

**Opinion of the Fiscal Council**  
**on the execution of the Act of Hungary's year 2021 central budget and the evolution of**  
**the government debt**

**I**

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

According to the stipulation of Point c) Indent (1) § 23 of Act CXCV of 2011 about the Economic Stability of Hungary (henceforward: Stability Act) the Fiscal Council formulates its opinion about the state of the execution of the central budget act and the evolution of the government debt.

Following this stipulation the Council reviewed the processes of the execution of Act XC of year 2020 (henceforward: year 2021 central budget act) throughout the whole year and the evolution of the government debt.

Pursuant its standard practice and working method, the Council was building on the antecedents of the year 2021 budget act as well as the mid-year amendments of the act, when formulating its Opinion.

- In its Opinion (3/2020.05.21.) about the draft of the year 2021 central budget bill the Council established that „from the aspect of the planning of the 2021 budget the spread of the coronavirus epidemic was a determinant factor the consequences of what, have fundamentally changed the year 2020 economic prospects of the global and of the Hungarian economy”. Additionally, „the forecast that served as the foundation of the year 2021 budget was built on the concept that following a temporary setback, the Hungarian economy shall increase in 2021.” According to the Council's view „the strong foundations of the Hungarian economy and the already announced economic policy measures might ensure that the economic convergence of Hungary continued.” In its Opinion the FC also called the attention to the fact that „the majority of the risks affecting the year 2021 budget shall be manifested mostly in 2020.” Furthermore, in its Opinion the Council also emphasised that „programmes supporting the continuous recovery of the economy, the safeguarding of jobs and creating new jobs, remain necessary also in 2021. The Economic Protection Fund (within it the Economic Protection Employment Fund that was created from the National Employment Fund) provides the coverage for this. The Health Insurance Fund and the Epidemic Control Fund provide the necessary funds for the epidemic protection respectively, for the operation of the health care system (by incorporating the Health Insurance Fund). The draft foresees significant amounts for family protection and homemaking measures as well as, for the improvement of the income of the retired.” In the justification section of its Opinion the FC indicated that the new type of epidemic becoming a global pandemic shall redraw fundamentally the international and financial processes and „the epidemic situation shall strongly affect the expected degree of the year 2021 government debt as

well". In its Opinion the Council acknowledged that the decreasing trend of the gross government debt in the share of the GDP between 2011- 2019 reversed temporarily in 2020 but, at the same time, the body also identified that – following the temporary growth in 2020 – the trend of this indicator shall reverse and mitigate again by the end [...] of 2021."

- Granting it prior consent to submit the year 2021 central budget bill for final voting, in its Resolution 5/2020.07.01. the Council stated that „the FC considered the degree of the government debt indicator<sup>1</sup> [...] planned for the 31st of December 2021” as it was in harmony with the macroeconomic and public finance processes that served as the basis for the bill. In the „Justification” section of its resolution the FC expounded that „according to their opinion the risks endangering the achieving of the objective of the targeted deficit (the unfavourable economic situation due to the possible flare-up of the pandemic, the consequences of more crisis management costs in relation to the flare-up, etc.) might influence also the expected evolution of the government debt.” Thus, in order to maintain the safe public finance processes, the Council deemed the consistent enforcement of the farsighted and responsible fiscal practice important.
- The FC formulated its Opinion 4/2021.04.15. on the draft of the amendment of Act XC of year 2020 about the year 2021 central budget with respect to the extraordinary circumstances and the state of emergency responding to the epidemic. The Council stated that „the amendment of the budget act was made unavoidable due to the economic changes having occurred since the adoption of the act, as well as to the health protection and economy supporting measures and the changes of the EU 2021 – 2027 fiscal frame”. Additionally, the FC found that „the amendment of the budget act shall increase the targeted deficit calculated by ESA methodology from 2, 9 percent of the GDP to 7, 5 percent, in harmony with the EDP report published on 1st of April”. The Fiscal Council agreed with the increase of the targeted deficit „as the third wave of the coronavirus epidemic makes it necessary to provide a fiscal support higher than originally envisaged for both health care and the economy.” At the same time, the Council welcomed that „the planned budget deficit is more moderate than it was in 2020, i.e. following the restoration of economic growth it is aiming to establish balance.” The Council deemed it justified that „the budget bill should contain the actually expected rate of the budget deficit (HUF 3.990 billion) as both the evolution of the government debt and the compliance with the government debt rule can be judged only this way.” Beyond this, the FC established that „according to the draft bill and in harmony with the expected growth of the Hungarian economy, as well as with the stipulations of the Fundamental Law, the degree of government debt in the share of the

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<sup>1</sup> According to Indents (4)-(5) Article 36 and the stipulations of Indents (2)-(3) of Article 37 of the Fundamental Law, in the course of the execution of the aforementioned stipulations such a quotient expressed as a percentage and rounded to one decimal place is to be taken in consideration [...] that

- in its numerator of the government debt and,
- in its denominator should contain the value of the gross domestic product in harmony with this law and calculated according to the prescription of the Community regarding the European system of national and regional accounts (Stability Act § 2).

GDP may decrease in 2021 again, from the 80, 4 percent at the end of 2020 to 79, 9 percent in 2021”.

In this Opinion the FC also called the attention to the fact that „similarly to last year, there is a greater than usual degree of risks regarding the economic and fiscal processes also in 2021 due to the coronavirus epidemic”. As a consequence, the FC acknowledged that „the bill is establishing a greater elbow room for the health and economy protection measures of the government”. At the same time, it called the attention to the possibility that „in case the evolution of the macroeconomic conditions makes it possible, a more marked than planned decrease of the deficit should take place, thus creating more favourable conditions for a significant improvement of the year 2022 fiscal balance and the sustainable mitigation of the government debt indicator”.

- In the course of the preparation of the final voting on the amendment of the year 2021 annual budget and paying attention to the significantly different opinions regarding the deficit, the overheating of state investment and the danger of inflation, the FC did not make a consenting declaration within the time frame at its disposal. The National Assembly adopted the amendment. Finally, at the end of the year, within its own authority, the Government introduced certain measures to promote the mitigation of the deficit and the postponing of specific investments that essentially have been identical to the recommendations of the Council's Opinion regarding the draft budget bill.
- In the Justification section of its Opinion 5/2021.04.27. formulated about the draft of the year 2022 central budget bill, touching upon the expected evolution of the year 2021 macroeconomic and fiscal processes, the FC indicated that „ the consequences of the coronavirus epidemic are serious, and shall affect the macroeconomic and fiscal bases of year 2021-2022 as well” [...] however, 2021 is already the year of restarting the economy that is promoted by the economic policy measures of the Government and the Central Bank of Hungary (MNB)”. The Council also added that in their opinion „it is still unpredictable when the restoration shall reach the earlier and routine rhythm of economy and life in general. The recovery from the crisis remains surrounded by uncertainties however, the mass vaccinations shall establish the basis for the opening”.
- In its Opinion 7/2021.09.21. evaluating the state of the execution of Hungary's year 2021 central budget, based on the processes of the first half of the year, the Council found that „the still prevailing effects of the coronavirus in the first half of 2021 affected the Hungarian economy and budget to a lesser extent than in the previous year.” Additionally, the FC underlined that „thanks also to the economy recovery programmes the performance of our economy grew by 7, 2 percent in the first half of the year and within it, has grown significantly – by 17, 7 percent – compared to the same period of the previous year thus, the GDP has already exceeded the pre-COVID level.” Furthermore, in its Opinion the FC also laid it down that „the cash deficit of the public finance system in the first half of the year amounted to HUF 1.705 billion that equals to 42, 6 percent of the annual cash deficit of HUF 3.990 billion” and welcomed that „the tax and contribution revenues altogether performed better than the pro-rata-temporis share”. According to the Council's opinion „there is enough room for the Government to manoeuvre and to take the measures to manage the epidemic

