Resolution of the Fiscal Council

On the opinion on the draft government decree on the different emergency rules for the 2023 central budget of Hungary and on its position on the compliance with the public debt rule

I.

Background, legal basis and publicity of the preparation of the Resolution

In accordance with Article 44(2) of the Fundamental Law and pursuant to Section 24 of Act CXCIV of 2011 on the Economic Stability of Hungary (hereinafter: Stability Act), the Fiscal Council (hereinafter: the Council, FC) shall issue an opinion on the draft Act on the central budget, including amendments that change the revenue and expenditure headings of the central budget or increase the budget deficit.

The Government, in accordance with Article 51(1) of the Fundamental Law and § 80-81. of Act XCIII of 2021 on the Coordination of Defence and Security Activities, - in view of the armed conflict and humanitarian disaster on the territory of Ukraine and in order to avert and manage the consequences thereof in Hungary, the Government extended the state of emergency by its Decree 424/2022 (X. 28.) on the declaration of a state of emergency and certain emergency rules for 210 days starting from 1 November 2022. The Government, in its Government Decree No 504/2022 (8 December 2022) on emergency procedural rules relating to provisions other than those of the Central Budget of Hungary (hereinafter the Decree), has laid down the rules for the preparation and adoption of a decree during an emergency period, which lays down provisions other than those of the Central Budget Act, and which aims to change the main revenue or expenditure items of the central budget or to increase the budget deficit. Pursuant to § 4 of the Decree, the draft Government Decree with the above content (hereinafter referred to as the "draft Decree") shall be sent by the Government to the Council for its opinion and prior consent, supported by detailed calculations, in derogation of § 24 of the Stability Law. On the basis of the Decree, the Council

a) may comment on the draft regulation, its authenticity and enforceability;

b) shall examine the compliance of the draft decree with the public debt rule and give its preliminary consent to its promulgation.

The Council shall communicate its opinion under (a) and its position under (b) in writing to the Minister responsible for public finances within ten days of receipt of the draft decree. If, in its opinion under point (b), the Council finds that the draft regulation would result in a breach of the public debt rule, it shall state the detailed grounds for its opinion.

By letter of 23 December 2022, Minister of Finance Mihály Varga sent to the Chairman of the Council the draft Government Decree on the different rules of the central budget of Hungary for 2023 in connection with the emergency situation, initiating the Council to formulate its opinion on it in accordance with § 4 of the Decree and to take a position on its preliminary consent.

In view of the emergency, the Council acted in accordance with the provisions of Government Decree 504/2022 (8.XII.). In formulating its Decision containing its opinion and its position on its preliminary consent, it also took into account the following background in connection with Act XXV of 2022 on the 2023 Central Budget of Hungary.

- In its Opinion No 2/2022.06.03. on the draft bill on the central budget of Hungary for 2023, the Council stated that the draft budget bill was calculating with the 4.1 percent growth rate [in line with the range of domestic and international forecasts known in April and May 2022] on the back of a further increase in record high employment, rapid growth in earnings, household consumption, a substantial expansion in fixed capital formation and an improvement in productivity". The body indicated that it "considers that the expected economic growth can be achieved if the epidemic does not return, the impact of the war conflict remains within the range projected at the time of planning, and a further deterioration in the external balance is avoided". In its opinion, the FC supported the effort to improve the balance and reduce the debt and deficit-to-GDP ratios, and considered that "revenue measures, in particular through extra-profit/windfall profit taxes, have a significant weight in achieving the balance, while expenditure measures can contribute to improving the balance in a more durable and effective way". At the same time, the Council indicated that "implementing expenditure measures without reducing family incomes is essential for a credible and sound implementation of stabilisation".

