revenues for the concerned businesses (amounting to HUF 334 billion).

The volume of **retail turnover** declined by 0, 3 percent – according to the calendar adjusted data – compared to the previous year (it grew dynamically in the first three months, during the summer months – July, August - essentially it stagnated while in the remaining seven months it declined in various degrees while the month of April witnessed the greatest decline,

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<sup>7</sup> Macroeconomic and fiscal forecast, December 2020-2024, December 2020

amounting to 10, 3 percent). Within this the volume of retail commerce grew by 3, 0 percent, the share of non-food retail revenues decreased by 0, 4 percent and retail sales of fuel by 9, 9 percent. The strict restrictions (shutting down shops, limiting opening hours, etc.) due to the second wave of the coronavirus epidemic prevented the continuation of the growth trends typical for the previous years.

On average **consumer prices** increased by 3, 3 percent. Food prices increased significantly (by 7, 2 percent) in the last year, to be followed by alcoholic drinks and tobacco goods (by 6, 9 percent that in case of these articles were primarily the consequence of the two tax increases introduced in harmony with the respective EU regulations) and finally, the price of services (by 2, 9 percent), durable goods (by 1, 4 percent) and domestic energy (by 0, 3 percent).

## 2. Fiscal processes

### 2.1. Evolution of revenues

In case of the combined revenues of the public finance **central subsystem** the realisation amounted to HUF 22.865, 4 billion that represented 106, 7 percent of the annual appropriation (exceeding the previous year by 6, 1 percent). Within the revenues tax and contribution revenues were foregone by HUF 940 billion, primarily due to the effect of the lost tax revenues following the economic recession caused by the coronavirus pandemic. Specific economy protection measures of the Government to mitigate the tax burdens of the businesses and the population also contributed to the revenue losses. On the other hand however, the decreasing of the tax bases was mitigated by the increase of the economic protection and economy stimulating measures. The result was a loss of HUF 1 040 billion worth revenues that was slightly counterbalanced by the increased special banking tax burdening commercial chains (by HUF 100 billion).

Within the subsystem, the revenues of the **central budget** amounted to HUF 16.116, 1 billion that equalled 70, 5 percent of the grand revenue total of the central subsystem.

The total of **payments of business organisations** amounted to HUF 1.610, 8 billion that was lagging behind the annual appropriation by 4, 7 percent (however, in amount it exceeded the revenues of the previous year by HUF 196, 5 billion). In this revenue group and compared to the previous year, **corporation tax** did show a significant revenue shortfall where the realisation was HUF 406, 5 billion (81, 1 percent) but in amount it was higher by HUF 103, 2 billion compared to the data a year before. The fact that last December (in 2019) they terminated the obligation to supplement the advance tax (also known as: top-up) has been abolished exercised a favourable effect on mid-year evolution of the revenue. As a consequence, the difference of the corporate tax advances paid in 2019 and the actual (annual) tax payment obligations were paid in the budget by the taxpayers in 2020.

The realisation exceeding the appropriation was 114, 1 percent in case of *environmental charges* and 123, 6 percent in case of *other payments*. In the spring period of crisis management they increased the degree of special *taxes for banks* and introduced the *special*

*retail tax* (this resulted budget revenues amounting HUF 47, 6 billion), in case of *credit institution annuity* the accounting was effectuated on the line of special tax of financial institutions thus, the joint revenue was HUF 120, 5 billion (185, 4 percent).

The payments of *company car tax* (98, 9 percent), the realisation of *gambling tax* (98, 4 percent) and of the *utility tax* (97, 2 percent) were close to the appropriation. The payment of *the income tax of energy suppliers* was considerably lower than the amount stipulated in the annual plan (85, 6 percent), just like the realisation of *mining royalties* (80, 9 percent). Revenues from the *fixed-rate tax of small taxpayers* was HUF 158, 2 billion (82, 1 percent of the realisation) despite the fact that the number of taxpayers belonging to this category has significantly grown. The considerable lagging behind the plan reflected by the cash result was the result of the negative economic consequences of the coronavirus epidemic together with the effect of governmental measures aiming the mitigation of the negative consequences (for example the write off of tax liabilities in the period of March-June, 2020). The number of those falling in the category of *small business taxpayers* has grown considerably due to the phasing out of the simplified business tax, so the realisation was 95, 2 percent. In amount this revenue was higher by HUF 12, 9 billion compared to the previous year however, it was lower by HUF 4 billion than the annual appropriation. This was affected decisively by the fact that when they assessed the taxes to be paid by businesses falling in the category of the 24 branches that had been especially hit by the crisis, personnel costs for the months of March to June had not had to be considered as part of the tax base.