respectively, to restart the economy and increase the latter's resilience – subject to compliance with the government debt rule". The Council also pointed out that „the accrual based public finance balance in the first half of 2021 showed a total deficit of HUF 1.062 billion (4, 3 percent of the GDP of the first half of the year)". It noted that „the fact that according to the evaluation of the Commission the Council of the European Union shall not approve the Hungarian restoration plan this year presents a risk concerning the year 2021 evolution of the cash and ESA calculated deficit". As regard the evolution of the government debt indicator the FC explained that „the degree of the gross government debt in the share of the gross domestic product has decrease from 80, 4 percent at the end of year 2020 to 77, 6 percent in six months, primarily thanks to the growth of the nominal GDP". At the same time – according the FC evaluation, „the fact that in September 2021 the Government Debt Management Agency amended its year 2021 financing plan and in harmony with this amendment issued foreign currency bonds amounting to EUR 4, 5 billion [...] shall increase the debt compared to the result of the first six months of the year". Beyond this the FC also established that „the mitigation of the government debt indicator is hindered by the delay in the arrival of the EU reimbursements however, it is favourably affected by the rapid growth of the nominal GDP thanks to the restoration of the economy". Based on the fiscal data of the first half of the year and the expected real economic processes at the time, the FC considered that „both the planned 7, 5 percent accrual based deficit and the 79, 9 percent government debt indicator predicted for the end of 2021 are feasible".

In harmony with its standard procedures, when evaluating the execution of the year 2021 central budget act and the evolution of the government debt, the Council based its evaluation on the written analyses and findings prepared by the State Audit Office of Hungary and the Central Bank of Hungary on the year 2021 fiscal processes. The FC reviewed the information of the Central Statistical Office and the Ministry of Finance concerning the state of the economy and the central system of the public finance as well as the evaluations commissioned by the FC Secretariat and prepared by domestic research and analysing institutions, specific international organisations (European Commission, IMF, OECD, World Bank) and the economic evaluations of other, benchmarking market analysers. The Council also took into consideration the contents of the year 2021-2025 Convergence Plan of Hungary.

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

## **II**

### **The Opinion of the Council**

At its meeting held on 21st of April 2022, in harmony with the stipulation of Point c) Indent (1) of § 23 of the Stability Act, the Council reviewed the major trends and the respective background of Act XC. of 2020 and its amendment by Act XLIV of 2021 about the year 2021

central budget of Hungary. As a result of this review the FC formulated the following Opinion.

- 1) The April 2020 outbreak of the coronavirus epidemic affected Hungarian economy and public finance to a lesser degree in 2021. Thanks to the strong resilience of our country as well as to the governmental and Central Bank initiated measures, Hungary was successful in protecting the country from the economic consequences of the epidemic. As a result the economic performance of our economy improved by 7, 1 percent compared to the previous year that in 2020 did show a 4, 7 percent relapse.
- 2) As regards the evolution of public finance deficit, the Council finds that:
  - a) In 2021 the accrual based public finance (ESA) deficit (i.e. that of the governmental sector) was 6, 8 percent of the GDP according to the 2022 EDP report thus, it was less than the 7, 5 percent targeted deficit of the amendment of the year 2021 central budget act. The lower than predicted deficit was primarily the result of the significantly more favourable economic growth and of the expenditure mitigating steps at the end of the year. The exceeding of the Maastricht deficit criteria was made possible by the temporary general escape clause introduced due to the pandemic, within the EU fiscal frame. In harmony with this the respective paragraph of the Stability Act was also amended in 2021 and, as a consequence of what, in fiscal years 2021 – 2023 the rule of the fiscal deficit maximum and the medium-term fiscal goal shall not be applied.
  - b) The amendment of the budget act fixed that the 7, 5 percent GDP proportionate deficit of the governmental sector equals to HUF 3. 990 billion cash deficit within the public finance central subsystem. Compared to this the real cash deficit turned out to be higher by 27, 8 percent, i.e. by HUF 1.111,5 billion. This is less by HUF 170, 2 billion than in the previous year. The cash deficit of the central subsystem was made up from the balance of the following items: HUF -4,663, 3 billion from the central budget, HUF -419, 4 billion from the social security funds and HUF - 19, 8 billion from the separated public funds. Alongside the end-of-the-year expenditure mitigating measures, the growth of the deficit was outstanding in the fourth quarter. The cash expenditures partly remained within the governmental sector or got outside it in a way that resulted in enriching the financial assets of the government thus, the accrual based deficit of the governmental sector is lower (HUF 3.736 billion) than the cash deficit of the central subsystem.
  - c) The fact that, compared to the previous year, the revenues grew faster than the expenditures affected favourably the trend of the cash balance. In case of taxes and contributions that represent the overwhelming proportion of revenues of the public finance central subsystem, the revenue growth amounted to HUF 1, 740 billion (10, 8 percent) compared to the result of the previous year, thanks to the development of the economic background. In order to promote the replacement of lost income of families and businesses the Government resorted to use tax allowances also in 2021. At the same time, the special tax on retail chains introduced in 2020 remained to thus finance epidemic control.