The FC considered it an important ambition that "in 2023, the general government sector ESA deficit will be close to the Maastricht criterion of 3.5 percent, while the public finance cash deficit will be reduced to 3.3 percent", while also noting that "EU and domestic rules allow for a public finance deficit above 3 percent by 2023", but urged "the early achievement of the 3 percent deficit, if economic conditions allow". In its Opinion, the Council pointed out that the "draft budget bill for 2023 complies with the public debt rule provided for in the Fundamental Law and with the provision of § 4 Section (2a) of the Stability Act. It stated that "in line with the requirement of the Fundamental Law, the downward trend in the government debt ratio will be sustained and its level will be reduced from 76.1 per cent at the end of 2022 to 73.8 per cent at the end of 2023, according to the draft budget bill." This was considered achievable by the FC on the basis of the macroeconomic and fiscal trajectory [underlying the draft budget bill of April and May 2022]. In its Opinion, the Council assessed that "public debt management in 2023 aims to maintain the favourable structure achieved in recent years, to keep the share of foreign currency debt at a low level, with a slight increase, to expand the domestic investor base, thus increasing the participation of the population in the financing of public debt, and to increase the maturity of public debt."

- The FC examined the compliance of the proposed unified budget law No. T/152/471 on the central budget of Hungary for 2023 with the public debt rule and gave its consent to the final vote by its Resolution No. 3/2022.07.14., stating that it "takes note of the planned level of the public debt indicator as of 31 December 2023 as provided for in § 3 Section (1) of the proposed unified budget law No. T/152/471 on the central budget of Hungary for 2023. It has been established in accordance with the provisions of the Stability Law, in line with the macroeconomic and public finance developments underlying the bill at the time of its preparation. As the debt indicator calculated for the end of 2023 in the Bill is 2. 3 percentage points lower than the indicator expected for the end of 2022, the requirement of Article 36 Section (5) of the Fundamental Law is also fulfilled.

In its Decision, the FC considered it appropriate to draw attention to the "increased macroeconomic risks since the start of the 2023 budget planning, in particular the higher-than-expected inflation, the slowdown in world economic growth, the consequences of the Russian-Ukrainian war (energy crisis, etc.) and the delay in the agreement with the EU". In the Council's opinion, these factors "together increase the risk of higher-than-planned deficits and public debt". In the explanatory memorandum to its decision, the Council indicated that it considered that the risks to the general government balance were mitigated by the government's recently announced measures to maintain the cuts in the overhead costs rationing subject to a quantitative ceiling. The FC continued to urge "the early achievement of the 3 percent deficit, if economic conditions allow.

- While interpreting the Council's consent to the final vote on the 2023 central budget bill, the Chairman of the Council also stressed that "negative risks could further increase in the second half of 2022 and during 2023, and it is therefore [...] appropriate to prepare for them with alternative scenarios."

The changes that have taken place since then confirm that the Council's calls for attention to the draft 2023 budget bill, as expressed in its Opinion of 3 June and its Resolution of 14 July on its providing the FC's consent to the final vote and its presentation to Parliament, have been justified.

In reaching its Decision on the draft Decree, the Council took into account the above background and used the calculations provided by the Ministry of Finance to the FC for the draft Decree. In addition, it reviewed economic analyses by international organisations (European Commission, OECD, IMF, World Bank) and other benchmarking market analysts. Taking into account the analyses of the MNB and the SAO, it assessed the macroeconomic and budgetary developments in 2022 as a basis for the changes planned for 2023.

In the framework of the Council's mandate, the draft law setting out provisions different from the law on Hungary's central budget for 2023 and its macroeconomic background were examined as a whole, continuing its previous practice, and the details of the draft law, its revenues and expenditures were analysed in terms of their justification, as well as the balance of payments aspects and compliance with the public debt rule.

The FC shall send its Resolution to the Government through the Minister responsible for public finances and for information to the Speaker of the National Assembly, and shall publish its assessment on the website of the National Assembly.

II. Resolution of the Council

At its meeting on 27 December 2022, the Council, in fulfilment of its task as set out in Government Decree 504/2022 (XII. 8.) on the emergency procedural rules relating to provisions derogating from the central budget of Hungary, adopted the following Resolution on the draft Decree on the emergency procedural rules relating to provisions derogating from the central budget of Hungary for the year 2023:

1) The Council has no substantive objections to the credibility of the draft regulation on the different emergency rules for the central budget of Hungary for the year 2023 that would justify a statement of disagreement with the draft regulation. At the same time, it stresses that Russia's war against Ukraine, the sanctions imposed in response, the explosion in energy prices and the related uncertainty in the external economic environment pose a risk to the achievement of the budgetary targets set out in the draft regulation.

