



MINISTRY
FOR NATIONAL ECONOMY

The state is a burden on the economy

The size of the Hungarian state budget is much bigger than that of the competitors – the current structure of state expenditures does not stimulate economic growth

Focus

The size of the Hungarian national budget relative to the size of our economy is almost 6 percent bigger than that of the countries with economies at a similar stage of development or that of the average of the other Visegrád group members. Almost half of the difference is the result of the significantly higher Hungarian interest liabilities due to our bigger public debt, but our primary expenditures are also higher than those of our competitors in the region. The current structure of expenditures in the national budget is not pro-growth: the proportion of expenditures on investments is low, the proportion of running expenditures is high – especially, within this, the amount spent on social benefits.

Background

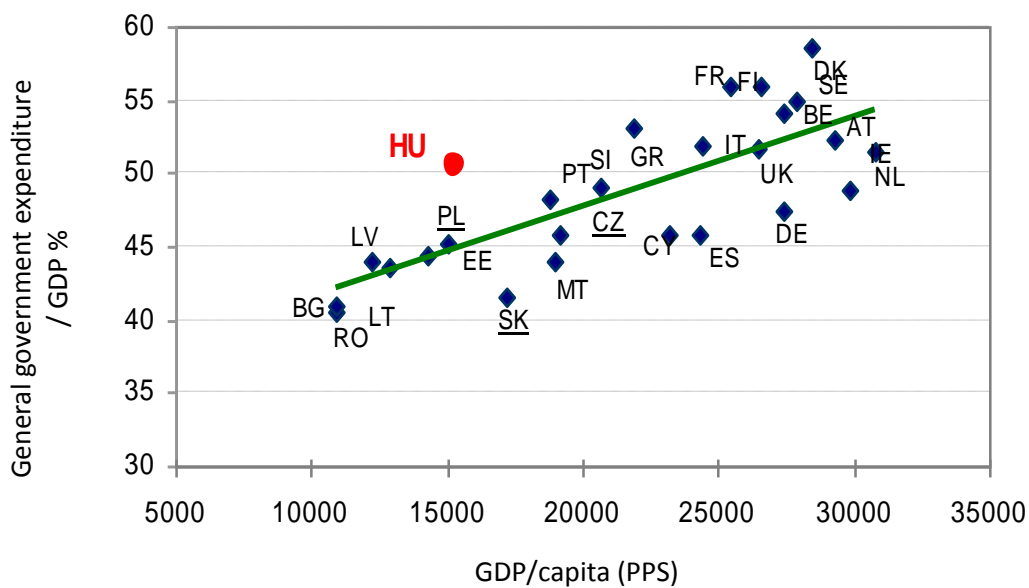
Due to various crisis management strategies, the Hungarian redistribution rate was lower than the EU average for the very first time in 2009, but the size of the Hungarian national budget has been still significantly higher than is typical of the countries at a similar stage of development. As the redistribution rates in the EU can be expected to return to their previous, lower level due to pro-growth economic measures without further reducing the Hungarian redistribution rate, it would be likely to rise again above the average of the EU-27.

Up till 2008 the Hungarian redistribution rate was significantly, in certain years as much as 10%, higher than the average typical of the EU member countries at a similar stage of

development. Moreover, it was even some percentage points higher than the average of the old members with more developed economies (EU-15).¹

Due to various crisis management strategies, this difference was smaller in 2009 when in the majority of countries the budgetary instruments aimed at boosting economies temporarily increased the proportion of expenditures as of GDP. In Hungary, however, the increase in the redistribution rate was much more moderate because of the measures aimed at cutting expenses. **In 2009 the size of the Hungarian state budget was slightly smaller than the average of the EU-27, but it was still 6 percent higher than the average of either country at a similar stage of development or than the average of the other Visegrád group members.**

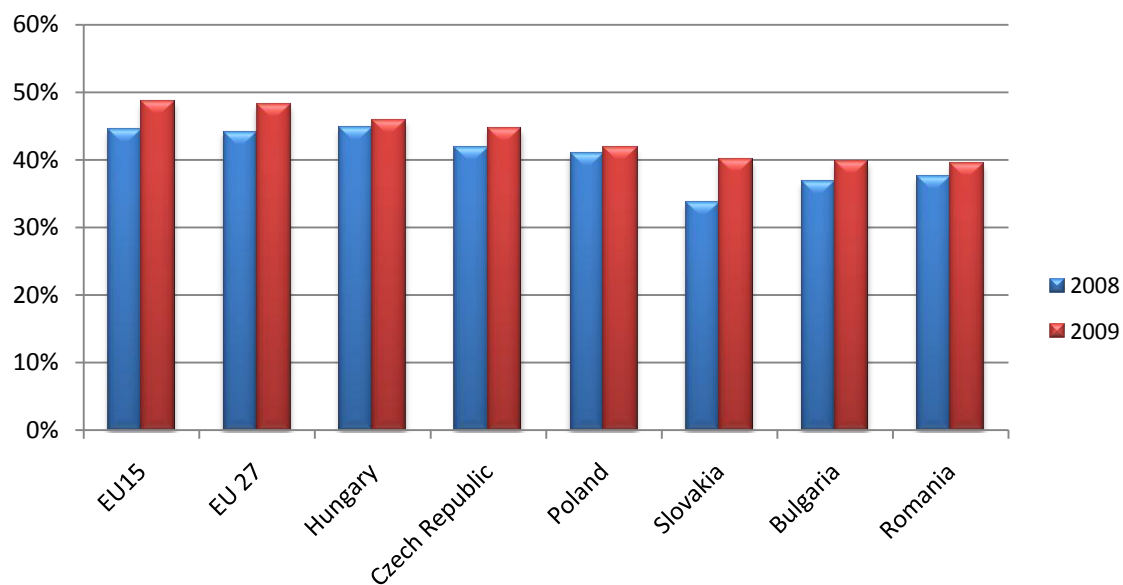
Redistribution rate and GDP per capita in 2009



