The Fiscal Council's Opinion

on the Mid-year State and the Expected Evolution of the Execution of the year 2022 Central Budget Act of Hungary

I.

Antecedences, legal basis and the publicity of the preparation of the Opinion

Pursuant Point (c) Section (1) of § 23 of the year 2011 Act of CXCIV on the Economic Stability of Hungary, the Fiscal Council (henceforward: Council, FC) "shall formulate its opinion on the state of the execution of the central budget act and the expected evolution of the government debt every six months".

On this basis the Council reviewed the state of the processes of the execution of the year 2021 Act XC on Hungary's year 2022 Central Budget (henceforward year 2022 Budget Act) and the evolution of government debt by taking into consideration here and there the monthly data of July-August in the first half of the year, as well as the expected performance of the act.

Pursuant its usual practice and working practices, in this Opinion the FC was counting also on the antecedents related to the preparation of the year 2022 budget act.

- In its Opinion 5/2021.04.27. formulated on the draft of Hungary's year 2022 central budget bill the Council established that „the draft of the budget bill was counting with a high, 5, 2 percent economic growth, that is near to the forecasting band of well-known domestic and international organisations, through the significant expansion of earning, employment, household consumption and fixed asset accumulation."

  In the justification section of its Opinion the FC also indicated that „according to our views, the economic expansion can be realised in case the epidemic subsides in harmony with the expectations and no unexpected frictions emerge in world economy." Additionally, the Council supported the decreasing of the public finance deficit in the share of the GDP from 7, 5 percent predicted in the year 2021 plans however, the FC judged the 5, 9 percent share too high. „Namely, in the Council's opinion the expected rapid economic restoration would give a more marked decrease of the year 2022 deficit than this and thus, it would be the guarantee to restore balance and for the sustainable catching-up." According to the FC's opinion „in harmony with the stipulations of the Fundamental Law, the decreasing trend of the government debt indicator remains lasting – following the temporary increase in 2020 – and according to the draft budget bill, its degree shall decrease from the 79, 9 percent in 2021 to 79, 3 percent by the end of 2022."

  The Council also established that „The draft of the year 2022 budget bill is in harmony with the government debt rule stipulated by the Fundamental Law" and meets the prescription of Section (2a) § 4 of the Stability Act." Despite this - and in harmony with the indicated targeted deficit – the FC did not consider the 0, 6 percent decrease of the year 2022 debt indicator adequate and mentioned that „the economic restoration that has already started in 2021 would make a greater degree of the debt indicator decrease possible and, at the same time, this would be necessary to ensure that even if the possibility of the emerging risks increases, the mitigation of this indicator would be ensured." Additionally, the Council also drew the attention to the fact that „the degree of reserves serving the safety of fiscal management represents only 0, 4 percent of the GDP that is lagging behind even the low level planned for 2021 (i.e. 0, 5 percent of the GDP)."

- In its Resolution 6/2021.06.10. – apart from granting its prior consent to submit the draft of the year 2022 central budget for final voting – the FC established that „in the Council's opinion the government debt indicator planned for 31st of December 2022 as described by Section (1) § 3 of the uniform budget bill of Hungary's year 2022 Central Budget […] is substantiated, was established in harmony with the respective stipulations of the Stability Act and is in harmony with the macroeconomic and public finance processes that serve as the basis of the bill. As the degree of the government debt indicator calculated for the end of 2022 is less by 0, 6 percent than the degree expected for the end of 2021, the stipulation of Section (5) Article 36 of the Fundamental Law is also being met." At the same time, in the Justification section of the above resolution, the Council was of the opinion that „the greater than expected nominal GDP in the first quarter and the ensuing favourable shift in the growth expectations has significantly exceeded the levels calculated for 2021 and for 2022 and this is resulting increasing tax bases and fiscal revenues. This improves the ability to fulfil the targeted deficit of the bill as well as that of the government debt indicator, i.e. it mitigates the risk of non-performance and, at the same time, strengthens the reasonability of a lower deficit and government debt indicator as recommended for consideration for 2022 by the Council."

- The fact that at the end of 2021 the Government decreased the originally planned 5, 9 percent deficit in the share of the GDP to 4, 9 percent then, in September 2022, increased it to 6, 1 percent, due to the accrual based deficit increasing effect of the uploading of special natural gas resources, is closely related to the evaluation of the execution of the year 2022 budget act.

- At the end of 2021 the government debt indicator specified by the budget act at 79, 9 percent turned out to be significantly less, i.e. 76, 8 percent. For that reason also, the Government defined the degree of the government debt indicator in the Convergence Programme in 76, 1 percent, maintaining the goal of its factual decrease.

- In its Opinion 1/2022.04.21. evaluating the state of the execution of Hungary's year 2021 Central Budget act and the evolution of the government debt, based on the processes of the whole year, the Council focused the attention to the fact that „the consequences of the Russian aggression that started in February 2022 against

Ukraine and the sanctions introduced in response to this act shall re-write the Hungarian economy's course as well." Additionally, the FC underlined that „the result of the year 2021 restoration is valuable also because it means a solid basis to manage the new challenges." At the same time, the Council also called the attention to the fact that „ – although at the time of the preparation of the evaluation we are not aware yet of the more specific effects of the war – certain decisive element of the macroeconomic trajectory taken into consideration in the year 2022 budget – the GDP, the inflation – shall develop differently."

Pursuant its standard practice when preparing is half-yearly evaluation, the Council was relying on the written analyses prepared by the State Audit Office of Hungary and the Central Bank of Hungary on the processes of the first half of the year 2022 budget as a basis. Beyond the above the FC also reviewed information from the Central Statistical Office (KSH) and the Ministry of Finance about the state of the economy in the first half of the year, that of the public finance central subsystem at the end of July, as well as the evaluations of domestic research and analysing institutions commissioned by the FC Secretariat, of certain international organisations (European Commission, IMF, World Bank, OECD), and the economic evaluations and forecasts of other, benchmarking market analysts. The Council also considered the contents of Hungary's year 2022 – 2026 Convergence Programme.

II.

The Opinion of the Council

According to the stipulation of Point (c) Section (1) § 23 of the Stability Act at its meeting held on 27th of September 2022 the Council reviewed the major processes and respective background of the execution of Act XC of 2021 of Hungary's year 2022 central budget in the first half of the year (occasionally in the period of the first to the eighth month). The FC formulated the following Opinion on the above.

1) The Council finds that in the period of 2020 – 2022 the unfavourable processes of world economy have been influencing strongly the state of public finance. The fragmentation of the global value chains have sustainably survived, even following the epidemic, first the raw material prices have increased significantly to be followed by the increase of the energy prices in the summer of 2021. These processes have slowed down economic development and increased the inflation all over the world. Following 24th April 2022 the Russian-Ukrainian war widened and deepened the existing problems and posed challenges for world economy that had not been present for several decades. The war situation affected European economies most strongly by the unprecedented increase of energy prices and, related to this, by the additional sharp rise of the inflation. Beyond the above, the war has also valorised the importance of the safety of energy supplies and stockpiling of energy carriers.

Following the coronavirus epidemic Hungarian economy was restored rapidly. Thanks also to the economy-restarting programmes, the performance of the domestic GDP improved by 7, 3 percent in the first half of the year compared to the same period of the previous year and has exceeded its pre-epidemic level by more than 7 percent. The increasing employment and wages greatly contributed to this growth.