From *other centralised revenues* HUF 553 billion was paid in the central budget (realisation: 94, 4 percent). In amount it was less by HUF 7, 5 billion when compared to the revenues of the year before. Within this the decisive revenue came from *the rehabilitation contribution* (HUF 108 billion) respectively, the electronic and time-based road toll (with respective revenues amounting to HUF 217, 1 billion and HUF 62, 2 billion). In comparison to the revenues of the previous year shortfalls occurred in case of environmental product fees, time-based road toll and landfill tariffs. The significant shortfall of the *time-based road tolls* was the consequence of the economic shutdown in the spring and the introduced measures aiming the limitation of the spreading of the epidemic (transport and route obstacles, limits).

From **consumption-related taxes** the budget received HUF 6.267, 5 billion that is 94, 4 percent of the annual appropriation. The realisation of each of the taxes falling in the category of this revenue group – with the exception of two (telecommunication tax and insurance tax) fell short of the annual appropriation. The performance of the *telecommunication tax* was 105 percent (exceeding the appropriation by HUF 2, 7 billion) while the realisation of *insurance tax* was 100, 6 percent. The performance of *registration tax* was 73, 4 percent - mostly the result of the intensive decline of car selling lasting for months (picking up and recovery were experienced only from the third quarter). The performance of *tourism development contribution* was 27, 6 percent (in amount HUF 9, 9 billion) as following the Government's decision that exempted the concerned businesses from paying this tax from 1st of March to the end of the year. Payments of *financial transaction duty* was lagging behind the annual plan by 3, 8 percent due to the lower number of transaction associated with the economic slowdown and the credit repayment moratorium. Additionally, the lagging behind the previous year's revenues can be explained by a new tax regulation introduced at the beginning

of the year, i.e. treasury operations were not burdened by the obligation of paying levies. The performance of *value added tax* was 93, 9 percent (in the amount of HUF 4.669 billion that was lagging behind the annual appropriation by HUF 301 billion, i.e. 6, 1 percent however, it exceeded the data of the previous year by HUF 137 billion). The reason of this significant shortfall was the crippling effect of the coronavirus epidemic on the economy – especially prevalent in the second quarter – and the consequence of economy protection measures aiming to assist the small and medium businesses (the latter measure decreased the deadline of refunding VAT to trustworthy taxpayers from 30 days to 20 days, in case of normal taxpayers from 75 days to 30 days and thus supporting the liquidity position of the concerned businesses. The latter however did not concern the accrual-based balance and decreased only the cash balance in 2020. The VAT paid after the purchase of equipment required for the protection against the coronavirus (ventilators and other medical and health care aids) as well as the increasing turnover of tobacco products moderated the loss of revenues. From *excise duties* the revenues of the central budget amounted to HUF 1.196 billion (97, 5 percent of the appropriation) that was less by HUF 31 billion than the appropriated revenue however, exceeded the result of the previous year by HUF 19 billion. The revenues were affected on the one hand by the downturn of fuel sales – especially significant in the second quarter – that was followed by stagnation due to the restrictions introduced in the course of the coronavirus protection. This was slightly compensated by the tax increase due to the USD 50/barrel average oil price in the second half of the year. On the other hand, the raise of excise duty – prompted by the requirement of harmonising the respective EU regulations – and the expansion of the commerce of tobacco goods exerted a positive effect on the revenues.