- d) The budget ensured also in 2021 the necessary resources to relaunching the economy and the epidemic control. Beyond rebuilding one week of the 13th month' pension, inflation following supplementary pension increases were paid as well as the payment of pension bonus, thanks to the favourable performance of the economy. The comprehensive and multi-annual salary progression programme of medical doctors and the multi-stage wage subsidies for general practitioners and dental practices was launched in this year too. Competitiveness developing businesses' and tourism developing projects, the priority transportation projects, the Modern Cities Programme and the Hungarian Village Programme also received significant supports.
- e) Due to the delay of significant EU revenues serving the operative programmes planned by the fiscal appropriations the financing burdens of domestic budget grew and this contributed to the growth of the cash deficit and the amount of government debt. In 2021 Hungary did not benefit from the appropriated advance payment in the framework of the Recovery and Resilience Facility (RRF) amounting to HUF 326 billion as, in lack of the positive evaluation of the European Commission the Council, the European Union did not approve the Hungarian recovery plan. Thus, the financing of the programmes included in this plan that were launched in 2021 also burdened the central budget.
- 3) The Council contends that as a result of the dual effect of mitigating cash deficit and robust economic growth, the gross government debt in the share of the GDP decreased from the end of 2020 79, 6 percent to 76, 8 percent by the end of 2021 according to the data of the EDP report. Thus, following the transitory increase in 2020, the trend-like decrease of the government debt rate characteristic for the period of 2011 - 2019 may continue. This is in harmony with both the government debt rule prescribed by the Fundamental Law and the Stability Act.
- 4) The Council contends that the foreign currency denominated share within the central budget deficit grew to 20, 6 percent in 2021 from the year 2020 share of 19, 9 percent. The sovereign debt holdings, respectively, their share within the total of the holdings have grown alike. The fact that with the coming to the foreground of the longer term bonds the average remaining maturity of the Hungarian government debt grew from 5, 4 year at the end of the previous year to 6, 1 year by 2021, marks a favourable transformation process regarding the debt structure.
- 5) In the Council's opinion the year 2021 fiscal management – in harmony with the monetary measures – have altogether ensured an appropriate background for managing the state of emergency created by the coronavirus epidemic as well as, for the restoration of the growth trajectory of the economy.
- 6) As regards the stability results of year 2021, the FC deems it decisive - especially in light of the fact that the Russian aggression against the Ukraine that started in February 2022 and the economic consequences of the introduced sanctions in answer – that these factors have rewritten also the economic course of Hungary in 2022. The Council underlines that the result of the year 2021 recovery is valuable also because it represents

a solid foundation for handling the new challenges. At the same time we must also see that although, at the time of the preparation of the present evaluation we are not yet familiar with the concrete effects of the war, the specific decisive elements of the macroeconomic course taken into consideration by the year 2022 annual budget i.e. the GDP and the inflation rate is going to be different than anticipated. At the same time, the economic growth shall continue. As a consequence the National Assembly and the Government shall have to adjust the fiscal revenues and expenditures within the frame of the available room to manoeuvre, apart from the observance of the government debt rule, thus offering priority for sustainable fiscal, environmental and social measures.

### III

#### Justification

##### 1. The trend of macroeconomic conditions

The Government based the year 2021 annual budget on a 4, 8 percent **GDP growth** considering the 2020 economic recession a temporary phenomenon and building on the strong foundations of the pre-pandemic expansion of the economy. Since the year 2021 economic expansion was surrounded by greater than usual uncertainties, they changed the targeted growth to 4, 3 percent by amending the year 2021 budget act.

Foreign forecasts regarding the performance of the Hungarian economy were counting by an approximately 4 percent growth in the first quarter of the year (IMF 4, 3 percent, World Bank 3, 8 percent European Commission 4, 0 percent) while majority of the domestic analysts predicted a slightly greater growth (between 4, 0 – 5, 0 percent). The same institutions were of the opinion that the improvement of the performance of the world economy would be between 4 - 6 percent.

The coronavirus epidemic was present in several waves also in 2021 and affected negatively the growth rate: it put a brake on economic activities and the functioning of critical supply chains.

The Government was paying special attention to its tasks regarding health protection, economic recovery and restarting also in 2021. Thanks to this, Hungarian economy produced an outstanding growth in the second quarter; compared to the previous quarter its degree was higher by 2, 2 percent while compared to the same period of the previous year it reached 17, 8 percent.

The most important international financial organisations (IMF, World Bank, OECD, and the European Commission) upgraded their forecasts in their respective 2021 Spring-Summer prognoses regarding the performance of the Hungarian economy and indicating that, according to the available data, the recovery from the crisis will be faster than expected. In its June evaluation IMF increased it from 4, 3 percent to 6, 2 percent, in its June evaluation the World Bank adjusted its original data from 3, 8 percent to 6, 0 percent, the OECD from 2, 6 percent to 4, 6 percent and in its July evaluation the European Commission improved its

respective forecast from 4, 0 percent to 6, 3 percent. In the second half of the year, approaching the end of the year, the above mentioned international financial organisations once again corrected upwards their expectations regarding the economic growth of our country.

The growth of the gross national product exceeded even the expectations of the government (by 6, 4 percent) and significantly exceeded the EU average as well (throughout the EU as well as the Euro zone the growth was 5, 3 percent). The annual performance of the economy – following the V-shaped rebound – was 7, 1 percent. The outstanding growth was supported by the introduced measures of the Government, and the Central Bank, together with other measures promoting on the one hand the recovery of the economy, the developments further improving productivity and export's performance (capacity expansions) and, on the other hand, the increasing wages and salaries and the increasing employment. Governmental measures stimulating competitiveness, digitalisation, innovation, etc. were also playing an important role.

*From the production side* the greatest contributors of the 7, 1 percent GDP growth were the services (by 3, 5 percent) while industry contributed by 1, 9 percent, construction industry (despite its small weight) by 0, 8 percent. As a result of the unfavourable weather conditions the agriculture's performance mitigated the result by 0, 1 percent. The remaining 1, 0 percent was the result of the balance of taxes and supports moving in line with the added value. In the *expenditure approach* the contributing factors of the GDP growth were – among others – final consumption by 3, 0 percent, gross accumulation by 2, 6 percent and the foreign trade balance of 1, 4 percent.

**Industrial performance** in 2021 grew by 9, 6 percent (following a 6 percent decrease in the previous year). Within this – from three branches of national economy – the processing industry production expanded by 9, 1 percent, energy industry by 11, 5 percent, mining by 16, 6 percent. Mostly thanks to the low basis the biggest growth of the processing industry took place in the second quarter of the previous year (39, 3 percent). From among the individual sub-branches the performance decreased only in two (the performance of vehicle manufacturing mitigated by 1, 9 percent compared to the previous year), the production of computers, electronics and optical good decreased by 5, 9 percent while the production of food, beverages and tobacco products increased by 8, 9 percent and the production of electrical equipment by 40 percent. Industrial export was bigger by 8, 9 percent compared to the previous year, 63 percent of the total industrial sales and 72 percent of processing industry originated from selling them abroad. The domestic sales of industry increased by 11, 4 percent. Industrial performance grew in each regions and the Pest region produced the highest share (19, 5 percent).

**Production in construction** grew by 13, 3 percent compared to the performance in the previous year and, within this, building construction by 17, 1 percent, other construction projects by 9, 1 percent. With the exception of the beginning of the year (January-April) each month did show a double-digit expansion and most striking were the performances in June-July (28, 4 percent and 22, 7 percent) while the performance in December (29 percent) surpassed the data of the same period of the previous year.



The volume of **investments** increased by 4, 2 percent compared to the low basis of the previous year, due to the coronavirus epidemic. Within this, building investments grew by 3, 7 percent while machinery and equipment investments grew by 5, 3 percent. In the majority of the great national economy branches we witnessed expansion as regards the volume of investments: in manufacturing industry by 9, 5 percent, in transportation and storage by 13, 7 percent, in commerce and vehicle repair equally by 18 percent while, this growth was outstanding in case of administrative and services promoting activities (27, 7 percent). The decrease of the performance of public administration and real estate transactions exerted the greatest degree of reduction on the expansion of investments (by 21 percent, respectively by 6, 1 percent).