2) The Council notes that the draft regulation foresees economic a growth of 1.5 percent in 2023, compared to the 4.1 percent initially assumed, due to the lingering effects of the war and the energy crisis, the slowdown in global growth and the impact of inflation on real incomes. Growth would be driven largely by a rise in exports above imports, and would therefore be heavily dependent on external developments. The Council considers that the projected economic growth, which is moderate compared with the forecasts of international organisations, can be achieved if the effects of the war conflict do not worsen and other risks do not intensify. In view of the latter, the Council considers that a conservative policy in the use of budgetary reserves is necessary.

3) The Council notes that the draft regulation continues to ensure the achievement of the main social policy objectives set out in the original budget, such as maintaining the reduction of the overhead costs up to average consumption, supporting families, protecting the elderly and strengthening the capacities of national defence, as well as providing the possibility to increase pensions in line with the higher than initially forecast inflation, to partially compensate for the increased energy costs of public institutions and to finance higher interest expenditure related to public debt.

4) The Council takes note that in 2023, the general government sector ESA deficit will be revised to 3.9% of GDP and the public finance cash deficit to 4.5% of GDP, according to the Government's communication to the FC. The 3.9 percent deficit represents an increase in the targeted deficit for 2023 compared to the current law, and the Council therefore considers it important to include a provision that if GDP grows above 1.5 percent in 2023, the excess revenue must be used to reduce the deficit. The Council will continue to push for the 3 percent deficit target to be achieved if allowed by economic conditions, as deficit reduction will also help to rebalance other parts of the economy.

5) The Council considers that there is a risk to the ability to meet the revenue and expenditure estimates in the draft regulation. The tax revenue increases are based on significant increases in wage and earnings growth and nominal consumption, and in some lines exceed the expected increase in tax bases. On the expenditure side, the draft regulation includes an increase in expenditure appropriations to finance energy costs, but expenditure on operating expenditures does not increase to the extent required by the expected increase in operating costs. Even with extraordinary austerity measures, this implies substantial risks to deliver.

6) The Council notes that the reduction in the debt ratio[1] will continue in 2023, mainly due to the high growth rate of nominal GDP of almost 16.6%. According to the draft regulation, its value is projected to decline from 74.0 percent at the end of 2022 to 70.2

[1] Debt ratio: the ratio to be taken into account in the implementation of Articles 36(4) to (5) and 37(2) to (3) of the Fundamental Law [...] expressed as a percentage, rounded up to one decimal place, of which the
- of the numerator of the public debt,
- denominator is the sum of the gross domestic product (GDP) calculated in the Community as defined in the Council Regulation on the European system of national and regional accounts (§ 2 of the Stability Act).
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percent at the end of 2023. The planned reduction of 3.8 percentage points implies that the debt rule will be met even if macroeconomic conditions turn out significantly less favourable than projected by the government. On this basis, the Council gives its prior consent to the promulgation of the draft decree in accordance with § 4 Article (2) (b) of Government Decree 504/2022 (XII. (8.).

III. Justification

Processes affecting the planning base in 2022

The macroeconomic and budgetary developments in 2022 were in many respects different from those assumed at the time of the adoption of the 2023 budget, which changed the assumptions for the implementation of the 2023 budget. Russia's war against Ukraine and the sanctions in response to it have amplified inflationary developments. The energy crisis and economic stabilisation measures have slowed economic growth worldwide, but growth has been sustained.