**Retail payments** ensured revenues for the central budget in the amount of HUF 2. 827 billion (realisation 97, 5 percent). In this revenue group the *personal income tax* represented the largest share (HUF 2.527, 7 billion) that meant 96, 9 percent realisation. The year 2020 realisation was higher by HUF 103 billion than the data of the previous year however, this represented revenues less by HUF 81 billion than the year before. By destroying economic activity, the coronavirus exerted a decreasing effect throughout a significant part of the year (this effect was especially significant in the second quarter) as regards personal income tax revenues. This was counterbalanced by the fact that in the first quarter the economic boom was still holding and wages were growing in relation to the performance of the previous year. The performance of the annual appropriation of *payments of the levy* was 90, 3 percent. This result was less by HUF 8 billion even compared to the same category of the previous year. The presumably temporary slow-down of real estate turnover – due to the epidemic – was a factor in this regard. HUF 85, 3 billion arrived in the budget from *taxes on motor vehicles* the original appropriation in this category was HUF 51, 5 billion and it significantly exceeded the appropriation because of the centralisation of the tax share originally due to the local governments. The share of taxes on motor vehicles originally due to local governments was redirected to the Central Reserve of the Epidemic Protection Fund with regard to the medical emergency.

The revenues of **fiscal organisations and chapter-managed appropriations** amounted to HUF 2.648, 5 billion, i.e. 185, 2 percent of the annual appropriation. From this HUF 2 220 billion originated from fiscal organisation, i.e. 160, 1 percent of the appropriation. In case of

the professional chapter-managed appropriation the realisation was more by more than ten times (HUF 447, 2 billion) than the appropriation that was more by 307 billion than the respective data of the previous year. In case of both items and similarly to the previous years, was the result of the accumulations within the central subsystem. The realisation of the chapter managed EU appropriations was HUF 1, 2 billion that was 8, 4 percent of the annual appropriation.

**Payments related to public assets** (related to properties, movable properties, dividends, other revenues) reached HUF 292, 3 billion (179, 9 percent of the realisation). The decisive share of the realised appropriation was covered by the revenues related to frequency utilisation, amounting to HUF 128, 5 billion. Additionally, revenues related to the assets in the trust of MNV Zrt. (Hungarian National Asset Management Inc.), revenues from concession fees and dividend revenues.

The performance of **debt service (interest) revenues** amounted to more than seven and a half times than the appropriation, i.e. HUF 245 billion. In case of these revenues exceeding the appropriation the decisive factor – similarly to the previous years – was that the yields were favourable thus, they could sell the bonds with a significant profit margin. The profit margin realised on the highly held asset stock also contributed – to a lesser degree – to the increased profit revenues.

Under the title of **EU revenues** HUF 1.698, 9 billion was generated in 2020. Within this „Revenues of EU programmes amounted to HUF 1.681, 1 billion that represented 113, 4 percent of the annual plan. Under the line „Posterior reimbursement of EU supports” revenues worth of HUF 1, 9 billion arrived, the basis of what constituted of residue and account balance transfer. Under the title of reimbursement of the cost of collecting duties, the budget received HUF 15, 9 billion that represented 92, 8 percent of the annual appropriation.

Under the title of payments to the **Central Residual Fund** fiscal organisations and chapter managed appropriations paid HUF 339, 1 billion in 2020. The amount of the payments was more by HUF 53 billion compared to the previous year.

The performance of the combined revenue appropriation of **separated state funds** was 133, 9 percent (HUF 848, 4 billion). The revenues of the *National Employment Fund (NFA)* that is playing a significant role within the separated state funds – 60 percent – amounted to HUF 461, 3 billion (109 percent of the realisation of the annual appropriation). Within this, the reimbursement of the expenditures the pre-financed EU programmes was 169, 8 percent, that of the vocational levy 94, 2 percent, the share of health insurance and labour market contribution due to NFA was 96, 2 percent (In 2020 NFA did not receive a share of the social contribution tax). Realisation of revenues at the *Central Nuclear Fund* was 374, 2 percent, of *the Bethlen Gábor Fund* was 301, 4 percent, at the *National Cultural Fund* 147, 3 percent and at the *National Research, Development and Innovation Fun* was 100, 3 percent.

The revenue appropriation of **social security funds** was realised to 94, 0 percent (HUF 5.900, 8 billion) and within this the revenues of the **Pension insurance fund** were realised to 93, 1 percent while the Health Insurance Fund reached 95, 4 percent. The under-implementation from the annual appropriations can be traced back fundamentally to two reasons: on the one