The effects of the coronavirus pandemic (economic recession, stoppages, other limitations, etc.) exerted housing mobility unfavourably and the trend of the past five years reversed. In 2021 the **number of newly built homes/flat handovers** decreased by 29 percent (19.898 new flats were put into service). The majority of flats (7.038) were handed over in Budapest. The number of flats put into service decreased in each category of settlements. However, it was favourable that the number of building permits and the number of buildings built on the basis of simple notifications in 2021 amounted to 29.941 that was more by 33 percent than in the previous year. With the exception of Budapest, growth was a characteristic feature in each settlement categories; in municipalities they issued 35 percent more permits, in other towns by more than 58 percent while in Budapest the number of such permits was less by 14 percent. The already used governmental measures promoting home building continue to support the modernisation and expansion of the housing stock.

**Gross and net average wages/salaries** (HUF 438.800 respectively, HUF 291.800) grew to a similar extent, i.e. y 8, 7 percent compared to the previous year and, as consumer prices grew by 5, 1 percent, real wages/salaries increased by 3, 4 percent. On the one hand, the pre-scheduled wage increases in specific public service career systems – among these the increasing of medical doctor's wages that of judges, attorneys, and day-care centres' staff – as well as the use of non-regular bonuses (premium, reward, etc.). Apart from the higher incomes the continuing increase of employment numbers also supported to security of the budget revenues.

The average number of **employees** was 4.635 thousand that was more by 31 thousand compared to the previous year, due to the governmental measures promoting the economic recovery and employment. It is a favourable factor that the number of those working in the domestic primary labour market increased by 58 thousand compared to the previous year while, the number of those professing themselves to be public workers, decreased by 6 thousand and the number of people working in branch offices abroad decreased by 21 thousand. The employment rate of the 15 – 64 age group was 73, 1 percent that is higher by 1, 2 percent compared to the previous year. The average staff number of unemployed was 196 thousand in 2021; the unemployment rate was 4, 1 percent. (The rate gradually decreased from the 5, 0 percent in January to 3, 7 percent by December.) As regards the future, it is favourable that the number of jobless people was 180 thousand. The number of those seeking jobs decreased by 17, 9 percent by December 2021, compared to the previous year, according to the register of the National Employment Service.

According to the calendar adjusted data the volume of **retail sales** increased by 3, 5 percent, compared to the previous year. Within this, sales increased by 2, 2 percent in food, and non-food mixed retail shops and by 4, 9 – 4, 9 percent in non-food and fuel retail businesses. (Altogether, 46 percent of retail sales were realised in food and non-food mixed retail shops, 41 percent in non-food retails shops, 13 percent in fuel sales of filling stations.) Restrictions introduced because of the coronavirus epidemic have not yet affected significantly the evolution of retail sales in the first quarter of the year however, beginning with the second quarter the effect was significant: compared to the same period of the previous year, following the 9, 9 percent dynamic in April and the 5, 8 – 5, 8 percent in May and June the percentage was more moderate in July and August (3, 0 – 4, 1 percent) to be followed by an expansion of the sales in the period of September-December amounting to an average of five percent. The return to the increasing course of retail sales also exerted a favourable effect on the revenues of the central budget.

Protection and other restrictions related to the coronavirus epidemic have drastically concerned the performance of trade accommodations and the narrowing of the trade flow remained significant also in the first half of the year. With the increasing level of vaccination and the release of restrictions, signs of improvement regarding the performance were clear throughout the year. Commercial accommodation providers (hotels, pensions, holiday camps, community-based placements) registered 15 million guest nights that was more by 11 percent than the data of the previous year. Within this, guest nights used by domestic guest exceeded the previous year's data by 5, 9 percent (10, 5 million), and foreign guest used more guest nights by 25 percent (4, 7 million) than in the previous year in commercial accommodations. The gross revenues of commercial accommodations grew by 24 percent compared to the result of the previous year. In amount the total revenues of this type of services were HUF 290 billion.

At an average **consumer prices** increased by 5, 1 percent. Within this the price of spirits and tobacco goods increased by 10, 9 percent while, durable goods by 4, 5 percent, food by 4, 1 percent, services by 2, 9 percent, articles of clothing by 0, 2 percent and other goods by 9, 6 percent. The increase was the result of the global increase of raw material prices (within it the increasing oil prices), the increasing of the excise duty on tobacco due to the regulations of the European Union and the demand related to the restarting of the economy.

## 2. Fiscal processes

### 2.1. The evolution of revenues

In case of the performance of the total revenues of the public finance **central subsystem** this amounted to HUF 24.994,4 billion that equals to 109, 8 percent of the annual appropriation (this exceeded the annual revenues of the previous year by 8, 6 percent.<sup>2</sup> Within the revenues, throughout the year, the tax and contribution income expanded by HUF 1.740 billion, i.e. by 10, 8 percent compared to the previous year that was the consequence of the lower basis due

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<sup>2</sup> By appropriation we mean the legally amended appropriation.

to the slowing down of the economy as a result of the coronavirus epidemic on the one hand and thanks to the restarting of the economy, on the other hand.

Within the subsystem, the revenues of the **central budget** amounted to HUF 17.350, 6 billion that covers 69, 4 percent of the total revenues of the central subsystem.

The amount of the **payments of business organisations** was HUF 1.856, 0 billion, exceeding the annual appropriation by 7, 5 percent (HUF 1.726, 7 billion) and amounting to an increase by HUF 245 billion compared to the revenue of the previous year. The decisive element of this revenue group is **corporation tax**. Under this title the revenue was HUF 558 billion (more by 24, 9 percent than the appropriation and, more by HUF 151, 5 billion compared to the previous year). The change in the order of magnitude was, on the one hand, the result of the higher cash flow related to accounts than in the previous years; additionally, the amount of the advance payments was also higher. On the other hand, a special payment of a sizeable deposit also improved the revenue performance. The latter was related to a different annual business taxpayer's account. The amount of HUF 61, 5 billion arrived in the budget from **special taxes of financial institutions** (the performance was 100, 2 percent). Revenues however, lagged behind the balance of the previous year due to two reasons: on the one hand, revenues of the previous year still contained the amount of the special tax of credit institutions related to the coronavirus epidemic, on the other hand, the special pandemic tax paid in 2020 has been deductible from the obligatory „normal special tax” as of 2021 through five years in equal instalments. HUF 78, 6 billion was realised in the budget from **retail tax** revenues that means an increase of HUF 31 billion compared to the performance of the previous year. This was caused by the fact that retail tax was introduced only in May 2020 (thus the payment obligation was proportionally less. Also, the tax payment obligations at the time of the settlement and the ensuing higher advance tax payment increased the year 2021 revenues).