In its latest analysis (October), the IMF cut **global economic growth** to 3.2 percent (from 3.6 percent) and the World Bank to 2.3 percent (from 2.4 percent). By contrast, the European Commission's November outlook for this year, up from 2.7 and 2.6 percent in the summer, forecasts growth of 3.3 percent for the European Union as a whole and 3.2 percent for the euro area. A significant slowdown is expected in the major world economic performers, with the OECD and World Bank forecasting China's performance to be 3.3 and 3.2 percent respectively, and the US economy to grow by 1.8 and 1.6 percent year-on-year. The IMF estimates Germany's GDP growth at around 1.5 percent.

In their current analyses, major international organisations expect the **Hungarian economy to grow between 4 and 6 percent in 2022.** According to the latest forecasts, OECD raised the expected growth rate of the Hungarian economy to 6.0 percent (from 4.0 percent) in its November assessment, the IMF to 5.7 percent (from 3.7 percent), the World Bank to 4.7 percent (from 4.6 percent), the European Commission to 5.5 percent (from 5.2 percent) in November, and EBRD to 5.0 percent (from 3.5 percent) in its autumn outlook. Hungary's outlook is affected by the worsening economic consequences of the Russia-Ukraine war, the general slowdown in the global economy, inflation, weakening demand, a sharp rise in energy prices and the country's large exposure to Russian gas. There is considerable uncertainty, as a protracted or escalating war could cause major physical and environmental damage and fragmentation of trade and investment. In addition, there is a particular risk of a significant slowdown in the performance of the major economies (Germany, US).

According to statistical data, growth in the Hungarian economy slowed in Q3 2022, but growth in Q1-Q3 can still be considered dynamic. **Gross domestic product in the first three quarters of 2022** was 6.1 percent higher than in the same period of the previous year, based on raw and seasonally adjusted and balanced data. On the output side, services contributed the most to this (5.0 percentage points), industry 1.2 percentage points, construction only 0.2 percentage points, taxes on products 0.8 percentage points, while agriculture's output - due to this year's exceptional drought - reduced the change in GDP by 1.1 percentage points. Compared to the Q1-Q3 data, the preliminary data for Q4 2022 show a slowdown in growth in all parts of the economy, but overall GDP growth in 2022 could still be close to the around 5 percent.

The volume of investments in Q1-Q3 2022 increased by 7.9% compared to the same period of the previous year. The volume growth was driven by household and business investment, while the value of government investment decreased compared to the same period last year.

The average number of employed persons (15-74 years old) in August-October 2022 was 4 714.3 thousand, 36.9 thousand more than in the same period of the previous year. The average number of unemployed persons (15-74 years old) in August-October 2022 was 174.3 thousand, with the unemployment rate decreasing by 0.2 percentage points to 3.6 percent compared to the same period of the previous year. Gross and net average earnings (excluding discounts) both rose by 17.5 per cent in months 1 to 9 of the year, while real earnings increased by 5.1 per cent, with consumer prices up 11.8 per cent year-on-year.

The volume of retail sales rose by 7.0 percent in the first ten months of the year compared to the same period in 2021. Commercial accommodation registered 22.8 million overnight stays between January and October, 50.0 percent more than in the base period. Within this total, domestic guests and foreign guests spent 20.0 percent and 131.6 percent more nights in commercial accommodation.

Consumer prices increased by an average of 13.6 percent between January and November compared to the same period last year. The biggest increases were for food, up 24.3 percent, and for household energy, up 18.6 percent.

The current account deficit widened dynamically in Q1-Q3 2022, reaching HUF 1 813.5 billion in Q3 2022, mainly due to a deterioration in the goods balance, as imports grew much faster than exports, and a deterioration in the exchange rates..

In the central government sub-system, the revenue outturn for months 1 to 11 of the year was significantly higher than the share of the budgeted value. Total revenue amounted to HUF 26 836.3 billion, which is 105.7 percent of the annual estimate. Central subsystem expenditure in months I to XI of the year was, like revenue, well above the revenue-to-GDP ratio. The outturn of HUF 30 302.7 billion is 106.2 percent of the annual estimate.