hand the unfavourable macroeconomic effects of the coronavirus pandemic (in the field of production and consumption) throughout three quarters of the year while, on the other hand, it was the result of the shortfall of revenues due to the contribution benefits and exemption introduced to soften the economic recession. A decisive share of the social security fund's revenues (97, 0 percent in case of the Pension insurance fund, 66, 9 percent in case of the Health Insurance Fund) arrived in the budget under the title of social contribution tax and contributions. The revenue of the *Pension insurance fund* (henceforward: Fund I.) from this source (HUF 3.239, 9 billion) fell short from last year's revenues by 81, 3 percent (and from the year 2020 plan by HUF 369 billion). The share of Fund I. from the social contribution tax in 2020 grew to 71, 63 percent compared to the 70, 22 percent of the previous year however – in harmony with the six year wage agreement – the degree of the social contribution tax decreased to 17, 5 percent beginning with July 2019 to be decreased further by 2 percent as of July 2020. Additionally, as a consequence of the coronavirus pandemic crisis the various discounts granted to employers and employees also had a decreasing effect on the revenues throughout nearly half of the year. It was a favourable factor that within the tax and contribution revenues the pension contribution paid by the insured grew by 4, 6 percent compared to the previous year (in amount by HUF 68, 1 billion). The annual growth of gross earnings were playing a decisive role in this result however, the measures intended to ease the burden of contributions exerted a mitigating effect on the revenues. The revenues of the *Health Insurance Fund* (henceforth: Fund II.) originating from the social contribution tax and contributions amounted to HUF 1.713, 5 billion and exceeded the revenues of the base year (2019) by 0, 4 percent, in the amount of HUF 7, 4 billion. From the total revenues of Fund II. HUF 670, 6 billion was the share of the social contribution tax and HUF 1.042, 9 billion originated from the health insurance payments of the insured. In 2020 the share of the Fund from the social contribution tax was 38, 37 percent. The practice of using the late payment surcharge and fines aiming the improving of payment discipline significantly contributed the results in case of both funds (the revenue realisations were 113, 4 percent, respectively 110, 8 percent).

Beyond the macroeconomic effects the yearly evolution of the revenues of both funds were also affected by the fact that as of 1st of July 2020 they amended to social security act according to what amendment each and every full-fledged retiree is eligible for full contribution exemption in case the person is working. Additionally, due to the combination of contributions burdening the employees the minimum contribution base of entrepreneurs shall decrease and the family discount became deductible from the total contribution obligations.

## **2.2. Realisation of the expenditures**

The **combined expenditures of the public finance central subsystem** amounted to HUF 28.414 billion – similarly to the revenues, without consolidation – in 2020. This means more than in the previous year by 25, 3 percent while compared to the appropriation; it was more by 30, 4 percent. The considerable growth – in comparison to both the appropriation and the facts of the previous year – was the consequence of the health and economy protection-related additional expenditures due to the coronavirus pandemic that had not been financed by



supplementary revenues, internal reallocation of sources. The Epidemic Control Fund served the latter goals, on the one hand. The expenditures of this Fund amounted to HUF 1.027, 4 billion appeared in the fiscal organisations (for example under the title of purchase of medical supplies of specific ministry chapters) or the single allowance paid to healthcare providers at the Health Insurance Fund. On the other hand, the expenditures of the Economic Protection Fund amounted to HUF 4.030, 5 billion. These were manifested primarily in the expenditures of the fiscal organisations and chapter managed appropriations, public asset maintenance, individual and normative supports and the expenditures of the National Employment Fund.

**Expenditures of the central budget** within the central subsystem amounted to HUF 21.069, 7 billion, i.e. 74, 1 percent that was more by 2, 5 percent than in the previous year. The realisation exceeded the appropriation by 41, 6 percent while the realisation of the preceding year by 31, 7 percent. The transfer of expenditures related to epidemic management was playing a significant role in this and meant a larger amount of accumulation within the expenditure total of the fiscal organisations (for example, the expenditure appropriations transferred to the Economic Protection Fund exceeded HUF 942 billion).

The **expenditures of fiscal organisations and chapter-managed appropriations** made up the largest item this time too. They used HUF 14.451, 3 billion for this purpose that represented 129, 9 percent of the previous year's result and 158, 2 percent of the appropriation. The excess expenditures were mostly financed from the above two funds established in response to the costs of the pandemic of last year.