2) In the Council's opinion the short-term outlooks are less favourable. Due to the slowing down of world economy, the EU sanctions, the high inflation, the outstanding energy prices and the extraordinary drought a more moderate growth rate is expected. Globally, the increased inflation represents the greatest challenge.

3) Based on the processes taking place so far as well as those expected - according to the Council's consideration – the end-of-the-year cash deficit shall be significantly higher than planned. The year 2022 budget act established that the cash deficit of the public finance central subsystem shall be HUF 3.152, 7 billion. The deficit in the first half of the year reached 91, 7 percent of this amount (HUF 3.892, 3 billion). The measures introduced in the first quarter increasing the income of specific groups of the population (reimbursement of personal income tax for families, paying the whole amount of the 13th month pensions and 'gun money' for people employed by law enforcement agencies) amounted to the expenditures approximately by HUF 1.300 billion while also contributing to the budget revenues via tax payments. The Council finds that from among the central appropriations the open top reserves – the appropriations of the Central Reserve of Economy Restarting programmes, the Fund for Protection against the Epidemic and the Provisions appropriation – were exceeded altogether by HUF 865, 8 billion and this contributed to the increasing deficit. At the same time, beginning with May the balance was more favourable and in July it did show a surplus worth of HUF 255, 7 billion while, in August the negative balance was less than this, amounting to HUF 236, 2 billion. Thus, altogether the deficit of the previous eight months was HUF 2.872, 7 billion.

4) The Council emphasises that the evolution of the cash deficit is of decisive importance also from the aspect of the decreasing government debt indicator. Namely, the increase of the government debt indicator in the first half of the year – from 76, 8 percent at the end of 2021 to 77, 5 percent – was primarily the result of the high cash deficit, the increasing liquidity and the revaluation of the foreign currency denominated debt. Within the government debt the part of the central budget's debt denominated in foreign currency grew from 20, 6 percent at the end of 2021 to 23, 1 percent by 30th of June 2022 that continues to remain within the targeted band of the foreign currency denominated debt within the total debt. The syndicated bank loan borrowed by the Hungarian Hydrocarbon Stockpile Association that is statistically classified in the government sector, contributed to the government debt. At the same time, the significant GDP growth is tending in the direction of this indicator's decrease.

5) The Council finds that the extraordinary world economic processes have significantly influenced the evolution of the national budget. To manage these effects through 2022, the Government introduced several measures. The leaping energy prices require significant excess public finance expenditures, just like the inflation, the increasing interests of sovereign debts, the maintaining of security and these are being offset only partially by the excess revenues from the more rapid than expected economic growth and from the higher inflation. The Council appreciates that comprehensive consolidation steps have been taken beginning with May 2022, a significant part of what is the tightening of taxes on extra (windfall) profits respectively, the substantial curbing of budget expenditures, primarily in case of investments. From 1st of August 2022, in order to sustain the utility cost reduction, the former official price is eligible only for consumption that is not exceeding the average consumption limit while, the consumption above this limit is provided for a higher official price, thus decreasing the burdens of the budget resulting from the leaping world market prices.

6) Following the restoration of the economy, in December 2021 the Government moderated the year 2022 targeted deficit calculated by the ESA methodology from 5, 9 percent of the GDP to 4, 9 percent then, in September 2022, they increased it to 6, 1 percent, as a consequence of the natural gas reserves accumulation financed by syndicated bank loan borrowed by the Hungarian Hydrocarbon Stockpile Association under state guarantee. In the first quarter the deficit represented 4, 8 percent of the quarterly GDP while, in the second quarter, according to the data of the preliminary financial account published by the Central Bank of Hungary (MNB), it was 2, 1 percent thus, in the first half of 2022 the accrual based deficit amounted to 3, 4 percent of the half-yearly GDP.[1] This result was in harmony with the pro-rata temporis share of the 4, 9 percent annual deficit that was valid at the time. The excess expenditures related to the sharp rise of raw materials and, especially, of the energy price increase will appear mostly in the second half of 2022. At the same time these factors also

[1] The difference of the accrual based and cash balance in the first half of the year deserves attention. The cash balance is cash-flow accounting scheme indicator based on the data of the Treasury while the accrual-based balance is calculated by the EU ESA2010 methodology taking into consideration the statistical corrections related to the cash balance (ESA bridge). Based on the preliminary data of the Hungarian State Treasury the balance of the local governmental subsystem is HUF 204 billion in the first half of the year. By allocating this to the cash balance of the central subsystem amounting to HUF – 2.892 billion the public finance cash balance of the first six months of the year is HUF – 2.688 billion. The amount of the current GDP in the first half of the year amounts to HUF 29.980 billion, calculated by the Central Statistical Office (KSH). Thus, the extent of the public finance cash deficit in the first half of the year amounts to 9 percent of the GDP of the first six months, i.e. significantly higher than the accrual-based deficit.
The difference between the cash and accrual-based public finance balances is primarily the result of the different calculations regarding the EU advance payment (HUF 740 billion), the reimbursement of personal income tax for families (HUF 685 billion) and the transfers paid to companies classified in governmental sector (HUF 500 billion). In case of the increases regarding the expenditures of other companies classified in governmental sector the ESA bridge may eventually lessen thus, the gap between the cash and accrual-based balance my narrow in the second half of the year.

contribute to the worsening of our foreign trade balance. Hence, the Council deems it important to gradually improve not only the budget deficit but also the foreign trade balance to thus mitigate the twin deficit.

7) Summing up: The Fiscal Council establishes that following the extremely high cash deficit of the first quarter, the cash deficit was approaching the annual appropriation by the middle of the year. At the same time, the fact that the already decided upon compensation of the energy prices that remains necessary, shall significantly increase the expenditures of the second half of the year and this will be compensated by the higher than planned tax revenues only partially. As a consequence the cash deficit is expected to significantly exceed the degree defined by the budget act. The Council welcomes and deems it important that the Government made efforts in order to reach agreements regarding the EU resources. The Council is taking into account that the crisis due to the coronavirus epidemic and the state of emergency introduced following the 2022 outbreak of the war in Ukraine resulted in the introduction of the escape clause that makes deviation from the government debt rule stipulated by the Fundamental Law possible. At the same time, in harmony with the former decisions of the National Assembly and the Government, the Council continues to regard the decreasing of the government debt indicator necessary and viable.

III.

Justification

1. The evolution of the macroeconomic conditions

After tackling the coronavirus epidemic, the number of negative risks surrounding the strong recovery became reality. The Ukrainian conflict, the difficulties of the supply chains, the stoppages have and are dealing serious blows to the economies. The Russian invasion of Ukraine and the EU sanctions in response kept increasing the upward pressure on energy and raw material prices thus, decreasing the consuming power of households and increasing the expenditures of the governments. The performance of major economies decreased. The most important international financial organisations (European Commission, IMF, World Bank, OECD) characteristically have amended their respective forecasts downward in their spring-summer prognoses.

