The Fiscal Council's Opinion

on the draft of the year 2022 Central Budget Bill of Hungary

I

Antecedents, legal basis, foundations and publicity of the preparation of the Opinion

On the basis of § 24 of Act CXCIV of 2011 on the Economic Stability of Hungary (henceforward: Stability Act) and in harmony with Indent (2) Article 44 of the Fundamental Law of Hungary, the Fiscal Council (henceforth: Council or FC) shall formulate its opinion on the draft of the central budget bill. In its opinion the Council may make notes concerning the draft bill and – in case it has fundamental objections as regards the authenticity or viability of the draft – the FC may indicate its disagreement.

The Government forwarded the document, accepted as the draft of the bill on Hungary's year 2022 central budget (henceforward: the draft or draft bill) to the chairman of the Fiscal Council as the appendix of Finance Minister Mihály Varga's letter PM/7/3/2021 in which he was formally asking for the opinion of the FC.

The Council formulated its opinion on the draft bill by also taking into consideration the antecedents as regards Act XC of 2020 on Hungary's year 2021 central budget.

- In its Opinion 3/2020.05.21. on the draft of the year 2021 central budget of Hungary the Council laid it down that „from the aspect of planning the year 2021 central budget the spreading of the coronavirus epidemic was a decisive factor the consequences of what had fundamentally changed the year 2021 prospects of both the global and the Hungarian economy." Additionally, the forecast that served as the basis for the 2021 budget was counting with a temporary recession to be followed by the growth of the Hungarian economy in 2021." According to the FC's opinion „the strong foundations of the Hungarian economy and the already announced economic policy measures might ensure that the economic catching-up continues.” Furthermore, the Council emphasised in its Opinion that „it is also necessary to have programmes also in 2021 that promote further economic stimuli, protection of jobs and creation of new jobs. The Economic Protection Fund (within it the Economic Protection Employment Fund) – created from the National Employment Fund – shall provide coverage for these programmes. The Health Insurance and Epidemic Protection Fund shall ensure the necessary resources for the epidemic control and those necessary for the operation of the health care system (by incorporating the Health Insurance Fund). Significant amounts are earmarked by the draft bill for family protection and housing purposes as well as for the improvement of the income conditions of those retired.” In the justification of its Opinion the FC indicated that „this new type epidemic that became a pandemic by March 2020 has substantially redrawn the international economic and financial processes” and „the epidemic situation is also strongly affecting the expected evolution of the year 2021 government debt.” Thus, in its Opinion the Council acknowledged that the ongoing decrease of the GDP proportionate government debt in the period of 2011 – 2019 is expected to temporarily turn around: according to the draft budget bill the degree of government debt shall grow. Additionally, in its Opinion the Council expressed that „the decreasing trend of government debt – following a temporary increase in 2020 – shall return and by the end of 2021 this indicator shall decrease.”

- Granting its preliminary consent to submit the draft bill for final voting, in its Resolution 5/2020.07.01. the FC stated that „it finds the degree (…) of the government debt indicator viable” as „it is in harmony with those macroeconomic and public finance processes that had served as the foundation of the budget bill.” In the justification section of its resolution the FC expounded that „in its view the risks endangering the realisation of the targeted deficit (the possibility of more unfavourable conditions and the ensuing need for more finances related to crisis management, etc. as a result of the flare-up of the coronavirus epidemic) might affect the evolution of the government debt as well.” Thus, in order to maintain the safe public finance processes, the FC underlined the consistent enforcement of provident and responsible fiscal practices.

- The Council formulated its Opinion 4/2021.04.15. concerning the draft bill to amend Act XC of 2020 of the year 2021 central budget with regard to the extraordinary conditions and the state of emergency created by the epidemic, stating that „the changing economic circumstances, the health protection and economy supporting measures adopted following the adoption of the budget act, together with the changing framework of the EU 2021 – 2027 budget made the amendment of the original budget act unavoidable.” The FC declared that „the amendment of the law shall increase the 2, 9 percent GDP proportionate targeted deficit calculated in harmony with the ESA methodology, to 7, 5 percent in accordance with the EDP report published on 1st of April”. In connection with this, the Council also expressed that it „agrees with the increase of the targeted deficit as the third wave of the coronavirus epidemic makes it unavoidable to provide greater than originally planned fiscal support for both the economy and healthcare.” The FC positively assessed that „the planned fiscal deficit is more moderate than the result of year 2020, i.e. „following the restoration of economic growth it is focusing on establishing balance.” At the same time the Council pointed out that it „considers justified that the real expected degree of the budget deficit (HUF 3. 991 billion) shall be fixed in the budget bill.” Beyond this the Council also assessed that „according to the draft bill and in harmony with the expected growth of the Hungarian economy and the respective stipulations of the Fundamental Law, the GDP proportionate government debt may decrease again in 2021, from 80, 4 percent at the end of 2020 to 79, 9 percent in 2021.” In its Opinion the FC also called the attention to the fact that – similarly to last year – the risks encircling the economic and fiscal processes remain higher than usual also in 2021, due to the coronavirus epidemic. As a consequence „the Council acknowledges that the draft bill creates greater elbow room for the health protection and economy restarting measures of the government at the same time however, the FC deems it necessary to implement a more substantial deficit decrease – if the evolution of the macroeconomic condition allows this - and thus create even more favourable conditions for the realisation of substantial fiscal balance in 2022 and the sustainable mitigation of the government debt indicator.” In the justification section the Council acknowledged that „the draft is counting with a more modest, 4, 3 percent economic growth than the degree presumed by Act XC of 2020” in 2021.