- From the joint expenditures arising *at fiscal institutions* amounting to HUF 7.380, 9 billion exceeded the planned amount by 56, 2 percent while by 18, 5 percent of the similar data of the preceding year. From this amount they used HUF 3.537, 9 billion for wages and contributions that means more by HUF 199, 7 billion when compared to the year before. From these expenditures they were paying for the purchasing of medical supplies, besides tanks, infantry combat vehicles and helicopters, as well as supports for the expenditures related to additional needs of educational institutions maintained by asset management funds, etc. The fact that for the third year in succession the budgetary chapters had paid the appropriation amounts not burdened by obligations to the Central Residual Clearance Fund from where the Government distributed the amounts and the chapters (institutions) used them (as we saw in case of the revenues) was also affecting the considerable divergence from the plans (accumulation).
- They used HUF 5.045, 0 billion for the *expenditures of other appropriations managed by professional chapters* that was exceeding the appropriation by 85, 1 percent and was higher by 51, 5 percent than in the previous year. Some of the outstanding expenditures were related to the investment developments financed in the frame of the Economic Protection Fund (for example: the Budapest – Belgrade railway development project, investments of large enterprises, priority road projects, the Modern Cities Programme, development of accommodation facilities, capital increase for public companies, etc.) supports for increasing competitiveness (for example: developments assisting micro, small and medium size businesses in converging to contemporary business and production challenges or developments of the health industry). One tenth of the

expenditures served the purpose of normative financing thus, supporting human services public education, faith and morals education and promotion of textbooks, public education agreements, and human services, promoting social purposes and supporting non-public higher educational institutions. They used significant amount for freeway availability pay, the maintenance and operation of the public road network, financial compensation for the Tihanyi Fund, national agrarian supports, cross-border economic development programmes, the protection of religious built heritage and the programmes of the Village Road Fund.

- The amount paid *for expenditures related to EU programmes* was the highest when looking at the past three years i.e. HUF 2.025, 4 billion that was 120, 4 percent of the annual appropriation and 129, 3 percent of the execution of the previous year. The major part of the expenditure was used for the operational cohesion programmes of the 2014 – 2020 programme period. These were paid in the framework of the Economic Development and Innovation Operational Programme, the Integrated Transportation Development Operational Programme, the Rural Development Operational Programme and the Territorial and Settlement Operational Programme. On this basis more than 50 percent of the resources paid in the subject year served direct economic development goals. The value of the announced tenders of the Szécheny 2020 programmes related to the EU budget cycle increased to 10.774 billion by the end of the year that was 111 percent of the allocation worth of HUF 9.713 billion while the resources of the contractual tenders amounted 109 percent of the allocation. By this time the value of the payments was above HUF 8.760 billion that meant 90 percent of the total allocation. The actual utilisation of the EU allocation reached 63 percent at the end of the year that is, from the year 2014 – 2020 cohesion budget worth of EUR 25 billion, Hungary has approximately EUR 9, 5 billion (about HUF 3.400 billion) still to be drawn by the end of 2023. The advance payments amounted to HUF 867 billion, thus exceeding the year 2019 amount by HUF 200 billion. The degree of the utilisation of advance payments from the domestic budget to be realised with EU supports increased in 2020 (to HUF 1.250 billion) thus the total of the unused advances held by the beneficiaries mitigated significantly i.e. by close to HUF 400 billion compared to the end of year 2019 and amounting to 2.400 billion.

The amount of the used HUF 813, 2 billion for the **support of individual and normative aids, the support of public broadcasting and social policy fairs** was significantly more than the appropriation (by 40, 9 percent) and then the same data of the previous year (by 37, 7 percent). The major part of these increases originated from the reimbursements paid to compensate the lost revenues due to the pandemic, in passenger transport fees of public transportation and reimbursement of the operation costs of rail network maintenance as well as the additional capital injections for public companies of this industrial branch.

The **amount of housing promotion** was HUF 251, 5 billion that, compared to the previous year turned out to be more by HUF 60, 3 billion, mostly as a consequence of expanding the home creation discount for families by new elements as of 1st of July, 2019. The expanding of the eligibility to obtain supports for large families to decrease their respective mortgage loans, introduced also as of 1st of July, 2019 as well as the considerable increase of the

amount of the obtainable support also resulted in increase. Apart from the above, the expansion of the number of people applying for these supports was also an important factor.