As regards the degree of the **growth rate of global economy** IMF, in its latest evaluation, moderated it to 3, 2 percent (from 3, 6 percent), the World Bank amended its earlier 4, 1 percent forecast to 2, 9 percent and OECD from 4, 5 percent to 3, 0 percent. According to the summer, 'mid-term' evaluation of the European Commission, the EU economy may expand by 2, 7 percent and the performance of the EU zone by 2, 6 percent. (Beyond this, the fact that both the IMF and the European Commission are expecting a weak, approximately 1, 2 – 1, 4 percent performance from the German Economy this year, is a circumstance worth of consideration. The forecasted degree of the growth rate of the US economy is also lower than it has been so far – IMF and OECD predict it to 2, 3 – 2, 5 percent).

As regards the degree of the **growth rate of the Hungarian economy,** both the macroeconomic forecast that served as a basis for the year 2022 annual budget and the forecast prepared by the Central Bank of Hungary projected a dynamic growth of about 5 percent. The latest domestic expectations – due to the base effect of the outstanding performance of 7, 1 percent in 2021 and because of the less favourable external factors – have been counting with a somewhat worse but still robust macroeconomic trajectory: the financial government counted with a 4, 7 percent GDP growth while MNB (in its June 2022 forecast) expected a 4, 5 – 5, 5 percent expansion The World Bank decreased its earlier forecast to 4, 6 percent (from 5 percent) while OECD decreased their respective prognosis from 5, 5 percent to 4, 0 percent. On the other hand, the European Commission improved its forecast as regards the performance of the Hungarian economy this year to 5, 2 percent (from 3, 6 percent). However, compared to the above the increasing probability of a recession taking shape in the past months in the dominant economies of the world, the continuing increase of the gas prices and the agricultural damages due to the extreme drought represent negative risks.

In the first quarter of 2022 the volume of our gross domestic product grew by 8, 2 percent and by 6, 5 percent in the second quarter – compared to the same period of the previous year. According to the seasonally and calendar adjusted and balanced data, the performance of the economy increased by 2, 1 percent in the first quarter and by 8, 0 percent, compared to the same period of the previous year while, in the second quarter these values rose regularly by 1, 1 percent respectively, by 6, 5 percent. Throughout the first half of the year the performance of the economy exceeded the result of the same period of the previous year by 7, 3 percent.

On the production side the biggest contributors to the 7, 3 percent growth were the services (by 5, 6 percent) while industry's contribution was 1, 0 percent and the building industry's 0, 3 percent. Due to the unfavourable weather conditions (extreme heat, lack of rain, etc.) the agricultural output mitigated the performance by 0, 7 percent. The remaining 1, 1 percent was the contribution of the balance of taxes and supports that were moving parallel with the added value. On the expenditure side, final consumption represented 6, 5 percent, gross capital formation 1, 8 percent, while the balance of foreign turnover was – 1, 0 percent.

Industrial production grew by 5, 1 percent in the first half of 2022. Within this, the performance of manufacturing industry grew by 4, 7 percent, of the energy industry by 5, 2 percent and mining by 10, 9 percent. From among the specific sub-branches, production of electrical equipment did show an extremely high growth (by 20, 5 percent), production of food, drinks and tobacco goods grew by 12, 5 percent, of machine and machinery equipment by 9, 6 percent, the production of computers, electronical and optical products by 6 percent, textile, clothing and leather goods production by 7, 4 percent, industrial machinery and equipment repairing by 9, 9 percent. Beyond the above the production of the automotive sector, pharmaceutical production and chemicals decreased (in the above order: by 0, 5, 4, 4 and 1, 6 percent).

Building industry production grew by 7, 0 percent and within this, building constructions by 10, 1 percent, specialised construction work by 8, 3 percent and other building construction by 0, 1 percent (in the building construction branch the performance in February and March, this year exceeded the performance of the same period of the previous year by 70, 6 respectively, by 24, 4 percent).

In the first half of 2022 economic investments expanded by 8, 1 percent compared to the same period of the previous year. The volume of machinery and equipment investments grew by 12, 6 percent while the performance of construction investments grew by 5, 3 percent. The development volume of companies employing at least 50 people grew by 7, 4 percent while, as regards budgetary organisations, the decline reached 4, 1 percent. Investment activity was different in specific national economy sections. Developments of the manufacturing industry that constitutes the largest among investments of national economy grew by 23, 9 percent, thanks primarily to the earlier launched large scale projects in electrical engineering. Through the priority growth of home building and property renovations, the investment performance grew by 13 percent as regards real estate matters, by 23, 4 percent in agriculture while, in case of accommodation services and hospitality the growth reached 21, 9 percent. At the same time, events obstructing the normal course of processes have stifled the investments in case of transportation, storage and commerce economic sectors.

Difficulties affecting the evolution of world economy have concerned sensitively the activities of housing construction as well. In the first half of the year 9133 new homes were built, less by 6, 8 percent compared to the same period of the previous year. At the same time, the number of homes to be built according to the issued building permits and those build upon simple announcement was 17.715 that represented more by 16 percent, compared to the performance of the previous year. By its earlier introduced measures (tools) the Government continues supporting house construction/home building. The drop of home constructions by natural persons lasting for close to one and a half year stopped but grew in smaller settlements: in municipalities the number of homes put into service increased by 10 percent compared to the same period of the previous year.

Based on the data of June 2022 the number of **employees** was 4 million 739 thousand, more by 47 thousand compared to the data of the previous year. The employment rate measured in the age group of 15 – 64 increased to 74, 3 percent. The number of **unemployed** was 160 thousand, the unemployment rate fell back to 3, 3 percent. According to the administrative data of the National Employment Service the number of registered job seekers decreased by 13, 3 percent to 230 thousand people. Compared to the base period, employment grew in each regions: the greatest improvement occurred in the South Trans-Danubian region (2, 1 percent) while the lowest growth rate (0, 7 percent) occurred in Western Trans-Danubia.

Gross and net average wages grew by 18, 5 percent equally in the first five months of the year (HUF 505.600, respectively HUF 336.200). The outstanding increase primarily was the result of the paying of service allowance amounting to six months' wage of the professional law enforcement staff in February (arms money), the frontloaded wage increases in specific advancement systems and the increasing of the minimum wage and the guaranteed wage minimum. The further improvement of employment and the increasing wages affect favourably the tax and contribution revenues of the budget.

Based on calendar adjusted data, **retail sales** increased by 10, 3 percent compared to the previous year; within this by 2, 2 percent in food and food-like retail trade, by 12, 5 percent in non-food retail trade and by 30 percent in case of retail services in automotive fuel. The expansion of food retail trade was spreading evenly; in non-food retail trade, beginning with the middle of the first quarter. it was 29, 7 percent while, retail services in automotive fuel produced outstanding results beginning from the second quarter (37, 4 percent in April and May, while 23, 6 percent in June).

The evolution of **commercial accommodation's** turnover is still showing signs of the consequences of the restrictions of the previous year however, the respective data indicate a favourable change. Through the first half of the year a total of 10, 8 million guest nights had been registered: domestic guest spent 6, 2 million guest nights while foreign visitor 4, 6 million guest nights in commercial accommodations. The total gross revenues tripled the data of the basis performance (HUF 59 billion) to HUF 178 billion. These data are getting close to the data of year 2019.

The rise of **consumer prices** was 9, 4 percent in the first six months. Behind the price increase there are international processes, primarily the growing energy and raw material prices, followed by the jump of the prices of agricultural products that manifested first in producer prices than also in the consumer prices. In certain fields the measures introduced by the government prevent or hold back the price increases however; beyond these, the acceleration of inflation is noticeable in a wide circle of prices and services.