In the course of formulating its Opinion on the draft of the year 2022 central budget bill was primarily relying on the written analyses and findings of the State Audit Office of Hungary and the Central Bank of Hungary about the fiscal processes. The FC also reviewed the forecasts of the domestic research and analysing institutions commissioned by the FC Secretariat as well as those prepared by international organisations (European Commission, IMF, OECD, World Bank) and the economic forecasts of other, benchmarking market analysts. Beyond these the Council also considered the contents of the Convergence Programme of Hungary for 2020 – 2024. When formulating its Opinion, the FC was also relying on the known processes of the execution of Act XC of 2020 on the year 2021 central budget, its characteristic features and background as the base.

Continuing its standard procedure, in the frame of its mandate the Council examined the draft and the macroeconomic background of Hungary’s year 2022 central budget as a single unit from the aspect of the realisation of the details, the revenues, expenditures, balance aspects and the implementation of the government debt rule. In doing so the FC paid attention to the proposal of the European Commission that – with respect to the extraordinary situation – would maintain the general exemption clause concerning the EU level fiscal rules.

As before, the FC has not taken a stand regarding the distribution and provision related political issues originating from its authorisation stipulated by the Fundamental Law and the Stability Act.

The Council shall inform the Speaker of the National Assembly and the Government about its Opinion and shall publish the document on the website of the National Assembly.

II

The Opinion of the Council

According § 24 of the Stability Act the Council discussed the draft bill of the year 2022 central budget on 27th of April 2021 and – based on this – formulated the following unanimous[1] Opinion on the document:

1) When judging the authenticity and viability of the draft bill of Hungary’s year 2022 central budget the Council is considering the risks presented by the extraordinary circumstances and the state of emergency resulting from the epidemic, the termination of what at present is highly uncertain. The Council formulated its standpoint with regard to these circumstances.
2) The Council notes that the draft budget bill is counting with a high, 5, 2 percent economic growth that is close to the upper limit of the well-known range predicted by domestic and international forecast due to the substantial expansion of wages, employment, household

[1] Árpád Kovács, Chairman of the FC and György Matolcsy, Member of the FC participated in person at the meeting. László Domokos, Member of the FC joined the meeting online. László Domokos expressed his agreement with the FC Opinion in his declaration addressed to the FC Chairman.

consumption and fixed capital formation. According to the judgement of the Council the expected economic expansion may take place in case the epidemic is wearing off, as expected and no unexpected frictions shall emerge in the world economy.

3) According to the draft document the fiscal deficit shall decrease to 5, 9 percent in 2022 both from accrual-based (ESA) and cash flow aspects. The Council agrees with the idea of decreasing the GDP proportionate deficit from the year 2021 7, 5 percent in 2022 however, the Council does not consider the rate of reduction adequate.

    a) In harmony with its Opinion 4/2021.04.15. formulated about the draft amendment of XC of 2020 about the year 2021 central budget bill recommends that – in case the risks threatening the growth or the epidemic control shall not be realised – the public finance deficit in 2022 should be closer to the GDP proportionate 3 percent reference value than the value planned by the draft document. Namely, in the opinion of the Council, the expected rapid economic recovery offers adequate foundation for a more marked decrease of the year 2022 deficit and would serve as a guarantee to restore the balance and to have sustainable catching up.

    b) The Council acknowledges that the EU regulations foreseeably make a public finance deficit exceeding 3 percent viable as the general exemption regulation is expected to be valid also in 2022[2]. As regards the domestic regulations, an elbow room similar to the general exemption rule of the EU is made possible by the Stability Law only in case of a declining GDP. Thus, according to the justification of the amendment of Act XC of 2020 about the year 2021 central budget, in order to establish harmony between the Hungarian and EU regulations and beyond the amendment of the emergency government decree, in the draft bill serving as the basis of the year 2022 annual budget, the Government shall also submit the necessary amendment of the Stability Act to the National Assembly.

4) According to the Council the revenue and expenditure appropriations in the draft document are in harmony with the expected for 2021 and the planned for 2022 macroeconomic and public finance processes.

    a) To realise the revenue appropriations the realisation of the macroeconomic path serving the basis of the planning is necessary.