Revenues from the **itemized tax of small taxpayers** were HUF 195, 8 billion (82, 5 percent of the realisation) at the same time, this was higher by HUF 37, 6 billion than in the previous year. The shortfall in appropriation was the result of two, opposing effects: maintaining the targeted tax and contribution measures introduced by the government in the previous year mitigated, while the lifting of the restrictions at a reasonable time, the greater expansion of consumption, increased the revenues compared to the appropriation. Revenues from the payment of **small business tax** was HUF 11, 2 billion (114, 2 percent of the appropriation) that was higher by HUF 27, 9 billion than the revenues of the previous year. Beside the considerable increase in the number of taxpayers the fact that tax reliefs aiming at the mitigation of the consequences of the epidemic concerned less months in 2021 than in the previous year. The compliance of the **eco-tax** was nearly in harmony with the appropriation (99, 5 percent) while the payment of **mining tax** significantly exceeded the appropriation (136, 8 percent). The reason for the latter was that following the end of the second wave of the coronavirus epidemic and the restarting of the economy, the hydrocarbon extraction shot up. Additionally, the payment of the **income tax of energy providers** was 127, 5 percent due to the higher degree of energy consumption and, the payment of **rehabilitation contribution** was 109, 4 percent. The performance of paying **company car tax** was higher (105 percent) than the appropriation as well as the revenues from **utility tax** (101, 4 percent). The performance of **gambling tax** was 82, 5 percent and in amount this represented HUF 6 billion

less than the annual appropriation. The reason was the closing of casinos and card rooms due to the epidemic affected the business negatively. Furthermore, following a self-check, one big taxpayer applied for a tax recovery amounting to HUF 3 billion at the beginning of the year.

HUF 489 billion arrived in the central budget form **other centralised revenues** (105, 1 percent of the appropriation) that exceed the revenues of last year by HUF 44, 8 billion. Within this revenue group the **electronic and time-based tolls** represent a decisive share (the former HUF 247, 6 billion, the latter HUF 70, 3 billion). Compared to the last year the two revenues indicated a growth of HUF 38, 7 billion due to the favourable changes of the economic environment. Revenues from **environmental product fees** and **waste disposal contribution** also increased compared to the previous year (the former was higher by HUF 8, 7 billion, the latter by HUF 0, 4 billion).

HUF 7.054, 0 billion arrived in the budget from **consumption-related taxes**, that is 105, 5 percent of the annual appropriation (in amount it is more by HUF 365 billion than the annual appropriation and exceeds the revenues from this source of the previous year by HUF 786 billion). Decisive elements of the taxes classified in this revenue group are the value added tax and the excise tax. The performance of the **value added tax** is 107, 2 percent, in amount HUF 5.397, 2 billion (more by HUF 362 billion than the annual appropriation and more by HUF 728 billion than the result of the previous year). The growth rate of gross VAT revenues compared to the previous year was 16 percent (the highest in the last ten years). VAT revenues of domestic and imported tobacco goods grew alike; the growth of domestic payments is related primarily to commerce and the manufacturing industry. The tax liability concerning medical appliances related to the coronavirus epidemic also contributed to the growth of the VAT payments related to imports.

Revenues from **excise tax** arrived in the budget essentially in harmony with the appropriation (99, 6 percent and in amount HUF 1.243, 4 billion). The performance was higher by 47, 3 percent compared to such revenues in the previous year. The increased fuel consumption and the higher tax rate affected favourably the excise duty revenues while the tax revenues payable on tobacco goods were mostly the result of the multi-stage tax rate increases (January and April 2021) and in the background of other tax revenue increases we can find the trade expansion while, in case of the growing energy-tax revenues the higher rate of energy consumption is the explanation.

Revenues from **financial transaction duty** amounted to HUF 233, 1 billion, i.e. 106, 5 percent of the appropriation. The further spreading of contemporary payment methods, the jump in the growth of transfers respectively, the number of transaction related to cash payments, the gradual economic recovery and restoration were playing decisive role in the favourably revenue result. The performance of **telecommunication tax** was 110, 8 percent (HUF 58, 7 billion) that is exceeding even the payments executed last year by HUF 2 billion. Revenues worth of HUF 17 billion originated from **registration fee** (84, 9 percent of the appropriation) that is lagging behind even such payments executed in the previous year. The payment from insurance tax was close to the appropriation (98, 4 percent) in amount HUF 104, 3 billion. The performance of **tourism development tax** was merely 4, 9 percent (in

amount HUF 0, 37 billion) due to the fact that its payment was suspended up to the end of the year, in the course of the tax reliefs introduced due to the state of emergency.

**Payment from the public** arriving in the budget amounted to HUF 3.210, 9 billion (106, 8 percent of the performance). **Personal income tax** represent a decisive role in this revenue segment (in amount HUF 2, 888, 6 billion that exceeded the statutory appropriation by 170, 8 billion), thus the performance is 106, 3 percent. The evolution of the performance was the consequence of the increasing number of employees on one hand while, on the other hand, the fact that the rate of wage growth retained steadily its positive tendency throughout the year. The annual appropriation of the **payment of fees** was realised in 115, 4 percent (in amount HUF 224, 0 billion) that was more by HUF 30 billion than the appropriation. Following the temporary setback in 2020, partially the growth of the number of real estate sales and, partially, the increasing market price (taxable value) contributed to the increase of such revenues. HUF 95 billion (109, 2 percent of the appropriation) originated from **motor vehicle taxes**. The reason for the performance exceeding the appropriation by HUF 8 billion was the surge in the number of motor vehicle sales compared to the previous year.

Revenues of **fiscal institutions and chapter-managed appropriations** were realised in the amount of HUF 2.642, 8 billion that is 177, 4 percent of the annual appropriation. From this HUF 2.157, 8 billion (148, 7 percent of the appropriation) was generated at fiscal organisation. In case of the professional chapter-managed appropriations the realisation turned out to be more than twelve times higher (HUF 485 billion), in amount this meant more by HUF 147 billion compared to the previous year's data. Just like in the previous years, the over-execution in both items was fundamentally the consequence of the accumulation within the central subsystem.

**Payments related to state assets** (revenues from properties, moveable properties, other revenues) amounted to HUF 210, 1 billion (realisation was 147, 2 percent). The amount of HUF 102, 9 billion originating from the sales of „emission allowances” represented a dominant share in the realisation of the appropriation that exceeded by HUF 23 billion the revenues of last year originating from quota sales. The remaining share of revenues related to state assets came from the revenues and dividends linked to the assets entrusted to MNV Zrt. (Hungarian National Asset Management Inc.).

The realisation of **(interest) revenues related to debt service** was HUF 130, 2 billion, 139, 3 percent of the annual appropriation.

On the balance sheet item „**Revenues of EU programmes**” HUF 1.544, 5 billion was formed by the end of 2021 (76 % percent of appropriation). From the „**Other EU revenues**” nearly one and a half time more money originated compared to the appropriation (HUF 23, 4 billion), mostly under the title of „Reimbursement of custom collection costs”.