2. Evolution of the revenues of the central subsystem

In the first half of 2022, within the public finance **central subsystem** altogether they realised revenues amounting to HUF 14.424,6 billion that equals to 56, 8 percent of the annual appropriation. This is more by HUF 2.783,7 billion – i.e. by 23, 9 percent – than **in the same period of the previous year (henceforward: that of the previous year or that of the base period).**

Within the central subsystem the revenues of the central budget was HUF 9.807,3 billion, i.e. 57, 5 percent of the appropriated amount.

In case of **payments of economic operators** the amount reached HUF 1.224 billion, i.e. 62, 5 percent of the annual appropriation. In respect of this revenue group the decisive element is **corporate tax.** Under this title the revenue amounted to HUF 461 billion (78, 3 percent of the annual appropriation) and this exceeded the balance of the previous year by HUF 112, 4 billion. The significant increase of this type of revenue is attributable to the more favourable evolution of the macroeconomic processes and the tax declaration of corporate taxes of big corporations (the accounting due in May). The cash flow higher by approximately HUF 50 billion was the result of the higher level of advance payments compared to the previous year together with the payment obligations set by taxpayers' self-auditing, court rulings, or the consequence of tax authority proceedings, as well as the different annually paying business taxpayers (close to 1 000 large businesses in the field of commerce, motor vehicles' repair, manufacturing industry, scientific, technical activities). HUF 40, 2 billion revenues arrived in the budget from the **special tax of financial organisation** (performance: 66 percent) that exceeds the revenues of the base period by HUF 9, 4 billion. The reason for this lies in the obligation to pay higher amount advance based on the tax declaration on one hand and, on the other hand, the individual payments (the latter amounts to one tenth of the excess revenues). The realisation of **retail tax revenues** amounted to HUF 15, 3 billion (20 percent of the appropriation) that was more by HUF 9, 2 billion than such revenues in the previous year. The explanation lies in the realisation of additional payments originating from the accounts of the year before. (In the first half of the year the cash flow linked to the settlements was realised while, the first advance payment due this year – in case of the majority of taxpayers – occurs in July). From **the flat rate small business tax** the budget received revenues amounting to HUF 106, 8 billion (45, 1 percent of the realisation); at the same time this was higher by HUF 15 billion compared to the previous year's revenue from this type of tax. The explanation of the revenue increase is the significant increase in the number of taxpayers (compared to the data of the previous year by 26 thousand) and the „surge" of payment following the decline of the COVID epidemic. Revenues from **small business tax** amounted to HUF 69, 7 billion (57, 5 percent of the appropriation) that was higher by HUF 18, 7 billion compared to the performance of the base period. The cause was the significant expansion of the number of taxpayers (by 870 new or transferred taxpayers). The performance of **utility tax** was 49, 9 percent (lagging slightly behind the pro-rata temporis share). The realisation of the **income tax of energy providers** exceeded the annual appropriation by 0, 4 percent (in amount by HUF 55 billion). The scope of entities paying this special tax has been expanded from the second half of 2022 by producers of bio-ethanol and biofuels, and the production of sunflower-oil and starch producers. Revenues from **rehabilitation contribution** was HUF 63, 6 billion (54, 7 percent realisation); in amount this was higher by HUF 7, 6 billion compared to the result of the first six months of the previous year. Revenues of the budget from **mining fees** was HUF 68, 4 billion (the realisation amounted to 180, 1 percent of the annual appropriation); in amount this was higher by HUF 49, 6 billion than in the same period of last year. The evolution of this type of revenue source is related to the fact that the world market price of energy careers is significantly higher than the calculations at the time of defining the legal appropriation. Additionally, from the second half of the year they tripled the fees to be paid on hydrocarbons (oil, natural gas). Realisation of the revenues from **gaming tax** was 69 percent (in amount HUF 23, 4 billion); this was higher by HUF 9 billion that the year before. The lifting of restrictions following the epidemic (closing of casinos and arcades) was playing a significant role in this increase. The realisation of **company car tax** essentially was the same as prescribed by the appropriation (49, 5 percent) while the realisation of the **eco tax** fell short of the appropriation (42, 8 percent).

From **other, centralised revenues** the realisation was HUF 262, 7 billion that equals to 50, 5 percent of the statutory appropriation. The **electronic (distance base) and time based toll** represented the significant share in this revenue group (the former amounted to HUF 133, 1 billion, the latter to HUF 52 billion), i.e. the realisation was 50, 6 percent, respectively70, 3 percent of the annual appropriation). From the **environmental product fee and landfill tariff** the revenues amounted to HUF 27, 5 billion and HUF 7, 6 billion (the realisation of the appropriation from the former was 32, 4 percent and the latter 41, 2 percent). From **fines revenues** 41, 9 percent of the appropriation arrived in the budget (in amount HUF 22, 8 billion).

From **consumption related taxes** HUF 4.076,4 billion arrived in the budget; the realisation was 56, 3 percent of the appropriation (in amount higher by HUF 820, 3 billion compared to the previous year's revenue from this source). The two, decisive elements of the domestic tax system are the value added tax (VAT) and excise tax. The realisation of the **value added tax** in the first six months of the year was 59, 3 percent, in amount HUF 3.255 billion that was higher by HUF 764, 8 billion compared to the data of the previous year. At an average gross VAT revenues increased by 29 percent compared the previous year's realisation (in the last ten years this was 8 – 10 percent). The targeted governmental measures (13th month's pension, personal income tax refunds for families, increasing the minimum wage and the guaranteed wage minimum and other, wage related measures, etc.) contributed to the expansion of consumption and the surge of the volume and purchase price of imported good as well as the stockpiling following the increase of the tobacco goods' prices of last year were also contributing factors. From **excise tax** revenues amounting to HUF 580, 7 billion arrived in the budget (44, 8 percent of the appropriation) that was more by HUF 20 billion compared to the data of the base period. Within the excise product scope the increase of revenues related to fuel, tobacco goods, spirits and other products were also related to the higher turnover. Beginning with February 2022 the excise tax of petrol and diesel oil was temporarily decreased in two steps; first by HUF 5 to be followed by a decrease of HUF 20 with the introduction of „gas price cap" however, its effect was mitigated by the increasing demand. Under the title of **financial transaction fee** HUF 132, 8 billion arrived in the budget (57, 1 percent realisation) that was more by HUF 21, 6 billion compared to the data of the previous year. The growing number of financial transactions and transfers played a decisive role in the revenue increase, together with the spreading of the assisting applications, the increasing of the upper taxpaying limit of bank transfers and the expansion of the tax itself (0, 3 percent) after security transactions – with the exception of MÁK (Hungarian State Treasury) and the Hungarian Post. The realisation of the **registration tax** was HUF 8, 3 billion (33, 6 percent of the appropriation) that means it has fallen behind the previous year's realisation by 0, 9 percent. The realisation of **telecommunication tax** was 54, 2 percent (in amount it lagged behind the base period data by HUF 1, 2 billion). From **insurance tax** the revenue arriving in the budget was HUF 60, 2 billion (52, 5 percent of the appropriation) and in amount was more by HUF 5, 7 billion than the revenue last year. The 4 percent **tourism developing contribution** burdening hospitality services and commercial accommodation providing services realised 31 percent revenues for the budget (in amount HUF 10, 4 billion).