In particular, the outturn for tax and contribution receipts is favourable. Together, they amounted to HUF 22 458.0 billion up to November 2022, 103.2 percent of the target. Within this, the performance of the general sales tax should be highlighted, which exceeded the annual target by 11.7 percent. Personal income tax collected up to November was 86.0 per cent of the annual target. This is below both the 2022 and 2022 on-target outturns, as revenue was reduced by the large February VAT refund. Revenue from social contributions and social contributions is 95.9 percent of the annual estimate. The significant increase in tax revenues was driven by additional revenues from the increase in the tax rate under the Extra Profits Taxes Regulation and the introduction of new tax categories.

Central budget expenditure in months 1 - 9 of the year was 109.1 percent of the annual target. This was helped by the fact that the expenditure of the budgetary bodies and the general government was 120.9% of the annual appropriations by the end of November. The increase in expenditure was restrained by the imposition in the second half of the year of a HUF 581.0 billion reduction in central budget expenditure on headings for 2022, and the government's decision to make central budget payments subject to prior approval by the Minister of Finance, with the exception of some appropriations. By the end of November 2022, expenditure on EU programmes amounted to HUF 2 747.4 billion, or 91.5 per cent of the annual appropriations, while revenue from EU programmes and other EU revenue totalled HUF 1 213.9 billion, or 50.9 per cent of the annual appropriations. Consequently, as in 2021, the role of advances from the central budget for EU programmes remained strong in 2022. Interest expenditure until the end of November 2022 amounted to 1,895.1 billion forints, 138.4% of the annual appropriations. Interest expenditure increased due to higher-than-planned financing needs for central government debt and a significant increase in government bond yields compared to 2021.

By the end of November 2022, the revenues of the **Segregated State Funds** were at 106.0 percent of the annual appropriation, while expenditures were at 78.7 percent of the annual appropriation.

Within the **Social Security Financial Funds**, for the months 1 to 9p of the year, revenues were 97.3 percent of the annual appropriations and expenditures were 100.5 percent of the annual appropriations. Within this, expenditure for the Pension Insurance Fund to the end of November 2022 was 6.2 per cent higher than the annual estimate. The over-expenditure was due to the faster-than-planned repayment of the 13th month pension and additional pension increases necessitated by higher inflation. The Health Insurance Fund was used 93.9 percent of the annual appropriation.

The cash deficit of the central sub-system at the end of November 2022 amounted to HUF 3 466.4 billion, or 110.0 percent of the annual appropriation. The large deficit was mainly caused by two factors, the budgetary impact of the increase in energy prices (large budgetary absorption of household energy costs and the increase in direct government energy expenditure) and the - partly one-off - government transfers paid in the first half of the year. As a result of these factors, the government's EDP forecast as at 30 September 2022 projected an annual cash deficit of HUF 4 350 billion for the central subsystem by the end of the year. Thus, the year-end cash deficit is expected to be higher than projected, but declining as a share of GDP compared to the previous year, due to a narrowing of the deficit and a strong increase in nominal GDP.

The deficit of the general government sector on an accrual basis of GDP (ESA) is expected to be lower at 6.1% in 2022, compared to 7.1% in 2021. The deficit target for 2022 was raised by the government in September from 4.9 percent to 6.1 percent because the Hungarian Hydrocarbon Stockpiling Association (which is considered part of the government sector according to Eurostat) is accumulating a special gas reserve under a July 2022 law, for which it will borrow more than HUF 800 billion under a state guarantee.

The debt rule is expected to be met in 2022. The government debt-to-GDP ratio - the debt indicator - is expected to fall by 2.8 percentage points in 2022 from 76.8 percent at end-2021. The decline in the debt ratio is driven by nominal GDP growing faster than the nominal increase in gross public debt.

Macroeconomic and public finance (central budget) developments in 2023

Hungary's 2023 central budget law was based on a 4.1% **GDP expansion** of the domestic economy. However, after the adoption of the budget, a worse-than-expected path materialised in 2022 and the outlook for 2023 deteriorated. This has necessitated a revision of the government's forecast underpinning the budget.