HUF 362, 8 billion was paid in 2021 from the appropriations of fiscal organisation and chapter managed appropriations (under the title of unencumbered budget balances) for the **Central Budgeting Balance Account Fund**. (The amount of the payment was higher by HUF 23, 7 billion compared to the previous year.)

The joint revenue appropriation of the **Separated Public Funds** was realised in 110, 3 percent (HUF 690, 9 billion). Within the revenues of these funds the revenues of the **Economy and Employment Protection Fund (EEPF)** represented a decisive share – 62 percent – and amounted to HUF 429, 4 billion, i.e. 100, 1 percent of the annual appropriation. Within this the return of the expenditures of pre-finance EU programmes was 76, 1 percent, in case of vocational training levy this was 108 percent, the realisation of social security contribution paid to EEPF was 100, 5 percent. Revenues of the **Central Nuclear Fund** was realised to 189, 3 percent, in case of the **Bethlen Gábor Fund** the realisation was 109, 2 percent.

The combined annual revenue appropriation of the **Social Security Funds** (HUF 6.707, 8 billion) was realised at 103, 7 percent (HUF 6.952, 9 billion in amount). Within this, the revenues of the Pension Fund were realized at 105 percent, while those of Health Insurance Fund at 101, 8 percent. A decisive part of the social security funds originated from social contribution tax and contributions.

The share of the **social contribution tax** payable to to the Pension Insurance Fund (HUF 1,692, 1 billion) exceeded by 1, 8 percent (in amount HUF 300 billion) the annual appropriation. The share of **social security contribution** payable to the Pension Insurance Fund and the **pension contribution** together realised HUF 1.715, 2 billion that means, it was more by 3, 2 percent (HUF 53 billion in amount) than the annual appropriation. The revenues realised under the above titles and that exceeded the appropriation were built fundamentally on two pillars: on the one hand, thanks to the governmental measures supporting the restart of the economy, beginning with the second quarter of the year, employment gained momentum while, on the other hand, average earnings continued to rise. The appropriation of **other contributions** was realised in 91 percent (in amount HUF 20, 9 billion). The Pension Insurance Fund obtained a budgetary contribution amounting to HUF 670, 9 billion to support its expenditures on benefits (this was higher by 20, 8 percent compared to the appropriation).

The share of the Health Insurance Fund from the **social contribution tax** (HUF 670, 1 billion) was more by 1, 8 percent (in amount by HUF 12 billion) than the appropriation. The share of the Health Insurance Fund from the **social security contribution** and the **health insurance contribution** together was realised in HUF 1.168, 1 billion that exceeded the appropriation by 3, 1 percent (in amount by HUF 35 billion). In this case again the growth of the above revenues was also the consequence of the economic restoration, the picking up in employment and the dynamics of the average earnings. From among the **other revenues** of the Fund the realisation of the public health product tax was 110, 4 percent (in amount HUF 65 billion), under the title of other contributions revenues amounting to HUF 76, 6 billion (99 percent of the appropriation was realised). The budgetary contribution for the Health Insurance Fund was HUF 743, 8 billion (100 percent of the appropriation) that was higher by HUF 157, 3 billion compared to the transferred amount in the previous year.

## 2.2. Realisation of the expenditures

In 2021, within the **public finance central subsystem** – similarly to the revenues and without consolidation – the realisation was HUF 31.095, 9 billion as **joint expenditures** that, compared to the data of the previous year, turned out to be more by 6, 3 percent while, compared to the appropriation it was more by 20, 2 percent.<sup>3</sup>

**The expenditures of the budget** within the central subsystem amounted to HUF 22.012, 9 billion – 73, 2 percent – considerably more (by 7 percent) than in the previous year. The realisation exceeded the appropriation by 25, 1 percent while that of the previous year by 5, 0 percent.

They used HUF 7.267, 8 billion to cover the expenditures incurring at **budgetary organisations** that equals 99, 8 percent, compared to the previous year and 143 5 percent of the appropriated amount. From this amount they used 51 percent, i.e. HUF 3.706, 0 billion for wages and the related contributions that was higher by 4, 8 percent than in the previous year. More than HUF 1.800 billion was spent on material expenditures while, on investments HUF 651 billion. Expenditures of the model-changing universities were no longer part of this group of expenditures – this resulted in a decrease in respect of accumulation expenditures primarily. Purchases related to defence (infantry combat vehicles, helicopters) and to health care (tools related to the coronavirus epidemic and other equipment), the payment of rental fee of the Gripen fighter planes and renovation of the buildings of fiscal institutions. The fact that 2021 was the fourth consecutive year when the appropriation residues not committed had to be paid to the Central Residual Clearance Fund that was used for expenditures outlined in individual government resolutions was playing a major role in the large difference compared to the plans.

The amount of HUF 4.370, 1 billion was used for the **expenditures of professional chapter managed appropriations** that was more by 37, 0 percent than the appropriated amount. At the same time the realisation that was less by 13, 3 percent than in the previous year was primarily the result of the governmental measure amounting to HUF 350 billion announced in December and targeting the containment of investment expenditures. Major part of the expenditures were spent on the following: public educational human services and operational supports, teaching religion and ethics, supporting book publishing, social human services and normative financing to support non-public higher educational institutions. A significant amount was spend on public road and railroad developments, sectoral transportation programmes, availability fees of highways, the Hungarian Village Programme, special tasks of higher education, competitiveness increasing support prompted by the consequences of the coronavirus epidemic, national agrarian supports, touristic developments, operational and development supports of churches, arts, supporting large enterprises and other investments.

**For expenditures related to EU programmes** the payment amounted to HUF 2.235 billion – the highest in the last four years – that even so made up only 88, 9 percent of the appropriation. More than HUF 1.900 billion was spent on the operative cohesion programmes of the 2014 – 2020 period; half of this amount was paid against account and part of it for

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<sup>3</sup> Here again, by appropriation we mean the statutorily amended appropriation. Where the reference framework is different, we shall indicate it.

advance payments. Similarly to the previous year, the highest amounts were paid from the following frameworks: Economic Development and Innovation Operational Programme ((GINOP)), Integrated Transportation Development Operational Programme (IKOP) and of the Territorial and Settlement Development Operational Programme (TOP). Related to the cohesion programmes of the new period (2021 – 2027) about HUF 300 billion was paid from EDIOP Plus.

The amount of HUF 826, 1 billion used for **normative and individual supports, within this the supports for public broadcasting and social policy fares** was significantly exceeding the appropriation (by 18, 1 percent) however, it was only slightly more (by 1, 6 percent) compared to the spending in the previous year. The largest share (46 percent) was used for community transport and, additionally, (18 percent) for the operational cost reimbursement of the railway infrastructure. The December decision of the Government was significant as a consequence of what companies providing community public services received considerably more additional support due to the increasing energy and fuel costs.