The **realisation of retail payments** amounted to HUF 1.218, 2 billion in the first six months of the year that equals to 38, 6 percent of the annual appropriation. In this revenue group **personal income tax** represents the largest share (in amount HUF 1.030, 4 billion that is lower by HUF 341, 3 billion compared to such revenues in the previous year); the realisation was 35, 9 percent. Although the vigorous growth of wages and salaries affected favourably the revenues under this title of the public finance however, the one-time tax refund (together with other supports) for parents rearing children was HUF 785, 0 billion (five times more than the tax refunds realised in the same period of the year before). From this the amount paid for family tax refund was HUF 685 billion the effect of what is not reflected in the law however, the losses were partially compensated by the more dynamic than expected increase of the total earnings. The annual appropriation of **payments of fees** were realised at 64, 1 percent (in amount HUF 127, 5 billion) that exceeded the revenues of the previous year by HUF 20 8 billion. The favourable macroeconomic situation has affected the evolution of the payments of fees, the rising property prices and, additionally, the vigorous expansion of transactions related to the property market (mainly in big cities and resort places). Under the title of **taxes levied on vehicles** HUF 60, 1 billion arrived in the budget (66, 5 percent of the annual appropriation) that was higher by HUF 5, 1 percent compared to the revenues of the basic period.

Revenues of **budgetary entities and chapter managed appropriations** were realised at HUF 1.473 billion that represents 84, 4 percent of the annual appropriation. From this HUF 1.277 billion was realised at budgetary entities i.e. 84, 6 percent of the appropriation. As regards professional chapter managed appropriations the realisation was approximately 83, 4 percent (in amount HUF 196 billion).

Revenues related to public assets (revenues related to properties, moveable properties, dividends, other revenues) amounted to HUF 259 billion (realisation 93, 9 percent). A decisive share of the realised appropriation originated from selling quota (auction sale of carbohydrate emission units owned by Hungary) amounting to HUF 71, 4 billion and the revenue of HUF 150, 2 billion paid by Telekom, Telenor and Vodafone after having sold their respective spectrum use entitlements while the rest of the revenues came from incomes related to public assets and dividends.

Revenues related to debt service (interest) amounted to HUF 71, 2 billion, 67, 8 percent of the appropriation.

On the balance sheet of **revenues of EU programmes** HUF 477 billion was generated in the first half of the year. This is 20 percent of the annual appropriation (HUF 2.363, 3 billion). The low level of realisation was primarily the consequence of the fact that the European Commission has not accepted yet Hungary’s Recovery and Resilience Plan. The negotiations are underway however, even with risks, there seems to be a chance to get a positive reaction from the Commission. On the balance sheet of other **EU revenues** HUF 16 billion arrived in the budget under the title of reimbursement of customs’ collection costs that exceeded the revenues of the previous year by HUF 7 billion. This significant growth is attributable to the evolution of the HUF-USD rate of exchange.

On the balance sheet **payment from the public finance systems** the amount of HUF 975, 5 billion arrived in the budget (five and a half times more compared to the appropriation of the previous year). Within this, payment of HUF 119, 2 billion was realised in the first half of the year in the *Central Residual Settlement Fund* debiting the appropriations of the budgetary entities as, because of the amendment of the rules of residual settlement in December 2021 the residuals of chapter managed appropriations not burdened by obligations have to be paid – with some exceptions – in the Savings Fund from 2022. Residuals of appropriations classified under chapters under the control of the Government are subject to be paid in the *Savings Fund;* in the first half of the year HUF 746, 4 billion arrived in the Fund form such sources. *Payment of separated state funds* in the public finance was realised in 50 percent while payments from local governments amounted to HUF 86, 8 billion (66, 9 percent of the appropriation).

The combined revenue appropriation of **separated state funds** was realised to 64, 1 percent (HUF 450, 9 billion). The largest volume of the revenues of these funds is represented by the **Economy Restarting and Employment Fund** (GFA) the realisation of what reached 60, 1 percent of the annual appropriation (HUF 469, 4 billion). From among its resources the share of social security contribution due for the Economy Restarting and Employment Fund was realised to 55, 2 percent, the return of the expenditures of the pre-financed EU programmes' expenditures to 112 percent (in amount HUF 89, 8 billion) while the budgetary support to GFA to 50, 7 percent and that of other revenues to 26, 8 percent. Revenues of the **National Research, Development and Innovation Fund** were realised in 69, 4 percent (in amount HUF 91, 1 billion). Within this, Innovation contribution was the decisive factor (its realisation was 67, 5 percent). Revenues of the **Central Nuclear Financial Fund** were realised to 42, 5 percent (HUF 5, 9 billion) and at the **Bethlen Gábor Fund** to 100, 1 percent (HUF 33, 8 billion.

The revenue appropriation of the **Social Security Funds** was realised to 54, 9 percent in the first half of the year (in amount HUF 7.623, 7 billion); (within this the revenues of the Pension Insurance Fund to 56, 9 percent and that of the Health Insurance Fund to 52, 0 percent). The decisive share of the social security funds – traditionally – originates from the social contribution tax and the social insurance contributions. (The state tax authority transfers 54 percent of the paid social security contribution to the Pension Insurance Fund, 37, 9 percent to the Health Insurance Fund and 8, 1 percent to the Economy Restarting and Employment Fund).

The share of the **social contribution tax** due to the Pension Insurance Fund (HUF 858, 1 billion) exceeds the revenue of the year before by 3, 8 percent (HUF 31, 4 billion). This growth was the combined consequence of two factors: the additional decrease of the social contribution tax that mitigated the revenues however, the growing average wages and salaries (increased minimum wage, payment of benefits to law enforcement staff, individual sectoral allocations, etc.) contributed to the revenues exceeding that of the previous year. The share of the **social security contribution** due to the Pension Insurance Fund together with the pension contribution was realised to HUF 1,009, 5 billion that was higher by 20, 7 percent compared to the revenue of the base period. The higher revenue was the consequence of the growth of the employment rate and of the average wages. The budgetary contribution of the Health Insurance Fund in the first half of the year amounted to HUF 618, 2 billion, higher by HUF 255, 2 billion than the amount transferred last year.

The share of **social contribution tax** due to the Health Insurance Fund (HUF 339, 7 billion) also exceeded the revenue of the base period by 3, 8 percent (in amount by HUF 12, 4 billion). The share of the **social security contribution** due to the Health Insurance Fund combined was realised in HUF 688, 9 billion that exceeded the revenue of the base period by 20, 8 percent (in amount HUF 118, 8 billion). The budgetary contribution of the Health Insurance Fund amounted to HUF 618, 2 billion in the first half of the year that was higher by HUF 255, 2 billion compared to the amount transferred under the same title in the previous year.

3. Evolution of the expenditures of the central subsystem

In the first half of 2022 the realisation of the expenditures amounted to HUF 17.316, 8 billion in the **public finance central subsystem,** using 60, 7 percent of the appropriation, more by nearly 30 percent compared to the same period of last year. While the expenditure surplus in 2021 was primarily related to the epidemic and economic protection in 2022, measures targeting the reconstruction of the economy respectively, those aimed at increasing the income earned by the population (wage increases, the faster than planned rebuilding of paying the full 13th month's pensions and the advance payment of law enforcement benefits) have contributed to the increasing level of expenditures. Apart from this, the surge of energy prices also represents an expense for the budget in 2022.