The November forecasts of major international organisations in October this year project a slowdown in global economic growth in 2023. The OECD and the IMF in their November analyses forecast world economic growth of 2.2 and 2.7 percent respectively in 2023. The European Commission forecasts growth of just 0.3% for the EU as a whole and for the euro area. Hungary's economic output is projected to expand by 1.8 percent, the IMF by 1.5 percent, the OECD by 1.5 percent and the World Bank by 1.7 percent. This is significantly below the European Commission's forecast of just 0.1 percent.

The slowdown in domestic demand will be a key determinant of economic growth in Hungary in 2023, with declining real incomes curbing household consumption, and uncertain economic prospects reducing business investment, while the public sector is also rescheduling its investments. Positive GDP growth may mainly stem from the fact that in 2023, exports to the economy are expected to grow faster than imports, underpinned by export-enhancing investment in previous years on the one hand, and by shrinking imports due to a contraction in domestic consumption on the other.

Against this background, the government's forecast of 1.5% growth underlying the draft regulation is cautious, in line with most forecasters' expectations, and on a path that can be met in the absence of further deterioration in the external environment. At the same time, the economic outlook is surrounded by even greater uncertainty than usual. In particular, there is a risk of escalation of Russian aggression and other geopolitical conflicts, the persistent fragmentation of supply chains, and persistently high energy and commodity prices.

High inflation is likely to persist early next year, but it is likely to fall gradually over the year, becoming more pronounced from mid-year onwards. Thus, on average, inflation is likely to be in line with the macroeconomic path underlying the revision (15 percent), in the absence of further adverse effects.

The strong increase in prices, despite the slowdown in economic growth, leads nominal GDP to rise significantly again after 2022, which will have an upward impact on some fiscal revenues and contribute to a reduction in the government debt ratio and the deficit-to-GDP ratio, as nominal GDP is the denominator. Crucially for tax revenues, the government forecast underlying the draft regulation projects nominal consumption to grow by 18.4 percent and gross wage bill by 15.5 percent, while the government sector is expected to see wage growth of only 11.9 percent.

According to the draft decree, the planned revenues of the central sub-system of the general government will amount to HUF 36,355.6 billion, which is 21.4 percent higher than the expected outturn in 2022. Expenditure of the central subsystem amounts to HUF 39 755.8 billion, 14.9 percent more than expected in the previous year. In the central budget, the revenue estimate for business entities is HUF 3,938.9 billion, 35.5 percent higher than the expected outturn of the previous year. Within this revenue group, special or extra taxes account for the largest share, with almost double the expected 2022 outturn (196.8 percent). Corporate tax revenue is significant (HUF 1,004.9 billion), 34.3 percent higher than the expected 2022 outturn. The amendment to the Budget Law introduces a HUF 123 billion pharmaceutical tax among the taxes paid by companies, the payments from which will enrich the revenues of the Overhead Protection Fund.

The appropriation of consumption tax budget is HUF 10,187.6 billion, 16.6 percent above the expected outturn. Within this, the estimate for general sales tax (HUF 7,986 billion) is 16.2 percent higher than expected in 2022. The estimate for retail payments (HUF 4 434.7 billion) is 41.0 percent higher than the expected outturn in 2022. The personal income tax is the main contributor, with revenue estimates of HUF 4,060.5 billion, 45.7 percent higher than expected in the previous year. However, in terms of the base, this figure should be increased by the amount of the VAT refunded to families with children in 2022. Taking this into account, the increase is 17.1 percent, but still higher than the projected increase in the wage and earnings bill of 15.5 percent. This is partly explained by the fact that many of those previously taxed under the KATA (Itemized Tax for Small Businesses) have opted to be taxed under the personal income tax system. The draft also includes a measure to extend the partial personal income tax exemption for under-25s to 30 years for women who have children up to the age of 30.

The social contribution tax and contributions budget of the social security funds (HUF 6,876.0 billion) is 17.8 percent higher than expected in 2022, which is also higher than the projected

15.5 percent increase in the underlying wage and salary bill. This may be partly explained by the additional contributions of those outside the scope of the KATA (Itemized Tax for Small Businesses).