From the **National Fund for Family and Social Policy** the utilisation was HUF 657, 3 close both to the appropriation and the performance of the previous year. Within the Fund's expenditures *family allowances* made up the most considerable share (61 percent, nearly HUF 400 billion) in 2020 as well. The amount of child benefit from this was slightly less than in the previous year – HUF 308, 4 billion – as the number of those not eligible anymore for such support was higher than the newly eligible. The expenditures of the other, important family supports (child care allowance, child-raising allowance and start-up support) essential were the same as in the previous year. The expenditures of GYES (childcare allowance) contained the effect of the extended benefit of expiring benefits during the period of the pandemic as well. The expenditure of the *underage benefits* was HUF 92, 9 billion that represented a minimal growth compared to the preceding year. They used HUF 141, 5 billion for *replace of lost income and income supplements* that was more by 3 percent that in the previous year. Within this the largest amount covered the district social tasks, including the 5 percent raise of care allowance and the close to 24 percent raise of home care allowance of children.

They transferred HUF 821, 1 billion worth of **support for the local governments**, i.e. more by 11, 1 percent partly as a result of increases and partly as a result of cuts compared to the appropriation. From the more than HUF 152 billion increase HUF 41, 5 billion came from the Economic Protection Fund, intended mostly for the preparation of related investments. The rest was the result of using supports not utilised in the previous year and intended primarily for developments, supporting new developments, other operational programmes and within the latter, sectoral career programmes, wage development programmes to catch up with the minimum wage and investment programmes by shifting resources between chapters. From the cuts exceeding HUF 60 billion the shifting of HUF 46, 9 billion arises as a contribution to the Epidemic Control Fund, due to the pandemic (this was in harmony with the centralisation of the share of motor vehicle tax due to local governments). Apart from this the appropriation of supports for local governments regarding their cultural tasks was transferred to the EMMI chapter (Ministry of Human Resources).

The amount of cash **interest expenditures** was HUF 1.225, 4 billion, thus exceeding the appropriation (by 13, 7 percent) and the amount of the previous year (by 11, 3 percent). The considerable increase of net issuing mid-year contributed to the increase of the expenditures that was prompted by the need to build reserves necessary to establish security in the economic and money market situation created by the pandemic and financing crisis management measures.

The item of **contribution to the EU budget** was HUF 449, 8 billion that was 113, 1 percent and 123, 1 percent compared to the previous year. Because of the amendment of the EU budget the payment was higher partially due to natural disasters (earthquake in Croatia, floods in Poland) and partially because of the COVID-19 pandemic. In the course of executing the expenditure and revenue sides of the EU budget they also performed supervision resulted in the increase of payments.

The **total of public assets related expenditures** was HUF 1.304, 6 billion, i.e. 283 percent of the original appropriation. This was made possible by the large sized transfers from the Economic Protection Fund to finance public investments and capital increases.

In 2020 **other expenditures** were relatively high – HUF 174, 5 billion – (in the previous year it amounted to HUF 112, 0 billion while the appropriation was HUF 130, 1 billion). The expenditure related to the termination of cushion gas represented a significant, one-off item (this had not been calculated in the budget act). Beyond this the expenditures used for baby support are also noteworthy as they represented a considerable increase compared to 2019. The explanation for the increase is that this support was available already throughout the whole year.

2, 8 percent of the central subsystem's expenditures were used for the purposes of **separated funds**. The effected HUF 801, 7 billion was considerably higher than the appropriation (by 25 percent) as well as compared to the previous year's realisation (by 29, 6 percent). The largest increase nominally occurred at the *National Research, Development and Innovation Fund* together with the *Bethlen Gábor Fund* that is serving national political goals. In case of the *National Employment Fund* the expenditure amounting to HUF 452, 7 billion was close to the same as the amount spent in the previous year and greater by 5, 1 percent than the appropriation. The decline of the expenditure of the Start Labour Programme continued as the number of those employed in public works has decreased. At the same time the passive expenditures grew by one and a half times compared both to the previous year as well as to the appropriation due to the increasing loss of jobs because of the epidemic and the effect of the raising of the minimum wage. The advance payments related to the job creating and job protection wage supports related to the Economic Protection Fund appeared in the Fund's expenditures (this is being reimbursed from EU resources).

The total expenditures of the **social security funds** were HUF 6.542, 9 billion, i.e. 104, 4 percent of the appropriation while 108, 1 percent of the year 2019 expenditures. The expenditures of the funds represented 31, 1 percent of the central subsystem.