As a result of the 53, 3 percent increase, the payments in the **central budget** reached HUF 12.848 billion. The following factors were characteristic within this group of expenditures: In case of expenditures concerning **specific, normative expenditures and those allocated to public media, together with social political fare subsidies** by its HUF 378 billion represented slightly more among the expenditures than the pro rata temporis share. They used most of this – HUF 265 billion – for various community transport supports (in particular for passenger transport reimbursement, operation of the railway network, suburban transport). The greatest growth presented itself in case of fare subsidies as the expenditures in the previous year was way smaller as a result of the lower degree of utilisation of community transport companies because of the health emergency. Beyond this, the amount of the support for public service transport companies also increased, due to the rising energy costs and the centrally increased wage costs.

As regards housing support, compared to the HUF 123 billion of the base period, the realisation was HUF 270, 5 billion. The explanation for this significant increase lies in the followings: the introduction of Home Renovation Programme since 1st January 2021 and the announcement of the related loan from February, the further expanding of the possibilities of applying for tax reimbursement support for specific, existing constructions, the Home Purchase Subsidy Scheme for families, the tax reimbursement support and the possibilities of eligibility for supports assisting the decrease of mortgage debt of families rearing more children and, beyond the above, in case of rural grants, the consequence of the expansion of the scope of the concerned, preferential small settlements.

From the appropriation of the **National Family and Welfare Fund** the expenditure realisation was HUF 364 billion (53, 1 percent) – more by HUF 24 billion, compared to the previous year's expenditures. Somewhat more than the half of this appropriation (HUF 203 billion) was paid for **family supports** that is roughly two third of the amount. From this the share of family allowance was HUF 156 billion, practically the same amount as in the base period. From the remaining sum they supported goals related to various child rearing and life start aids. The use of HUF 90, 5 billion was spent on **income replacement allowance** and **income support** (more by 16, 4 percent than the amount spent on such supports compared to the data of the previous year). From this amount they paid HUF 56 billion to different tasks of counties. The close to HUF 10 billion increase was the result of the fact that as of January the amount for home care of children increased from 88 percent of the minimum wage to its 100 percent (from HUF 147, 3 thousand to HUF 200 thousand) while the amount of care allowance grew by 5 percent. They disbursed HUF 34, 5 billion for additional supports (disability support, personal pension for blind persons, etc.). They also validated, in these cases as well, the effect of the 5 percent increase and the payment of the 13th month provision. Thanks to these same items the amount of the **benefits of people below standard retirement age** increased by HUF 9 billion to HUF 58 billion.

Within the central budget **expenditures of the central budgetary entities and chapter managed appropriations** represented 51, 6 percent – in amount HUF 6.630 billion. The greater portion – more by 2, 7 percent, i.e. nearly HUF 3.393 billion – was used for the **gross expenditures of budgetary entities.** This represented 63, 0 percent of the appropriation and is related to the end-of-2021 wage increasing measures introduced by the government, the advancement of the service pay for law enforcement agencies and the significant overrun of the central reserves' appropriation linked to the economy restarting programmes. The amount of wages paid to the employees was higher by 14, 3 percent compared to the base period; the payments reached HUF 1.855 billion. As regards investments and restorations fiscal entities used merely 1 percent more than in the year before. The low growth rate was the consequence of the governmental decision to temporarily suspend investments and restorations. Material expenditures of budgetary entities approached HUF 985 billion by the end of the first half of the year that represents 1, 6 percent growth of the expenditures. The slight increase can be explained by the expenses related to the change of the universities' model.

Pursuant the regulation introduced five years ago, the residuals of the appropriations not burdened by obligations, amounting to HUF 119 billion, were paid in the Central Residual Settlement Fund by the concerned institutions.

The realisation of the **professional chapter-managed appropriations** was HUF 3.243 billion, i.e. 97, 3 percent of the annual appropriation. The cause of the high level of the realisation was partially the result of the measure that appropriations not burdened by obligations – HUF 746 billion – had to be transferred to the newly established Savings Fund. Similarly to the Central Residual Settlement Fund, from this fund the governing organisations of the chapters have the option to apply for additional support, spending of what results in accumulations and this appears in the expenditures. From the two Funds the usage in the first half of the year was HUF 621, 5 billion. The most payments were spent on the following items: normative financing of various human services, public road developments, availability fee of motorways, other transport related programmes, touristic developments, the Hungarian Village Programme, investment incentives, arts, energy and climate policies and, finally, for agrarian supports.

Even with the still sluggish arrival of revenues from the EU, thanks to the huge (at least 60 percent) advance payments from domestic budget sources, **expenditures of the EU programmes** have gone up as the payment amounting to HUF 1.847 billion represented 187, 2 percent of the base period. The largest disbursement from the 2014 - 2020 programme period was used for the Integrated Transport Development Operative Programme, the Economic Development and Innovation Operative Programme and the Environment and Energy Efficiency Operative Programme while, from the 2021 – 2027 period, the Regional and Urban Development Operative Programme Plus, the Economic Development and Innovation Operative Programme Plus and, the Recovery and Resilience Facility. For the time being the European Commission has not accepted yet the domestic operative programme for the 2021 – 2027 period listed in the Partnership Agreement; as a consequence, such payments are burdening the domestic budget.

In the first six months of the year they granted financial support to **local governments** in the amount of HUF 566 billion that was 64, 9 percent of the appropriation; more by 19, 2 percent, i.e. HUF 91 billion than in the same period of the previous year. Crucial part – 71, 0 percent – of the assistance was normative support for general operations and sectoral tasks (specific public educational, social child welfare, school meals and cultural tasks). Additional support represented 6, 8 percent related to mid-year supplementary tasks. Among the latter they used the money for the compensation of business tax benefits, the financing of central wage measures, development of nurseries, expansion of industrial parks, replacement of local governments' expenditures because of the war in Ukraine, various operational and development tasks and the support of local governments that had their accounts managed by Sberbank.

Contribution to the EU budget amounted to slightly more than half of the appropriation, HUF 296 billion. This has been the second year when they increased our payment obligation because the high growth rate of Hungarian economy in the preceding years on the one hand and, on the other hand, because of Brexit. Compared to our contribution in the base period however, there was a decline as, in 2022 there was no need to review the VAT and GNI balances, like in 2021.

The **total of expenditures related to state assets** was HUF 386 billion, lower by 1, 7 percent than the pro rata temporis data however, more by 23, 2 percent compared to the previous year. The most – 71, 2 percent – was spent once again on tasks related to companies, purchasing shares of AEGON, the capital increase of Paks II. Zrt. capital injection to regional water utility companies, purchasing shares of Posta Zrt., support of the National Film Institute and MNV Zrt. (Hungarian National Wealth Management Co.). The remaining share was used for properties and moveable assets, predominantly for Special Governmental Constructions. The rising energy prices also influence the maintenance costs in these cases.

Gross **interest expenditures** amounted to HUF 784 billion that was more by 7, 2 percent the pro rata temporis share. The realisation has significantly exceeded even the realisation of the previous year, i.e. by 51 percent that equals to HUF 240 billion. By breaking the trajectory of the downward trend of the interest expenditures in the share of the GDP that started from more than 4 percent in 2010, may increase to 2, 7 percent in 2022. The main reason for the increasing interest expenditures is attributable to the increasing market yields of sovereign debt the effect of what however, is restricted by the fact that, as a result of extending the maturity of the sovereign debt, only about one quarter of such debts originate from new issuance in 2022 while, after the not renewed debt elements the percentage of interest rate to be paid are characteristically lower. It is also favourable that a decisive part of these expenditures is still denominated in forints (82, 7 percent).