Within the central sub-system, the HUF 29 574.8 billion budgeted for central budget expenditure is 115.8 percent of the projected 2022 outturn. There is a significant increase of 12.3 percent for the Social Security Funds, including 15.7 percent for the Pension Insurance Fund and 7.9 percent for the Health Insurance Fund. At the same time, expenditure on budgetary bodies is projected to decrease by 27.6 percent, on Appropriations for the Professional Chapters by 33.7 percent and on Local Government by 10.5 percent compared to the base period.

Apart from the significant compensation for the increase in energy prices, the budget does not provide for any additional financing for the additional expenditure due to high inflation in 2022 and 2023, which implies a significant risk of under-execution for some headings.

Expenditure appropriations of the Overhead Protection Fund for 2023 increased from HUF 670 billion to HUF 2,610 billion. The amount earmarked to maintain the preferential tariffs for household consumption at the average consumption level has increased from HUF 600 billion to HUF 1,458.2 billion. Compensation for state institutions, state-owned enterprises and local authorities increased to HUF 855 billion, which is justified by the revision of the effects of rising energy prices and the increase in the number of eligible institutions. Payments for support schemes for the competitive sector are also included in the Fund's appropriations, totalling HUF 279 billion. Expenditure will be covered by the transfer to the Fund of the expected revenue from the "extra profit" special taxes and the mining levy, which will be introduced in June 2022, totalling HUF 1,411.7 billion, and a further HUF 1,198.3 billion in central government support.

The main expenditure of the **Defence Fund** has not changed compared to the original appropriations in the Budget Act, but the resource structure of the Fund has changed. Financial transaction tax revenue has been removed from the Fund's revenue, and in its place, HUF 358 billion from payments by financial institutions and HUF 219.4 billion expected from insurance tax, in addition to HUF 264.6 billion in direct central budget support, will provide the source of the planned expenditure of HUF 842 billion.

The main amount of **central reserves** has increased by HUF 418.2 billion to HUF 977.2 billion compared to the original budget law appropriations. The appropriations that can be considered as free reserves amount to HUF 462.7 billion. The government contingency reserve margin increased from HUF 170 billion to HUF 255 billion, in line with the increase in the central budget's expenditure envelope. The appropriations for the provision for government wage measures increased by HUF 335.2 billion to HUF 514.5 billion compared to the appropriations in the initially adopted budget law. At the same time, one new appropriation was added.

Revenues from the EU amount to HUF 2,285.69 billion, while **expenditures** amount to HUF 3,793.5 billion, 44.2 and 28.3 percent above the expected outturn in 2022. The budget realistically expects EU revenues to come in to finance the Recovery and Resilience Fund and the operational programmes for 2021-2027. Nevertheless, the advance payments for these programmes from the central budget remain significant.

Net cash interest expenditure is increased by HUF 310 billion in the amendment compared to the original budget law. The higher net expenditure is due to a HUF 430 billion increase in gross interest expenditure and a HUF 120 billion increase in interest receipts. The increase in interest expenditure is explained by the rise in yields since the drafting of the budget law.

The draft decree foresees an accrual-based deficit (ESA) for **the government sector** of 3.9% of the GDP, higher than the originally calculated one. **The general government cash deficit** is revised to 4.5 percent. Again, the Council considers it a good measure that if the GDP grows above 1.5 percent in 2023, the excess revenue should be used for deficit reduction.

The reduction in the debt ratio will continue in 2023. According to the draft regulation, it will be reduced from 74.0 percent at the end of 2022 to 70.2 percent at the end of 2023. The reduction is significantly supported by the fact that nominal GDP is projected to grow by 16.6 percent in 2023. This implies that the public debt rule would be met even in the case of lower economic growth than foreseen in the government's macroeconomic forecast and a higher deficit than the projected cash deficit, which would, however, increase the public financing needs and require additional debt issuance. The foreign exchange ratio of the central government debt would rise to close to 28%, which is close to the upper end of the target range raised by the debt manager.

27 December 2022

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Member of the Fiscal Council	Chairman of the Fiscal Council