The amount of **housing supports** was HUF 376, 5 billion compared to the previous year's HUF 251, 5 billion that represented an amount higher by 1, 9 percent than the significantly increased appropriation. Decisively this was the result of the home renovation support, introduced as of 1st of January, 2021 and the related loans, available from February. Apart from the family home creation discount and the tax refund support, the expanding of the support offered to families with several children to ease the burden of their residential mortgage and, in case of village supports, the expansion of the preferred, eligible small settlements together with the increasing number of users contributed to the high amount of the expenditures.

**From the National Family and Social Policy Fund** the utilisation reached nearly the same amount than last year, HUF 673, 1 billion, more by 2, 2 percent than the realisation in the previous year. Just like in 2020, within the expenditures of the Fund, the most significant share went for *family supports* (59 percent, close to HUF 400 billion) in 2021 too. Exceeding slightly the previous year's data and, in harmony with the evolution of the number of the beneficiaries, the amount of family allowance was HUF 310 billion. Expenditures of the *benefits beyond the age limit* were HUF 99 billion, slightly increasing compared to the previous year. This reflects on the one hand, the mitigation of the beneficiaries (as the beneficiaries gradually reach the statutory retirement age, they are classified under the category of old-age pensioners), that is balanced by the effect of the successive increases of the pension-like entitlements together with the first week amount paid as the first stage of the gradual re-introduction of the 13th month pension. They used HUF 151, 9 billion for *income replacement and income supplements* that was higher by 6, 9 billion than in the previous year. From this amount nearly two-third served the purpose of performing district social tasks and that grew because of the 5 percent increase of care allowance and the home care fee of children. The latter increased because of the rising minimum wage on one hand while, on the other hand, because of the increasing of the fee (instead of 77 percent in 2020, in 2021 it was 88 percent of the minimum wage). However, the number of the users also increased. The increases pension-like entitlements also appeared in other income supplement supports (disability allowance, personal allowance for the blind, etc.).



**Support for local governments** amounted to HUF 1,013, 8 billion, in comparison to the previous year, by 23, 5 percent and more by 11, 5 percent compared to the appropriation. From the amount of the increase they compensated the lost income of local governments that was payable to them before, in the form of the 1 percent tax relief of local business tax of micro, small and medium size businesses. HUF 35 billion went under this title to settlements with less than 25 thousand inhabitants while, under the same title, HUF 23 billion went to settlements with population larger than 25 thousand. A significant amount, HUF 75 billion support, was transferred to local governments from the Economy Restarting Fund for various developments within it, local governmental investments targeting the restarting of the economy. Supplementary resources worth of HUF 9, 0 billion served the purpose of wage increases.

The total of **cash interest expenditures** amounted to HUF 1.404, 5 billion, strongly exceeding the realisation in the previous year (by 14, 4 percent) and, especially, the appropriation (by 36, 3 percent.). The increase of the expenditures decisively was the result of the year 2020 growth of the government debt stock and the increasing yields during the year. (While the interest paid on government bonds was HUF 896 billion in 2020, by 2021 this amounted to HUF 1.150 billion. The increase of the expenditures was decisively the result of the public debt stock in 2020 together with the increasing yields through the year. (While the interest costs in 2020 amounted to 896 billion, in 2021 it grew to HUF 1.150 billion.)

In the form of **contribution to the EU budget** the Hungarian budget paid HUF 610, 5 billion in 2021 compared to the HUF 449, 8 billion in 2020.

**Expenditures related to state assets** represented a large amount (HUF 1.457, 9 billion), similarly to the previous year. A greater share of this amount incurred in companies while, a smaller share incurred in connection with immovable and movable properties. In December, the Government allotted a significant amount (HUF 300 billion) in the frame of the Economic Relaunch Programme for such purposes, mostly for energy suppliers to compensate the rising prices of energy purchases.

The expenditures of **the separated public funds** amounted to HUF 710, 7 billion that was significantly more (by 16 percent) than the appropriation while, in case of the realisation in the previous year, it was significantly less (by 11, 3 percent). The latter was, to a great extent, the result of cutting the expenditures of the *Bethlen Gábor Fund* by half. The realisation from the *Economy Restarting Employment Fund* was HUF 450, 2 billion, i.e. higher by 9, 3 percent than the appropriation. From this amount the greatest expenditure – HUF 149, 1 billion – was used for the purposes of the Start Job Programme and the share of Maintaining Jobs Programme was also significant (HUF 101, 0 billion). Also, a significant amount was available from the *National Research, Development and Innovation Fund* (HUF 151, 9 billion).

The joint expenditure of the **Social Security Funds** was HUF 7,372, 3 billion, 107, 9 percent of the appropriation while, 112, 7 percent of the year 2020 appropriation.

From the expenditures of both funds the greater was that of the **Pension Insurance Fund** also in 2021. The utilisation of HUF 4.124, 1 billion exceeded the amount of the previous year by

13 percent and the appropriation by 5, 3 percent. Within this amount HUF 4, 117, 7 billion was the amount of *pension benefits* that was again more by 13 percent – in amount HUF 472, 8 billion – compared to the realisation of the previous year. The growing expenditures were the result of the carry-over effect of the 1, 2 percent increase of the supplementary pensions at the end of 2020, the 3, 0 percent increase of pensions in the beginning of 2021, the payment of the one week proportion of the reintroduction of the 14th month pension in February, the supplementary increase of pensions due to the higher than forecasted inflation rate at the time of preparing the budget bill, in two phases (June and November) amounting altogether to 1, 8 percent and, additionally, the pension bonus paid to each entitled the maximum amount of what was HUF 80 thousand/entitled in the month of November. At the same time, in December 2021 the number of old age pensioners and those, receiving survivor's pension was less by close to 32 700 than at the end of the previous year, primarily thanks to the raising of the eligibility age.

From among the social security funds they used 23, 7 percent more for the expenditures of the **Health Insurance Fund** compared to the previous year, altogether HUF 3.248, 2 billion that exceeded by 11, 3 percent the amount originally provided for the subject year. Most of the increase appeared under the title of *curative and preventive care*, that totalled HUF 1.880, 0 billion (compared to HUF 1.340, 7 billion in 2019 and to HUF 1.612, 2 billion in 2020). The expenditure that exceeded the amount used for such purposes in the previous year was the result of the spill-over effect of the early wage increases of healthcare professionals in November 2020 and, as of January 2021, the wage increases of doctors working in public and municipal inpatient and outpatient care, the increased wage subsidies of general practitioner and dental practices furthermore, expenditures used for the support of high cost medications. In addition to the above, they used HUF 23, 3 billion for the recognition of healthcare professionals' service. Just like in the previous years, the Government decided to improve the liquidity situation of health care institutions in December 2021 in the frame of what the government took over the respective debts in the amount of HUF 41 billion. Expenditures of *cash benefits* financed from the Health Insurance Fund amounted to HUF 835, 0 billion that was higher by 11, 6 percent compared the payment of such expenditures. The growth was nearly as much in the case of disability and rehabilitation benefits (10, 5 percent), child-care allowance (8, 9 percent) and in case of sick-leave benefits (9, 2 percent). The amount used for baby-care allowance grew significantly, by 28, 0 percent, thanks to the fact that its amount grew from the earlier 70 percent to 100 percent of the gross wages/salaries as of 1<sup>st</sup> of July 2021. For *medicine and medical devices' supports* jointly they spent HUF 488, 9 billion that exceeded by close to HUF 10 billion the level of 2020.