[2] Communication of the Committee to the Council: One year following the outbreak of the Covic19 epidemic: political response (3rd of March 2021)

b) The expenditures reflect that in 2022 the re-starting to the economy is the number one priority of the budget. The new Economy-restarting Action Plan dedicated to realise this goal, activates the domestic fiscal resources and, within it, the Economy-restarting Employment Found comprising these resources on the one hand and the available EU supports, on the other hand. The measures of re-starting prescribe structural changes at a number of fields by such developments that might support the economic expansion in the long run. At the same time, in case of the rapid expansion of household consumption and the dynamic growth of the investment activities of the private sector the incentive measures might result in overheating the economy by growing the inflationary pressure and endangering the foreign trade balance. Thus it seems appropriate to attach conditions to the utilisation of certain expenditure appropriations and spend those amounts only if they are really needed to inject more dynamism in the economy. Thus, in case of favourable economic conditions part of the planned expenditures might be saved or postponed, thus taking a huge step in the direction of restoring fiscal balance, by decreasing public debt or creating a cover for unforeseen expenditures without increasing the deficit.

c) Epidemic control remains the focal point of the budget the necessary resources for it– together with the operation of the health care system – shall be ensured by the Health Insurance and Epidemic Control Protection Funds.

d) Goals serving family protection and homemaking, renovations and measures improving the revenue situation of pensioners are prominently displayed among the expenditures of the budget as well.

e) According to the Council the degree of the reserves to ensure the safety of fiscal management at merely 0, 4 percent of the GDP is risky and is lagging behind even the planned for 2021 low level (0, 5 percent of the GDP) too.

5) The Council finds that the decreasing trend of the government debt indicator that is in harmony with the respective stipulation of the Fundamental Law remains lasting, following the transitory increase in 2020, and its degree shall mitigate from the 799, 9 percent in 2021 to 79, 3 percent by the end of 2022.

a) However, the 0, 6 percent degree of the public debt indicator planned for 2022 - in harmony with the degree indicated in the budget deficit – according to the Council's opinion is not adequate when compared to the possibilities. The economic restoration starting already in 2021 makes the greater degree of decreasing the debt indicator and this, at the same time, would be necessary so that even in the event of the possible occurrence of risks this decreasing would be ensured.

b) The draft of the year 2022 central budget bill complies with the government debt rule stipulated by the Fundamental Law. Additionally, it complies with the regulation of Indent (2a) § 4 of the Stability Act that stipulates that the annual decrease of the government debt should reach at least 0, 1 percent apart from the enforcement of the respective EU laws concerning government debt.

c) At the same time, the Council welcomes that the public debt management wishes to also in 2022 the favourable structure realised in the previous years, the maintaining the low level of the share of foreign currency denominated debt, the increasing of the participation of the population in financing public debt as well as the increasing of the maturity date of the public debt.

6) The FC authorises its chairman to publish the body's Opinion on the draft document as well as to explain it at the plenary session of the National Assembly, focusing on its interlinking with the submitted bill.

III

Justification

In its analysis the FC took it into consideration that the Ministry of Finance promised to present the information missing from the draft document but available for the experts – the expected output figures for 2021 included – to the National Assembly as an attachment to the general justification section of the bill.

1. Macroeconomic and fiscal processes of year 2021

The coronavirus epidemic, having become a pandemic by March 2020, has essentially redrawn the international economic and financial processes. The significant shrinking of world economy in 2020 is considered likewise by benchmarking international organisations (according to the IMF evaluation this April the performance of the world economy was smaller by 3, 3percent while, according to the World Bank it was smaller by 4, 3 percent, compared to the last year).

As regards the degree of the economic relapse of the Euro-zone was estimated to 6, 6 percent by the IMF while that of the German economy by 4, 9 percent. In 2020, from among the biggest economies of the world only one country, China presented a 2, 3 percent growth.

In their economic forecasts for 2021 and 2022, the benchmarking international financial institutions are predicting a „bounce-like" expansion of the global economy, following the big recession. In its forecast for 2021 prepared this April the International Monetary Fund predicted a growth rate of 6, 0 percent for the world economy while the World Bank (in its forecast of January, this year) was counting with a growth of 4, 0 percent and the OECD (in its forecast of March this year) was counting with a 5, 6 percent growth rate. According to the winter (February this year) evaluation the European Commission predicted a 3, 7 percent growth in 2021. As regards the Euro-zone region, the OECD expects a growth rate of 3, 9 percent, the World Bank 3, 6 percent and the IMF was calculating with a 4, 4 percent performance improvement.

All three international financial organisations are expecting high growth rate from the Chinese economy (IMF 8, 4 percent, World Bank 7, 9 percent, OECD 7, 8 percent). It is an encouraging sign that the expected expansion of the German economy that is playing a decisive role from the aspect of domestic economy's possibilities might be between 3, 0 – 3, 6 percent according to the forecast of the above three international financial organisations.

The coronavirus epidemic and its consequences are serious and also affect the macroeconomic and fiscal founds of the year 2021 – 2022. Today it is still unpredictable when we can get back to the former and usual pace of economy and life. The recovery from the crisis remains encircled by uncertainties however, the mass inoculations shall establish the basis for the opening while the economic incentives together with fiscal and monetary measures shall support the restoration. The fundamental uncertainty is, when can we call the opening definitive or should we consider new limitations.

Beyond the above we shan't forget about the economic, geopolitical and regional tensions (American-Russian, American-Chinese, and the Middle East) the strengthening of what might affect the awakening restart or further recovery of the world economy. The evolution of these factors might affect the year 2021 performance of the Hungarian economy.