Almost half of the difference is attributable to the higher Hungarian interest liabilities which are due to bigger public debt, but our primary expenditures relative to GDP are higher than those of our competitors in the region.

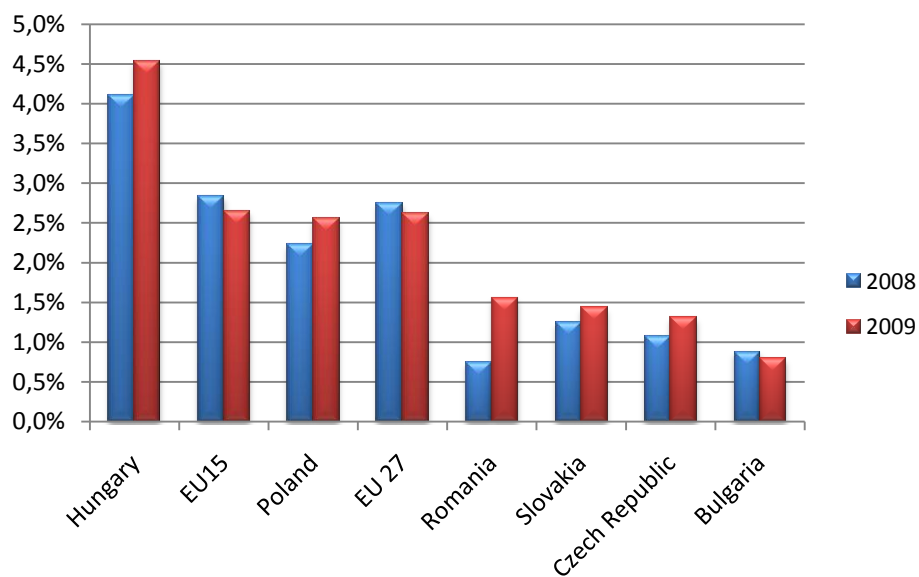
¹ Relative to the data available until 2009 which serve as the basis of the international comparison, there is a slight difference already due to the impact of the measures which have been implemented in the meantime; therefore the difference can be smaller in certain kinds of expenditures.

Proportion of primary expenditures in the EU and in the region, in 2008-2009
 (% as of GDP)



Source: AMECO

Proportion of interest liabilities in the EU and in the region in 2008-2009
 (% as of GDP)



Source: AMECO

The structure of the expenditures of the Hungarian national budget is not pro-growth; the proportion of expenditures on investments is relatively low, the proportion of running expenditures is high -- within this, especially, the amount spent on social benefits.

‘Cornerstones’