The statutory appropriation of **central reserves** together is HUF 894 billion. As part of the expenditure reduction, measures supporting the realisation of the targeted deficit in the share of the GDP amounting to HUF 400 billion were blocked from the HUF 550 billion frame of the Investment Fund. Thus, the sum of the central reserves declined to HUF 494 billion, to 0, 9 percent of the assumed at the time of planning GDP amount. From among the central reserves those with open top were overachieved to nearly HUF 900 billion, according to the following: As opposed to the central reserve appropriation for the economy restarting schemes amounting to HUF 68 billion, the actual utilisation was HUF 313, 5 billion, spent on the following: purchasing of company shares, development of publicly owned companies, property renovation, compensation of the increasing energy prices, sustainability of Lake Balaton, healthcare, public and higher education, sports, conference tourism, counter terrorism facility, economic region, industrial park, archives' and military developments. The HUF 20 billion appropriation of the Pandemic Protection Fund was realised to HUF 58, 7 billion used for covering the emerging related costs in state and non-state entities, purchasing rapid tests, vaccines and other medications, equipment and instruments, for research and info-communication. From the appropriation of provisions amounting to HUF 707, 3 billion, HUF 105, 7 billion was transferred for supporting mostly the sectoral career programmes both in public and non-public public sector as well as other wage measures. The overruns experienced in the open from the top reserve appropriations represent risks regarding the realisation of the targeted deficit and the expected decline of the government debt indicator. The appropriation of reserves that must not be exceeded altogether HUF 161 billion is available in the second half of the year.

The usage of the appropriation of **separated state funds** was HUF 276 billion that was lagging behind the pro rata temporis share by 2, 3 percent while, compared to the previous year, by 16, 8 percent. The largest item – HUF 160 billion – was set aside for the expenditures of the **Economy Restarting Employment Fund**. Here, the realisation was merely 63, 3 percent compared to the base period and it was the result of the gradual derecognisation of the Job Retention Programme. Thinking about the possibility that the COVID epidemic might require additional, significant restrictions, the National Assembly made this appropriation open from the top however, and luckily no higher payments occurred. They used HUF 70 billion for the Start Work Programme that represented 58 percent of the appropriation.

Expenditures of the **social security funds** amounted to HUF 4.193 billion that was more by 4, 0 percent than the pro rata temporis share and by 19, 2 percent compared to last year.

The outstanding expenditure of the appropriation of the **Pension Insurance Fund** representing 56, 7 percent (HUF 2.364 billion) is the highest share within the financial funds of social insurance. With the exception of HUF 3, 5 billion spent on other expenditures it contains the pension benefits. The 18, 8 percent increase of such payments compared to the base period is mostly the result of paying the total of the 13th month's pensions (HUF 334 billion) in February – instead of the earlier planned two weeks' amount. Beyond this, the payments include the carried-over effect of paying in two instalments the 1, 8 percent additional increase of pensions due to the higher inflation in 2021, as well as the 5, 0 percent increase of pensions at the beginning of 2022.

The fact that due primarily to raising the age limit, the number of old age pensioners decreased by 44, 3 thousand in the period of June 2021 and June 2022 exerted a somewhat moderating effect on the increasing expenditures, while the number of women receiving preferential pension benefits increased by 8, 7 thousand (as a larger share of those concerned can be eligible for such pension before reaching the statutory retirement age with having spent 40 years in service and those, having obtained entitlement for preferential treatment will be reclassified as retired).

From the **Health Insurance Fund** they used HUF 1.829 billion, i.e. 50, 8 percent of the annual appropriation and more by 19, 9 percent than in the preceding year. **Expenditures of curative and preventive care** represented the largest share compared to the HUF 877 billion of the previous year. The 22, 4 percent increase was related mostly to the increase of the pay for medical doctors working in public and local government managed in- and outpatient care facilities, the wage support for general practitioners, dentists and the healthcare workers working for them, beginning with 1st January 2022. The outstanding liabilities of health-care providers beyond payment deadline amounted to HUF 29, 5 billion on 30th June 2022 that has not been consolidated yet through the subject year. At the same time, in order to stop the growth of the debt the central budget allocated resources for the COVID related expenditures of the institutions together with covering their additional gas and electricity needs and maintained the average financing of Government financed institutions. For **pharmaceutical subsidies** they used more by 6, 4 percent (in amount by HUF 215 billion) compared to the base period. Slightly more than one quarter of the Health Insurance Fund was used **for cash benefits**. Within this the payment for the largest item, i.e. disability and rehabilitation was more by 7 percent than the pro rata temporis share and exceeded that of the previous year by 18, 4 percent. The departure can be related primarily to the February payment of the 13th month's pensions and the greater than originally planned degree of pension increase. The indexation because of the high inflation is exerting its effect here as well and it was balanced only slightly by the decreasing number of those, entitled. The expenditures related to additional cash payments, as the resultant of the robust wage dynamics and the moderate increase of the number of entitled, exceeded the amounts paid for such purposes in the same period of the year before (in case of child-care benefit by 16, 1 percent, in case of sickness benefit, by 12, 3 percent). Expenditures for baby-care allowance and other benefits exceeded the amount paid last year for such purposes by 52, 5 percent because here, the spill-over effect of increasing the amount of baby-care allowance from the earlier 70 percent to 100 percent of the respective wage/salary as of 1st July 2021, prevailed within the full examined period.

4. Reasonability of the targeted deficit

The year 2022 central budget act determined the **cash deficit of the public finance central subsystem** in HUF 3.152, 3 billion. By reaching 91, 7 percent of this amount the deficit in the first half of the year was HUF 2.892, 3 billion. The large deficit was the consequence of the significantly more rapid growth of expenditures vs. revenues, following the expenditures in the first quarter in the form of increasing the income of families that have considerably exceeded the expenditures of the previous years. The balance was made up from the HUF 2.040 billion deficit of the central budget and the HUF 26, 8 billion deficit of the social security funds respectively, from the HUF 175, 2 billion surpluses of the separated state funds. It was favourable that a month later, at the end of July, the cash deficit was moderated by HUF 255, 7 billion, compared to the result at the end of the first half of the year, and turned out to be HUF 2.636, 5 billion. The deficit increased again in August (HUF 236, 2 billion) however, its amount remained yet below that at the end of the first half of the year.

The **accrual-based deficit** of the total public finance might further decline in 2022, following the 7, 8 percent in 2020 and the 6, 8 percent in 2021 and, according to the increased fiscal deficit in September 2022, it might reach 6, 1 percent of the GDP. The year 2022 increase of the targeted deficit is justified by the accumulation of the special natural gas reserves as, according to the 2019 decision of Eurostat, the statistical office of the EU, the Hungarian Hydrocarbon Stockpiling Association (MSZKSZ) that is responsible for natural gas storage should be regarded as part of the governmental sector thus, their expenditures and revenues also concern the budget. The accumulation of the natural gas stockpile increases the accrual-based deficit by HUF 740 billion (by 1, 2 percent of the GDP) however, it does not influence the cash deficit. At the end of the first quarter the ESA deficit represented 4, 8 percent of the quarterly GDP. According to the preliminary financial account published by MNB, the accrual-based deficit of the second quarter of 2022 was 2, 1 percent so, the deficit of the first six months of the year amounted to 1.072 billion (3, 4 percent of the half-yearly GDP).