Following the „transitory deterioration" in 2020, the Government built the year 2021 budget on the concept of having a 4, 8 percent economic growth the viability of what is limited by the prolongation of the coronavirus epidemic, its economic and multifaceted consequences. By evaluating the decisive economic processes and tendencies, benchmarking international financial organisations are predicting the expansion of the Hungarian economy around 4 percent in their forecasts. (IMF is counting with 4, 3 percent, World Bank 3, 8 percent, the European Commission 4, 0 percent).

By evaluating the consequences of the coronavirus epidemic in domestic economy and budget, the proposal of the Government for the amendment of the year 2021 central budget act decreased the annual growth expectation to 4, 3 percent. The fresh forecasts of domestic macroeconomic analysing institutions regarding the economic output in 2021 are moving within relatively narrow boundaries (between 4, 0 percent and 6, 0 percent).

The Government was building the amended growth expectations for 2021 on the presumption that – compared to the results of the previous year - the consumption volume of households shall grow from –2, 8 percent to 3, 5 percent and the gross fixed capital accumulation from the –7, 3 percent in 2020 to 4, 2 percent. Labour productivity growth shall increase by 4, 2 percent compared to the 4, 1 percent in the previous year. The number of employees in 2021 essentially remains unchanged; in the private sector it might slightly increase (by 0, 1 percent). The average gross wages might increase by 7, 0 percent (by 6, 9 in the public sector and by 6, 9 percent in the fiscal sector). A significant increase is expected in the evolution of foreign trade (compared to the previous year the export might increase from -6, 8 percent to 6, 4 percent, while the import from -4, 4 percent to 5, 2 percent). The degree of consumption prices rising could be 3, 6 percent (in 2020 it was 3, 3 percent).

The coronavirus epidemic remains present however, 2021 is the year of economic restart promoted by the economic policy measures of the Government and the Central Bank of Hungary. In case general immunity develops and the progress shall not be broken by a new (fourth) wave, the expectations of the Government might be realised.

The capital attracting ability of Hungary remains strong, the conditions are favourable and these are helping the renewal and expansion of production capacities. The expansion of the private sector’s investments remains dynamic, several major foreign financed industrial projects (Mercedes, BMW, JYSK, Rheinmetal, etc.) continues and the gradual upswing of a number of capacity building is expected as well. The investment activities of small and medium-sized businesses are promoted by the economic development supporting measures of the government as well as by the incentive programmes of MNB. Beyond the above, educational, healthcare, social and important public road and railway infrastructure investments to be realised by using domestic and EU resources shall be implemented. The Modern Cities Programme focusing on the modernisation, competitiveness increasing and cultural development of major provincial towns, together with the Hungarian Village Programme that is promoting the improvement of the living conditions of those living in small settlements shall also continue.

The Home Creation Programme might render additional dynamics to the purchasing/building of homes for households. Thanks to this programme the range of available benefits shall expand: beginning with 1st of January 2021 the VAT content of selling newly built homes shall decrease from 27 percent to 5 percent. On the other hand, the families that are recipients of CSOK (Family Home Creation Discount) are eligible to reclaim even the 5 percent VAT in case of purchasing a new home of building one. Additionally, half of the costs of renewing the homes of families rearing at least one child are overtaken by the state – up to HUF 3 million at most – and those purchasing a new home or a used one with CSOK are fully exempt from paying levy.

According to the data of the first quarter of 2021 the cash deficit of public finance was HUF 1.144, 1 billion, significantly higher compared to the same period of the previous years (76, 7 percent of the annual appropriation). However, this is not considered outstanding in its share to the GDP. Within this, the central budget closed by a deficit worth of HUF 943 billion, the social insurance funds by HUF 182, 7 billion and the separated state fund by HUF 18, 4 billion.

The evolution of the revenues were moderated on the one hand by the economic consequences of the epidemic while, on the other hand, by the employers' benefits, the decrease of the social contribution tax to 15, 5 percent beginning with 1st of July, 2020. The high wage outflow decreased the rate of loss of revenues.

In the first quarter the budget received HUF 150, 6 billion from the European Union at the same time its expenditures amounted to HUF 615, 6 billion. The Government authorised the amount of HUF 339, 3 billion for the epidemic protection from the appropriation of the Central Reserves of the Epidemic Protection Fund by the end of the first quarter.

2. Fiscal goals and conditions for 2022

2.1. Macroeconomic indicators serving as the basis of the planning

The restarting of the economy, the development of key branches of the economy from the aspect of the future, protection of jobs, families and retired people, strengthening the supports for home creating and the improvement of the living conditions of the people constitute to the focus of the year 2022 draft budget bill. The goal is to establish a rapidly adapting and sustainable economic structure that, in the long run, shall support economic development.

The draft bill is built on a dynamic 5, 2 percent expansion of the GDP, following the year 2020 decline and the restarting of the economy in 2021. The 4, 8 percent increase of the volume of household consumption and the 7, 2 percent increase of the gross fixed capital accumulation shall promote the economic expansion. Following the already launched and ongoing developments financed both from EU and domestic resources the already high investment rates in 2020 and 2021, might increase to 28, 5 percent in 2022.

As a result of the measures promoting employment by relying on both, governmental and EU resources, the number of employees shall grow by 1, 1 percent (this means a 1, 3 percent expansion in the private sector while the number of employees in the public sector shall remain the same).