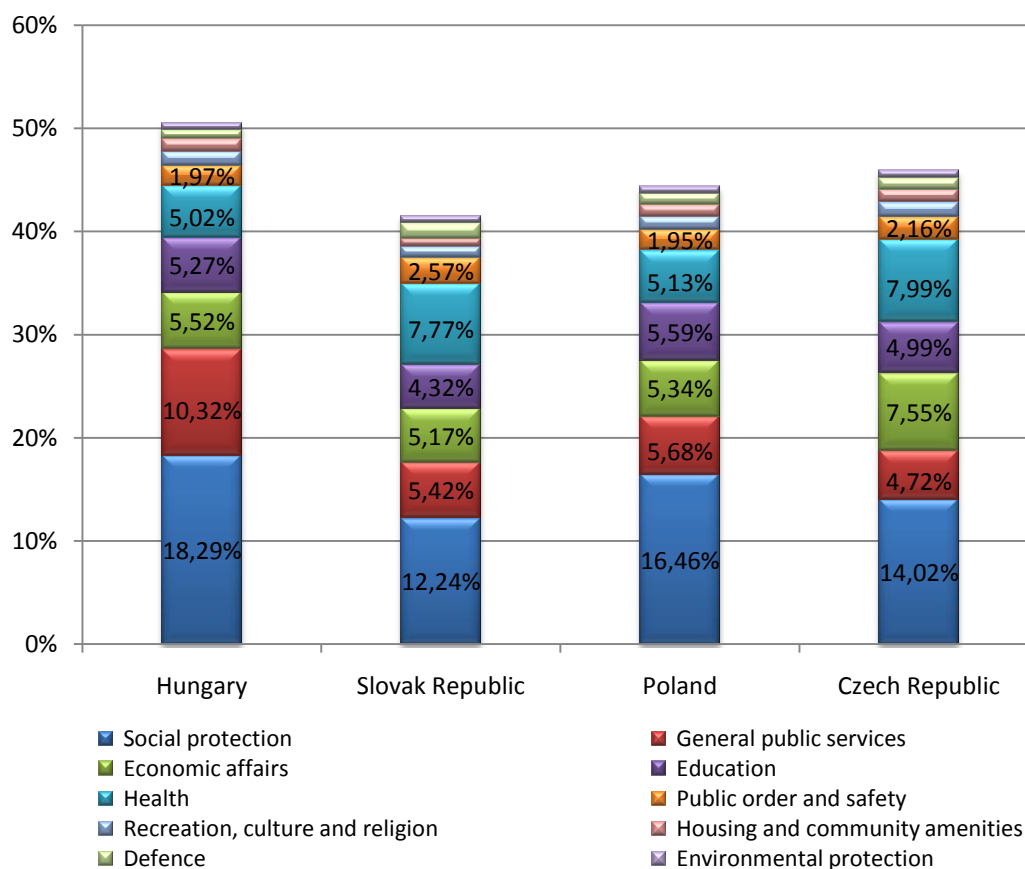
An expenditure structure which curbs growth

The structure of administrative expenditures has been modified unfavourably as far as economic growth is concerned during the last couple of years. **The expenditure on investments has by now fallen to a level below the proportion which is typical of the new EU members.** The investments of the national budget, which, after joining the EU had been relatively higher than the average of either the EU-27 or of the countries at a similar stage of development, were by 2008-2009 about 1 percent less than the average of either the other Visegrád group members or the member states at a similar stage of development.

On the other hand, the running expenditures of the Hungarian national budget are relatively high. We have spent about 3 percent as of GDP more on the broadly defined running operating expenses than the average of the other Visegrád group members. About 2 percent more have been spent on social benefits paid in cash than our competitors in the region have spent in spite of the measures which were implemented in 2009.

If we consider the budget functions, Hungary spends more than the average on general public services and social protection, less on health care, and about average on education and economic tasks by now relative to our stage of development.

National expenditures per budget functions in the Visegrad group members, % as of GDP, in 2009



As far as the data of the Visegrád group members are concerned, the expenditure structure of Hungary most resembles that of Poland's, while it differs from that of the Czech Republic and Slovakia. As for general public services, more than half of the 5 percent difference relative to the average of the Visegrád group members is attributable to the high Hungarian interest liabilities. The rest is the result of the real gap between different wages and expenses.

Of social expenditures, we spend more on old-age pensions, social care, family support and unemployment benefits than the other Visegrád group members do. Due to the measures which affect old-age pensions and other kinds of social care-related expenditures, from 2009-2010 the difference relative to the other Visegrád group members will be likely to decrease.

In every country **the largest item of social expenditures is the amount spent on old-age pensions, to which Hungary devotes almost 2 percent as of GDP more than the Czech Republic and more than 3 percent as of GDP more than Slovakia.** (The higher proportion of expenditures in Poland is due to the fact that pension benefits are subject to taxation there, therefore the gross amount spent on old-age pensions is higher than in Hungary, but the net

amount would be lower. However, most of the expenses of the Pension Insurance Fund originate not from old-age pensions, rather the current system of social transfers unrelated to employment-based pensions.)

Our expenditures on family and child support is by about 1.5% as of GDP more generous than those of the other Visegrád group members, and they are even large compared to the EU-27 or the EU-15.

Benefits related to disability match the average of EU members, **but they are more than half a percent as of GDP higher relative to Poland, Slovakia and the Czech Republic.** Although to a lesser extent but the benefits related to unemployment are also higher than the average of the Visegrád Three.

To health care, where the proportion of expenditures was about average relative to the stage of our development four- or five years ago, **there was already almost 1 percent less allocated in the Hungarian national budget in 2008.** According to the 2009 preliminary data of the OECD, the difference was 2 percent . At the same time, the structure of the Hungarian health care expenditures differs from that of the Visegrád group members': we spend less on medical treatments and prevention and more on medicaments.

The expenditures on education have approached the average, and the amount spent on economic tasks also decreased to the average of the Visegrád group members by 2008, whereas it had been 1-1.5 percent higher than the average during a couple of years before that. Of the other items, the expenditures related to housing, culture, religion and entertainment were somewhat higher than the average of the reference groups.

Conclusion

The current structure of the expenditures of the Hungarian national budget is not pro-growth; the amount spent on investments is relatively low and the amount spent on running expenses is relatively high. Relative to its stage of development, Hungary spends more than the average on general public services and social protection, less on health care, and about the average on education and on economic tasks by now.

Budapest, 18 February 2011.

Ministry for National Economy