### 3. Realisation of the targeted deficit

At the beginning of April 2022, on the basis of the EDP report<sup>4</sup> published by the Central Statistical Office, the accrual based (ESA-) deficit of the governmental sector in 2021 was 6, 8 percent of the GDP. Thus, it can be established that compared to the 7, 8 percent ESA deficit of the previous year, in 2021 the deficit mitigated by 1 percent of the GDP. At the same time, the deficit is significantly higher than the year 2019 GDP proportionate 2, 1

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<sup>4</sup> In the frame of the Excessive Deficit Procedure (EDP) the member countries report twice a year, in the form of data provision (EDP Report, Notification) the evolution of the two priority indicators of the governmental sector, i.e. the data of the deficit and the debt.

percent and the degrees of the previous seven years when the balance was below the 3 percent Maastricht criterion. Similarly to the earlier years the highest quarterly deficit was realised in the last quarter, when the net financing need of public finance amounted to 11, 1 percent of the GDP.

Through the whole year, in the share of the GDP a primary balance<sup>5</sup> of -4, 5 percent balance was realised while the interest expenditures amounted to 2, 3 percent of the GDP<sup>6</sup>.

The exceedance of the Maastricht criteria was made possible also in 2021 by the exemption clause that took effect in both the EU and the domestic fiscal frame. In harmony with this the respective indent of the Stability Act was also amended in 2021 according to what the stipulated degree of the maximum fiscal deficit and the rule prescribing the medium term fiscal goal shall not be valid.

The cash deficit of the public finance central subsystem was HUF 5.101, 5 billion (9, 3 percent of the GDP) compared to the data of the previous year, i.e. HUF 5.311, 3 billion. The amendment of the year 2021 central budget act of Hungary laid it down that the expected deficit – calculated by EU methodology –will be 7, 5 percent of the GDP in 2021. On the basis of the law amendment this accrual-based targeted deficit of the public finance central subsystem amounting to HUF 3.990 billion is consistent compared to what, the real cash deficit turned out to be HUF 1.131, 3 billion, higher by 28, 4 percent.

The accrual-based deficit of the governmental sector<sup>7</sup> was lower than the cash deficit, as part of the cash expenditures remained within the governmental sector or became external in a way that resulted in the growth of public assets. Additionally, the statistical corrections belonging to the EU relations also improved the cash deficit balance by a significant amount (HUF 589 billion).

Apart from the favourable evolution of revenues within the deficit the increased health- and economy protection expenditures also appeared, to offbeat the effects of the coronavirus epidemic as well as, the various wage, pension and investment priorities of the budget. The European Commission and the Council of the European Union did not approve the Hungarian reconstruction plan. As a consequence, in 2021 Hungary did not get its share from the available advance payment amounting to HUF 326 billion.

According to the EDP report of the Central Statistical Office (KSH) published in April, the joint cash deficit was made up from the balance of the central budget's subsystem and of the separated public funds amounting HUF -4.701, 9 billion and the deficit of the social security funds amounting to HUF -419, 4.

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<sup>5</sup> Refers to the difference of the revenues and expenditures of the public finance that does not contain interest payments.

<sup>6</sup> Following the 2011 transformation of the pension system the statistics recognises interest expenses in the same amount as the size of the assets taken over by the state. This is called imputed interest expense. In 2021 this imputed interest expense amounted to 0, 2 percent of the GDP, i.e. the interest expensed paid after government debt was lower by this degree.

<sup>7</sup> Beyond the central and local public finance subsystem also includes the data of the organisations classified her by EU Resolution 479/2009.

The cash surplus of local governments was HUF 61, 7 billion, its ESA balance in the share of the GDP was 0, 2 percent.

The structural deficit<sup>8</sup> exceeded the medium-term fiscal goal of 1 percent, as stipulated by Point a) Indent (2) § 3/A of the Stability Act, also in 2021.

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

Besides the 6, 8 percent fiscal deficit in 2021, as a consequence of the vigorous economic growth and the mitigation of liquid reserves (Single Treasury Account – KESZ, foreign currency deposit) the gross government debt in the share of the GDP shrank from the 79, 6 percent in the end of 2020 to 76, 8 percent by the end of 2021. Thus, following the temporary growth in 2020 the debt rate returned to the decreasing trajectory, similar to the period of 2011 – 2019.

The decrease of the government debt is in harmony with the debt rule<sup>9</sup> of the Fundamental Law and is considerably greater than the reduction obligation prescribed by the Stability Act.

As a consequence of the foreign currency denominated issuances, the foreign currency share within the central budget's debt grew to 20, 6 percent by the end of 2021 from the level of the previous year at 19, 9 percent. The foreign currency share of the central debt is within the tolerance margin defined by the Government Debt Management Agency (ÁKK). In harmony with one of the main targets of the government debt management strategy, the share of domestic ownership grew in 2021. The fact that with the coming forth of bonds with longer maturity the remaining average maturity of Hungarian government debt grew to 6, 1 year in 2021 from the end of the year 2020 average of 5, 4 year, indicates a favourable transformation of the debt structure.

#### **5. The execution of the year 2021 annual budget created a favourable base for the elbow-room of the year 2022 budget**

The year 2021 macroeconomic and fiscal processes created a favourable basis to realise the year 2022 public finance goals. However, the Russian-Ukrainian war has rewritten both the macroeconomic and fiscal outlooks. The war and its consequences are affecting the budget via several channels. At the same time, according to the forecasts, the economic growth shall exceed 2, 5 percent. As a consequence, the obligation to decrease the government debt indicator remains. Thus, by observing the stipulation of the government debt rule, the National Assembly respectively, the Government has the opportunity to restructure budgetary

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<sup>8</sup> The precise 2021 value of the governmental sector's cyclically adjusted balance cleared individual items (Point e) § 1 of the Stability Act) will be known in the month of May.

<sup>9</sup> Indent (4) and (5) Article 36 of the Fundamental Law contains the government debt rule, as the most important element of the rule-based budget. According to this the National Assembly shall not adopt such a central budget act as a result of what the government debt would exceed half of the GDP. As long as the government debt exceeds half of the gross domestic product, the National Assembly shall adopt only such a budget act that contains the mitigation of the public debt share to the total of the gross domestic product.

revenues and expenditures – by making use of the remaining room to manoeuvre – that in the changed situation they continue to serve the strengthening of the economic (financial), social and environmental sustainability. In the Council's opinion measures increasing security, fostering energy efficiency and climate protection, expanding supplies and stimulus measures encouraging household savings are of paramount importance.

Budapest, 21st of April 2022

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