According to the macroeconomic path envisaged by the draft bill for 2022 the dynamic wage growth might continue, the gross and net average wages might grow equally by 7, 7 percent. Based on the proposal, the improvement of labour productivity shall remain dynamic also following 2021 and by 2022 its degree shall reach 4, 1 percent.

Benchmarking financial organisations are counting with the strong expansion of world trade in their forecasts and this might give an impetus for the Hungarian export as well. Despite the existing accompanying phenomena (the consequences of the coronavirus epidemic, the related uncertainties, etc.) the positive signs of the foreign trade processes might prove that the earlier export developing investments will succeed thus, the document is counting with a 10, 5 percent growth of exports while, in case of imports the predicted growth is 10, 0 percent as a basis.

In the Council’s opinion the expansion presented by the draft bill might be realised in case the epidemic dies off and no unexpected frictions present themselves in the world economy.

The increasing governmental expenditures in the period of the economic relapse due to the epidemic have undoubtedly increased the resilience of the economy, i.e. its flexible adjustment. In 2022 the fiscal policy resilience requires the flexible adjustment to the evolution of the macroeconomic conditions that might mean equally the increase or the reduction of the fiscal expenditures. We also have to count with the possibility that the turnaround in the behaviour of households and businesses might happen mid-year so it would be advisable if the fiscal policy adjusted itself even to the quarterly changing situation.

Resilient fiscal policy is made possible also by the expectation that in 2022 the European Union shall not require the below the three percent GDP proportionate limit of the deficit of the governmental sector. Thus the force to resort to a pro-cyclical fiscal policy within the year, i.e. in case of the unfavourable evolution of the GDP it would not be necessary to decrease the expenditures rather, they might be increased while, in case of the rapid up-swing of the private economy it would be possible to avoid the overheating of the economy by holding back fiscal expenditures – consequently, by improving the balance. It would be expedient to adjust the fiscal reserves and the rules of their utilisation to this situation, i.e. to mobilise them not in case of the unfavourable turn of the deficit, rather in case of the unfavourable turn of the GDP. It is worth to consider nominating such appropriations that (or part of what) shall be used by the executor of the budget when the private economy is less able than expected to restart the economy. It would be a fine example of the Hungarian government's commitment to restore fiscal balance if the budget nominated an expenditure appropriation equal to three percent of the expected GDP as an appropriation „to be used subject to conditions". This way, when calculating without these expenditures the GDP proportionate deficit of the governmental sector would not reach three percent. Even attaching conditions to expenditures amounting to one- one and a half percent of the GDP would be a fine indication of the commitment of the Hungarian fiscal policy to improve public finance balance and would express that by widespread vaccination the Hungarian government established one of the fundamental conditions of balance keeping economic growth.

2.2. Revenues of the central subsystem

The **total** – not consolidated – **revenue appropriation** of the central subsystem is HUF 25.253,5 that is higher by 14, 9 percent than the year 2021 appropriation and by 4, 8 percent than the expected year 2021 realisation. Here the tax and contribution revenues are increasing to a greater extent while other revenues to a lesser extent.

The appropriation of **the payments of economic operators** (HUF 1.949,5 billion) exceeds the expected realisation of the previous year by 13, 3 percent (in amount by HUF 229, 4 billion). In this revenue chapter ***corporate tax*** continues representing a significant magnitude (HUF 588, 7 billion), compared to the expected realisation in 2021 it might grow by 31, 8 percent (in amount by HUF 142 billion). This calculation presumes the rapid restoration of the results of the economy and businesses. The governmental measures introduced recently by the government (decreasing taxes and contributions and mitigating administrative burdens) have really helped the activities of small taxpayers who make up a significant proportion of taxpayers. As a result the scope of taxpayers has expanded significantly. The year 2022 appropriation ***small business tax*** shall increase by 21, 6 percent to HUF 121, 2 billion that means a 6, 3 percent increase compared to the previous year. The draft bill is counting with having consumption pick up and the tax bases shall expand thanks to the effective business and job protection measures once the actual wave of the epidemic blows over.

Beyond the above and within this revenue circle the following payment obligations will ensure the necessary resources for the expenditures: the company car tax appropriation (HUF 39, 3 billion) is higher by 2, 9 percent while the appropriation of the energy suppliers' revenue tax (HUF 62, 3 billion) is higher by 9, 7 percent compared to the expected realisation of the previous year. The mining fee appropriation (HUF 38 billion) is higher by 9, 4 percent while the gaming tax appropriation (HUF 33, 9 billion) is higher by 7, 6 percent compared to the expected revenues of last year. The appropriation of other centralised revenues (electronic and time-based road toll, rehabilitation contribution, etc.) amounts to HUF 617, 7 billion that is higher by 5, 7 percent than the expected realisation.