In 2020 the expenditures of the **Pension Insurance Fund** amounted to HUF 3.651, 9 billion that was thus higher by 4 percent than the amount in 2019 while it was more by 1, 8 percent compared to the appropriation. The increase of *retirement provisions* with this was the same, amounting to HUF 3.654, 7 billion that represented additional resources compared to the previous year, amounting to HUF 143, 4 billion. The payments contained also the effect of the 2, 8 percent pension increase implemented at the beginning of 2020 as well as that of the mid-year pension increase. The latter was performed because the pensions' inflation rate calculated by the Central Statistical Office in the first eight months exceeded the degree of the beginning of the year pension increase stipulated by the year 2020 budget act. According to this in November 2020 the pensions increased retroactively by 1, 2 percent and the beneficiaries received the compensation in a single payment.

From among the Social Security funds, by the end of 2020 the expenditure weight of the **Health Insurance Fund** increased by 2, 2 percent and was 44, 2 percent by the end of 2020. From the fund they used HUF 2.890, 7 billion that means 107, 8 percent of the appropriation and 113, 8 percent of the previous year's result. Major part of the increment was used for

*curative and preventive care* that amounted to HUF 1.612, 2 billion in the subject year as opposed to the HUF 1.340, 7 billion in 2019. The bigger expenditure was the result of the debt settlement executed several times throughout the year (HUF 90, 8 billion), the one-time extraordinary payment for healthcare providers (HUF 101, 3 billion from the Epidemic Protection Fund) and the phased wage increases. The amount of HUF 748, 6 billion served the purpose of *financing cash benefits* that was higher by 8, 7 percent than the similar expenditures in the previous year. From among the cash benefits the amount used for childcare was increased by 15, 6 percent while the amount used for sick pay increased by 18, 0 percent compared to the previous year. At the same time, the expenditures for disability benefits and rehabilitation slightly decreased in the subject year compared to the year before. The extension of the eligibility deadline due to the pandemic was playing an important role in the increase of the childcare fee (GYED) while the increase of the minimum wage and the growing number of recipients were the factors contributing to the increased amount of sick pays. The *supports for medication and medical aids* combined amounted to HUF 479, 2 billion that was exceeding by 2, 6 percent the appropriation and by 5, 1 percent the amount used for such purposes in the previous year.

### **3. Realisation of the targeted deficit**

When evaluating the processes of the first half of 2020, the Council agreed with the statement that in the pandemic situation „the amendment of the fiscal goals was necessary thus offering greater elbow room to the Government to contain the pandemic and soften the economic recession”.

On the basis of the EDP Report<sup>8</sup> published by the Central Statistical Office on 1st of April 2021 the year 2020 accrual-based deficit (ESA) was 8, 1 percent of the GDP that exceeded by 7, 1 percent the targeted deficit of the Government in its year 2020 Budget Act while compared to the year 2019 targeted deficit of 2, 1 percent it was higher by 6 percent. The favourable process of the preceding eight years was broken because of the epidemic and the ensuing economic crisis when this balance was maintained below the 3 percent of the GDP, in harmony with the respective Maastricht criteria. Throughout the whole year the realised primary balance in the share of the GDP was – 5, 7 percent while the interest expensed amounted to 2, 4 percent of the GDP<sup>9</sup>.

The exceeding of the Maastricht deficit criteria was temporarily made possible due to the entering into force exemption clauses, both according to the EU and domestic fiscal framework stipulations.

The year 2020 Hungarian deficit data can be regarded as average both in regional and international comparisons. According to the November 2020 estimation of the European

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<sup>8</sup> In the frame of the Excessive Deficit Procedure, EDP of the European Union twice a year the member states provide data in a report (EDP Report, Notification) about the evolution of two priority indicators of the governmental sector, i.e. the deficit of the governmental sector and the evolution of the sector's debt.

<sup>9</sup> Following the transformation of the pension system in 2011 the statistics are accounting with liabilities equal to the foreclosed assets in the form of an interest payment; this is called imputed interest expenditure. This imputed interest expenditure amounted to 0, 2 percent of the GDP in 2020, i.e. the real interest expenditure after the public debt was lower by this percentage.

Commission the deficit could have been 8, 4 percent at an average in the European Union, while in the countries of our region this could have been 8, 2 percent in 2020.