Reaching the targeted deficit on annual level is supported by the fact that the dynamics of wages and the expansion of the nominal consumption compared to the implicitly assumed share in the budget were substantially greater and, as a result, the tax revenues were significantly higher than the appropriations. Beyond the above the special taxes on windfall profits and the additional tax measures shall bring in significant plus revenues in 2022 that might be able to finance the excess expenditures, mainly the considerable increase of energy, pension and interest expenditures.

The Government introduced significant deficit decreasing measures. The aim of these measures is to have the year 2022 and 2023 targeted deficits achievable. The vast majority of the revenue measures is related to the special taxes on the so-called „windfall" profits and contain additional tax revenue related measures as well. Such measure concern excise duty, company car tax, itemised tax of small taxpaying businesses, the public health product tax as well as measures targeting the containment of hidden economy and those related to simplified employment. Measures concerning the expenditure side encompass savings and efficiency increasing for budgetary organisations and governmental programmes, rescheduling and curtailment of public investments.

At the same time, in the second half of the year, the considerable jump of energy prices on the world market bears significant risks concerning the economic and fiscal processes. While prior to the second half of 2021 the trend of energy prices on the free market more or less followed the utility cost reductions, the costs of maintaining the reduced prices were lower. By contrast, the world market price of natural gas and electricity grew considerably compared to the pre-crisis levels and this may mean significant expenditures for the budget, even by taking into consideration the measures concerning the regulated energy prices. Pursuant the Government's decree of 21st July this year, the official retail prices of gas and electricity were abolished for the part above the set average consumption and they introduced a more favourable price than the actual market price and, at the same time, the new retail price is better reflecting the processes of the energy market. The support of utility cost reduction did not appear among the expenditures of the budget in the first six months of the year thus, the amount of such support for the whole year shall burden the budget in the second half of the year. According to the estimations this amount shall exceed HUF 1.000 billion. Apart from this, the budgetary compensation for the rising energy prices might be necessary in case of other actors of the economy.

The **Maastricht Criterion** that is equally part of both the domestic and EU fiscal frame, stipulates that the **accrual-based deficit** of the governmental sector[2] shall not be higher than 3 percent in the share of the GDP. In 2020 and 2021 this was significantly higher and even the 6, 1 percent expected for 2022 exceeds the above stipulation, as well. However, the fact that the Maastricht criterion concerning the targeted deficit was suspended in both the EU and the domestic fiscal frame makes the derogation acceptable. The general exemption clause implemented within the EU allows temporary departure from the reference value regarding fiscal balance, as well as, the temporary departure from the medium term fiscal goal and from the correction trajectory leading to this goal in case, it shall not endanger the medium term sustainability of public finance. Subject to the exemption clause and in case of the rules falling under the correction branch of the Stability and Growth Pact (for example, in case of the deficit Criterion), pursuant discretional decision they shall not initiate excessive deficit procedure; instead, they shall elaborate country-specific economic policy recommendations. In 2020 the decrease of the real value of the Hungarian gross domestic product granted exemption. The Stability Act was amended thus, pursuant the temporary

[2] Beyond the central and local subsystem of public finance it contains also the date of organisations classified under this title, pursuant Regulation79/2009/EK.

legal provision, the rule concerning public finance deficit and the medium term fiscal goal shall not apply in the period of 2021 – 2023[3].

According to the domestic and EU set of rules, the balance of the governmental sector in share of the GDP shall be defined in a way that it would be consistent with the achieving of the medium term fiscal objective. The **structural balance** is the tool of measuring the trajectory leading to the objective. Structural balance is the balance of the governmental sector cleaned of the effects of the economy and the one-time, respectively, temporary items. The medium term fiscal objective from 2020 to 2022 is the structural deficit equalling to 1 percent of the GDP. Contrary to this, according to the Convergence Programme for the years 2022 – 2026, based on the present estimations, the structural fiscal balance in 2022 may reach 3, 6 percent of the GDP however, by 2025 it may drop to 1 percent. At the same time, both the domestic and EU regulations concerning the targeted structural balance were temporarily suspended.

5. The functioning of the government debt rules

At the end of the first half of 2022 the **government debt rate** increased to 77, 5 percent of the GDP from the end of 2021 share of 76, 8 percent, according to the preliminary financial account of MNB. The growth was the result of the fact that nearly two thirds of the May issuance plan was realised in the first half of the year that was balanced only partially by the dynamic GDP growth. The net issuance throughout the first half of the year exceeded the financing needs of the budget thus; the liquid cash fund of the central budget grew from HUF 1.706 billion at the end of last year to HUF 2.607 billion by end of June 2022. This can be followed by a more moderate net issuance in the second half of the year. The syndicated bank loan borrowed by the Hungarian Hydrocarbon Stockpiling Association, that is statistically classified in the governmental sector, also contributed to the government debt.

At the time of the adoption of the year 2022 central budget bill the Fiscal Council established that the government debt indicator was decreasing. However, pursuant the exemption clauses, exemptions to the rule may be made during the year, in case a lasting and significant relapse of the national economy occurs respectively, the introduction of a special legal order becomes necessary.[4] State of emergency, emergency, preventive defence situation, terror emergency, unexpected attack or emergency situation are considered as special legal order[5]. As a consequence of the crisis in response to the coronavirus epidemic then the 2022 outbreak of the Ukrainian war implemented the exempt clause that has suspended the obligation to decrease the government debt indicator.

The other domestic fiscal regulation concerning government debt rule is the **debt rule of the Stability Act.** According to this regulation the government debt rate shall have to decrease

[3] Government Regulation 196/2021. (IV. 28) §.1
[4] Fundamental Law of Hungary, Article 36. (6), Article 37. (3)
[5] Fundamental Law of Hungary, Articles 48-54.

by minimum 0, 1 percent/year – apart from enforcing the respective EU regulations.[6] According to the expected decrease of the government debt indicator this rule is going to be fulfilled.

The „one-twentieth" debt regulation of the European Union is likely to be fulfilled if the debt rate decreases in the appropriate degree in 2022. Namely, according to its own forecast, the European Commission is calculating with three methodologies (forward looking, retrospective and cyclically adjusted methods) when it comes to the degree of the changing of the debt rate. In case based on at least one methodology the one-twentieth decrease is realised, the regulation can be considered fulfilled. Pursuant the recommendation of the European Commission the suspension of the sanctions regarding the debt regulations will definitely remain in effect till' the end of 2022 by the continued use of the activation of the exempt clause although, the Commission continues to assess the realisation of this rule.

Within the government debt the **share of foreign currency denominated debt,** that is a decisive element, has increased (it amounted to HUF 43.890 billion at the end of the first half of the year): from 20, 6 percent at the end of 2021 to 23, 1 percent by the end of 2022. Despite this increase, the government debt management is still fulfilling its goal regarding the share of foreign currency denominated debt as well as, having the share of the participation of the population dominant.

27th September, 2022

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Chairman of the Fiscal Council

[6]Sections (1)-(2) § 7 of Act CXCIV of 2011 on Hungary's Economic Stability