The appropriation of **consumption related taxes** is HUF 7.199, 7 billion that surpasses the expected realisation of the previous year by 7, 4 percent. This revenue group covers 28, 5 percent of the central subsystem's revenues by 28, 5 percent. The appropriation of ***value added tax*** (HUF 5.444 billion) exceeds by 8, 1 percent (in amount HUF 409 billion) the expected year 2021 realisation. The appropriation was built on the favourable macroeconomic data (economic expansion, growing average wages) that serves as a basis for the calculations. The appropriation of ***excise duty*** (HUF 1.296, 2 billion) might be higher by HUF 48 billion, i.e. by 3, 8 percent compared to the expected performance of the previous year. The appropriation of ***financial transaction duty*** is HUF 232, 5 billion that exceeds by 4, 7 percent the expected result of the previous year. The dynamically growing high number of transactions, following the spreading technique of various electronic transferring methods is supporting the realisation of such revenues. The appropriation of the ***registration tax*** (HUF 24, 8 billion) exceeds by 24 percent the expected realisation. The increasing number of vehicles entered into service is playing a decisive role in this. The year 2022 **insurance tax** (HUF 115, 4 billion) is higher by 9 percent than the expected realisation of the current year.

The joint appropriation of **retail payments** (HUF 3, 155, 7 billion) is higher by 5, 1 percent (i.e. by HUF 153, 9 billion) than the expected realisation of year 2021. ***Personal income tax*** is a decisive factor in this revenue group, the appropriation of what (HUF 2.866, 5 billion) is higher by 5, 5 percent (in amount by HUF 148, 7 billion) compared to the expected realisation. The improving employment data throughout the year has been playing a decisive role in this together with the high wage outflow (the 7, 7 percent growth of the average wages) and, additionally, the partial personal income tax relief for those below the 25 years old age group, beginning with 2022. The appropriation of the ***levies revenues*** is HUF 198, 7 billion that is taking into consideration the favourable rules concerning home building and home selling (the families that apply for CSOK when purchasing new or used residential properties are exempt from the obligation of paying 4 percent duty) thus the appropriation is exceeding the expected realisation merely by HUF 4, 6 billion.

The appropriation of the **revenues of EU programmes** amounts to HUF 2.228 billion and from this more than HUF 1.500 billion is related to the programmes of the 2014 – 2020 programmes. From the year 2021-2027 dedicated budget about HUF 505 billion might arrive, in harmony with the proposal. Apart from the normal, seven-year cohesion fund (MFF) from 2021 the reconstruction resources financed from the joint EU debt issuance targeting the post pandemic reconstruction of the EU, are available for the member states in the frame of the Reconstruction and Resilience Facility (RRF) that is the largest programme of NextGenEU. The maximum amount available for Hungary from the RRF programmes amount to HUF 5.900 billion from what the budget is calculating with revenue of HUF 213 in 2022. In order to call the RRF resources that can be used for financing structural reforms and investments related to country-specific recommendations the European Commission has to accept Hungary's Reconstruction and Resilience Plan.

The revenue appropriation of ***the Social Security Funds originating from social contribution taxes and contributions*** is HUF 5.486, 7 billion that is higher by 7, 2 percent compared to the expected amount in 2021 and in harmony with the restarting of the economy, the expansion of employment and the increasing wages.

2.3. Expenditures of the central subsystem

The **total** – not consolidated – **expenditure appropriation** of the public finance central subsystem if HUF 28.406, 2 billion, higher by 21, 1 percent than the appropriation for 2021 and the by merely 1, 2 percent higher than expected realisation in 2021.

As regards the **three big groups** within the central subsystem they are planning to use 78, 7 percent for current (operational) goals, 10, 6 percent for accumulation from domestic resources and 10, 7 percent for EU financed developments from the total expenditures.

According to the draft bill ***epidemic protection*** remains a **priority** of the year 2022 budget. The Health Insurance and Epidemic Protection Fund serves the purpose to realise this and the synchronised operation of the healthcare system (for the second year now). In this chapter they set aside HUF 3.600 billion that is higher by 10, 5 percent compared to the expected realisation in 2021.

The ***targeted goals related to restarting the economy*** are in the focus of the budget. According to the draft bill, in the framework of the Economy Restarting Action plan, apart from the tax reductions, they are planning to use about HUF 3.720 billion domestic resources from the Economy Restarting Fund (within it, under the new name of Economy Restarting Employment Fund) while from European resources they plan to use more than HUF 3.050 billion for such purposes. Beyond the various loan schemes the ***domestic fiscal resources*** make the assisting of enterprises possible by supporting investments, and within it, infrastructural-development programmes. The Health Industry Support Programme helps the development of such businesses. The tenders of the National Research and Innovation Fund serve the purpose of job creation, the keeping of existing jobs and, especially, the strengthening of the research, development and innovation capacities of small and medium-size businesses (kkv-s). Hungarian companies might gain access to increase their automatization level, in transitioning to green economy, in digitalisation and utilisation of intelligent solutions. The Digital Agrarian Strategy shall contribute to the efficiency and profitability of the agriculture. Within the framework of the economy restarting resources can be used for education, healthcare, transportation, cultural, leisure and sports, tourism development, religious and environmental protection goals as well as building up green energy and circular economy. The Hungarian Village Programme and the Modern Cities Programme also serve the restarting.

According to the draft bill the amount of expenditures ***from EU resources*** for cohesion, rural development and other programmes might reach about HUF 1.350 billion in the 2014 – 2020 cycle. Expenditures related to the programmes of the 2021 – 2027 period might exceed HUF 1.700 billion from what HUF 500 billion is the payment to be made from the Recovery and Resilience Facility (RRF).