Based on the processes of the months from January to August the FC could have even find that „the annual cash deficit accounted for in the financing plan of public debt - that had been amended at the end of August - amounting to HUF 3.600 billion had a cover, primarily in the form of domestic reserves. Such size of deficit offers an elbow room for introducing new economic protection measures that – in case of appropriately selected goals – the Council deems justified in order to avoid the further economic recession. Beyond this, the FC deems it necessary to prioritise such measures that would improve the economic conditions of the year 2021 budget”.

The annual cash deficit turned out to be HUF 5.548, 6 billion (11, 6 percent of the GDP) as opposed to the HUF 1.127, 9 billion in the previous year and the planned HUF 367, 0 billion. The accrual-based deficit of the governmental sector was less because part of it remained within the governmental sector or became external so that it was the result of the growth of the state assets.

The cash deficit of the central subsystem was the result of the balance of the following factors: HUF -4.953, 5 billion of the central budget, HUF -641, 8 billion of the social insurance funds and the HUF +46, 7 billion of the separated state funds.

The total of the cash deficit of local governments was HUF 101 billion while the GDP proportionate ESA balance was 0, 1 percent.

In 2020 the structural deficit exceeded the medium term fiscal goal (1 percent) stipulated by Point a) Indent (2) § 3/A of the Stability Act. According to the calculations of the Ministry of Finance, the structural deficit was 6, 1 percent of the GDP. The significantly higher degree compared to the medium term goal is reflecting the effect of the high ESA deficit.

#### **4. The evolution of government debt**

As a consequence of the high fiscal deficit, the economic recession, the increasing of the liquid reserves (KESZ – Single Treasury Account and foreign currency deposit) as well as the re-evaluation of the foreign currency denominated debt the GDP proportionate gross government debt grew from 65, 5 percent at the end of 2019 to 80, 4 percent by the end of 2020. Thus the ongoing from 2011 decrease was broken as a result of the pandemic.

With regard to the extraordinary conditions the exemption clauses<sup>10</sup> of the debt rule regulated by the Fundamental Law allowed the increasing of the debt indicator. According to the rule „during a special legal order status [...] or in case of the persistent and significant regression of the national economy it is possible to depart from the stipulated decrease of the debt indicator of the subject year to the degree it is required to restore the balance of the national economy”. The significant decline of the national economy – i.e. that of the real value of the gross national product in 2020 - together with the announcement of the special legal order last year have equally have entered into force the exemption clause.

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<sup>10</sup> Indent (6) Article 36 and Indent (3) Article 37 of the Fundamental Law of Hungary

The other domestic fiscal regulation concerning government debt is the stipulation of Indent (2a) § 4 of the Stability Act. According to this, apart from the application of the EU regulations the government debt indicator shall have to decrease annually at least by 0, 1 percent. At the same time Indent (2) § 7 of the law gives exemption from the obligation of compliance in case „the real value of the annual gross national product shall decrease”.<sup>11</sup>

By the end of 2020 the share of the foreign currency denominated debt within the central budget debt increased to 19, 9 percent as a result of the foreign currency bonds issued several times throughout the year, compared to the 17, 3 percent of the previous year. At the same time the share of the foreign currency denominated debt continues to lag behind the nearly 50 percent share, at the end of 2011. In harmony with one of the major goals of the government debt management strategy i.e. the strengthening of domestic financing, the share of domestic properties has grown in 2020 (within the forint denominated bonds the share of domestic investors has grown). All the government security stocks owned by domestic actors grew in 2020 thus the share of the domestic sector reached 70 percent. The government security stock of the banking system increased approximately by HUF 2.100 billion as a consequence of the purchasing of forint bonds while the government security stock of households expanded by close to HUF 1.000 billion, as a result of private persons buying government securities. The fact that by having bonds with longer maturity in the foreground the average remaining maturity grew by more than a year in 2020 to 5, 2 years is indicating a favourable change of the debt structure.

Budapest, 15th of April, 2021

Domokos László

Member of the Fiscal Council

Matolcsy György

Member of the Fiscal Council

Kovács Árpád

Chairman of the Fiscal Council

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<sup>11</sup> Indent (2a) § 4 and Indent (1)-(2) § 7 of Act CXCV on the Economic Stability of Hungary