Protecting families, retired people and home creation and housing renovation (the latter started in 2021) unchangingly represent a priority in the 2022 budget. The central element of building a family-friendly Hungary is the Family Protection Action Plan that – apart from loan schemes – assists the realisation of these goals partially by tax, respectively contribution reliefs, partly by offering supports. Thus this action plan shall be the source of doubling the amount of the guaranteed orphans' benefit and the raising of home-care fee for children, care allowance and baby-care allowance as of July 2021. The circle of those applying for family home creation discount might expand and the home renovation support is promoting modernisation. The appreciation of elderly, retired people can continues. In 2022 the second phase of the rebuilding of the 13th monthly pension that had been terminated in 2009, will be realised. The institution of pension premiums shall remain so that the elderly would also get their share from the results of the economic growth. The option to retire after 40 years of service before reaching the statutory retirement age for women remains in force.

In order to *fortify the healthcare system* the multi-year comprehensive wage increasing programme for medical doctors shall continue also in 2022. Additionally, as of 1st of January 2022 the base salary of healthcare professionals shall also increase.

The *modernisation of higher education* is a priority of the year 2022 budget as well as the strengthening of *national defence* and *law enforcement*.

The *Investment Fund* reserve promoting the preparation of investments, amounting to HUF 400 billion is indicating that maintaining investments of national economy at a high GDP proportionate level remains a priority.

The planned amount of ***Reserves serving the safety of budgetary management*** is HUF 233 billion (0, 4 percent of the GDP): HUF 145 billion is set aside for extraordinary governmental measures, HUF 20 billion for the Central Reserves of Epidemic Protection and HUF 68 billion for the central reserve of the Economy-restarting Action Plan. The degree of safety reserves remains below that of the year 2021 (0, 5 percent of the GDP) and especially compared to the share in 2020 (1, 0 percent of the GDP).

2.4. Public finance deficit

The year 2022 public finance balance is strongly affected by the coronavirus pandemic ever since its outbreak in 2020 and the ensuing crisis. The excess expenditures due to the pandemic and the crisis, together with the revenue shortfall have diverted the Hungarian budget from the balanced track heading towards the ever decreasing deficit. Instead of the 1, 0 percent accrual-based ESA deficit originally planned for 2020 it turned out to be 8, 1 percent while, in comparison to the appropriated for 2021 ESA deficit of 2, 9 percent, in the spring of 2021 the Government is expecting it to reach 7, 5 percent. The draft bill is counting with a decreasing ESA deficit in 2022, i.e. with 5, 9 percent. Within this the central subsystem is listed with -5, 8 percent, the local governmental subsystem with +0, 1percent while the circle of external organisations with -0, 2 percentage of balance. According to the draft bill, by disregarding the interest expenditures amounting to 2, 4 percent of the GDP from the ESA deficit, the primary balance might be -3, 5 percent that, in itself exceeds the Maastricht criteria.

Presumably the EU regulations shall make it possible to have a fiscal deficit exceeding 3 percent as; according to the recommendation of the Commission using the general exemption clause is expected to remain in power also in 2022[3]. As regards the domestic regulations the Stability Act offers an elbow room only in case of decreasing GDP thus, in order to establish harmony with the EU regulations the Government initiated the amendment of this act in April 2021.

The planned degree of the GDP proportionate structural deficit is 5, 5 percent that is close to the ESA deficit as - according to the draft – one-time revenues are not influencing the deficit. This is way higher than the 1, 0 percent medium-term fiscal goal (MTO) dedicated for the structural balance. The Council of the European Union suspended the meeting of the latter stipulation

[3] Statement of the Commission for the Council: A year following the outbreak of the Covid19 epidemic: fiscal political response (3rd of March, 2021).

because of the COVID-19 epidemic and this is expected to persist, according to the Commission's recommendation.

The cash deficit of public finance planned for 2022 – similarly to the ESA deficit – is 5, 9 percent. Considering the 0, 3 percent deficit of the local governmental subsystem the central subsystem's deficit is 5, 6 percent. This time too the Council welcomes the fact that the balance of the operational part within the central subsystem divided into three parts is zero – for the fifth consecutive year and cash deficit can arise only in the accumulation and EU budget.

All together the FC would consider it appropriate to plan for a lower deficit than presented in order to restore the fiscal balance more rapidly. The Council underlined this in its Opinion prepared for the amendment of the year 2021 budget – presented in the first part of this present document – and called the attention of the Government to pursue a more marked deficit decreasing policy already in 2021 to thus create more favourable conditions for an essential fiscal balance in 2022 and the sustainable mitigation of the government debt indicator.

The Fiscal Council handled its statement concerning the degree of the public finance deficit as a fundamental issue. Following the restoration of economic growth it is imperative to find the optimal balance between restoring economic growth and fiscal balance. According to the Council the expected rapid restoration of the economy makes it possible and necessary to improve the balance in a more marked way.

According to the bill the GDP volume in 2022 shall exceed the level before the epidemic by 4 percent while, in 2021 – 2022 the GDP shall grow nominally by 8 to 9 percent. Thanks to the already launched and planned to start in the future public investments, housing construction programmes and the favourable supporting environment promoted by the central bank the investment rate shall grow even higher than presumed so far, to 28, 5 percent in 2022. Beyond this, by 2022 the economy may get closer to the full employment, similarly to the pre-pandemic level however, at a substantially higher real wage level. As a consequence the household consumption shall increase dynamically also in 2021 – 2022 while the savings level is expected to decrease. Overall, the rapid growth of internal demand can be expected that, via the expansion of the tax bases, shall favourably affect the budgetary revenues.

The rapid increase in domestic demand not only helps but also justifies the improvement of fiscal balance. In case beyond the growth of consumption and investments the budgetary expenditures remain also above the balance level, some capacity problems might arise in certain fields of the economy due to the fact that the offer can't keep up with the demand. The moderate deficit thus shall more favourably affect the continuous improvement of both the internal balance as well and the external balance, especially with the expected parallel decrease of retails savings. Beyond this, a smaller deficit would contribute to the more rapid mitigation of the public debt indicator and the share of financing it from domestic resources to a greater degree. Therefore a more marked decrease of the budget deficit would assist the post-epidemic restoration of the balance at other segments of the economy, together with the strengthening of the sustainable catching-up path of national economy.

In particular, if the level of interest expenditures remains low, this would also contribute to the fiscal consolidation. Despite the temporary increase of the debt we managed to keep the low level of interest expenditures that, according to the draft bill, shall amount to 2, 4 percent of the GDP in 2022, i.e. shall remain lower by 2 percentage that a decade earlier.

According to the above the Council recommends that – in case no growth of epidemic related risks are realised – the public finance deficit in 2022 should be closer to the 3 percent GDP proportionate reference value than foreseen by the draft bill.

2.5. Public debt

Following the decrease of the GDP proportionate public debt in the period of 2011 – 2019 the debt temporarily increased to 80, 4 percent that was made possible by both the EU and Hungarian fiscal regulations with respect to the extraordinary situation. From 2021 however, the former tendency has returned and, according to the draft bill, the Maastricht criteria shall decrease to 79, 9 percent then, by the end of 2022 to 79, 3 percent.

The draft of the year 2022 budget bill is in harmony with the public debt rule prescribed by the Fundamental Law[4] and by Indent (2a) § 4 of the Stability Act. According to the latter the end of year value of the public debt indicator shall be defined so that the annual decrease of the public debt indicator should reach minimum 0, 1 percent, while also enforcing the EU regulations regarding the public debt decrease. Based on the recommendation of the European Commission it is expected that by the continuous maintenance of the activation of the general exemption

[4]Indents (4) and (5) Article 36 of the Fundamental Law contains the government debt rule – as the most important element of the rule-based budget. According to this the National Assembly shall not adopt such a central budget act as a result of what the government debt would exceed half of the GDP. As long as the government debt is exceeding half of the gross domestic product, the National Assembly shall adopt only such central budget act that contains the decreasing of the ration of government debt to the gross domestic product.

clause, the suspension of the EU debt regulations[5] shall be valid also in 2022 although, the Commission is examining the enforcement of the rule also in the future.

The rapid GDP growth and the mitigation of the fiscal deficit to a greater extent would result in the quicker decrease of the debt indicator that would be welcome by the Fiscal Council respectively, sees it unavoidable to ensure the safe realisation of the debt rule. This would ensure that even in case the economic or budgetary situation turns out to be different than expected, the debt rule stipulated by the Fundamental Law would be met.

Throughout the epidemic, the significant decrease of the foreign currency share within the debt of the central budget stopped and by the end of 2020 it grew to 19, 9 percent. According to the draft bill the share of the foreign currency debt shall decrease to 18, 1 percent in 2021 than increase to 18, 2 percent in 2022, in other words, it shall not change essentially. In historic comparison the share of the foreign currency debt shall remain low within the total debt. Government debt management wishes to maintain the stable financing situation regarding the financing of the government debt also in 2022, by keeping the foreign currency share of the debt at a low level, increasing the share of domestic actors and within it, the share of the population built up during the last years. Furthermore, the increasing of the maturity date of public debt became an additional goal from 2020 and by having the longer, wholesale market and retail securities in the foreground their share has already increased.

Budapest, 27th of April, 2021

[5] The debt regulation of the European Union is defined in the Treaty on the Functioning of the European Union (EUMSz) and the 1467/97/EK resolution of 7th of July 1997 of the Council. The debt regulation of the European Union is applied in Hungary for the first time since 2016. According to this regulation the share of the public debt in proportion to the gross national product (GDP) shall not exceed 60 percent. In case it does, the debt rule of the European Union prescribes that the departure from the reference value shall have to decrease by one-twentieth part at average compared to the previous three years as the reference value, based on those changes that occurred and of what data are available („retrospective rule"). The requirement of debt criteria can be regarded as realised if the fiscal forecasts of the Commission indicate that the departure shall decrease in the stipulated degree throughout the three year period that is encompassing the two years following the last such year about what data are available („forward looking rule"). In the course of using the reference value of the adjustment of the debt ration the effect of the cycle influencing the pace of debt decreasing shall have to be taken into consideration as well („cyclically adjustment rule").

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