Draft budget of 2013

In the past couple of months in the midst of a protracted financial-economic crisis the government implemented structural reforms by which state budget balance was made sustainable and general government debt was also set on a downward path. Due to the fiscal trend reversal, the deficit will certainly and steadily remain below 3 percent, consequently next year the Hungarian economy will begin to expand on the basis of firm fundamentals. **The Budget Bill of 2013** submitted to parliament on 15 June by the government **sets a deficit target of 2.2 percent** which – via one of the most stable fiscal management policies of Europe – will adequately respond to the challenges imposed by the debt crisis.

The revenue and expenditure structure of the draft budget will **provide the opportunity for economic growth and job creation, as it favours purchase and excise taxes instead of taxes on labour, reduces the operational expenses of the state,** introduces the *Start* work programme, stimulates the utilization of EU funds and continues the transformation process of the system of social welfare services.

The draft budget of 2013 projects **real GDP growth of 1.6 percent and inflation of 4.2 percent,** and an increase of 8.8 percent of exports and 8 percent for imports. Employment is expected to increase by 2.2 percent and the rate of unemployment to decline to 10.3 percent. **Total revenues of the central sub system of the state budget amount to 14 800bn HUF and the total amount on the expenditure side is 15 477bn HU**F which results in a deficit of 677bn HUF. **The projected amount of general government debt is 23 573bn HUF which corresponds to the 76.8 percent of total GDP - at an exchange rate of 243.8 CHF/HUF and at a conversion rate of 299.3 EUR/HUF - in 2013 that is expected to amount to 30 685bn HUF.**

Revenue side of the budget:

Revenues of the central budget (billion HUF)			
	2012	**2013**	**Change**
Payments of economic units	1 401,59	1 186,68	-15,3%
Taxes on consumption	3 649,85	4 134,00	13,3%
Payments of households	1 677,15	1 695,86	1,1%
Revenues of budgetary institutions	2 495,90	2 612,59	4,7%
Revenues related to state property	50,42	49,60	-1,6%
Revenues related to debt service	59,33	99,24	67,3%
Payments of general government subsectors	49,97	30,48	-39,0%
Other revenues	19,95	6,77	-66,0%
Other EU revenues	48,63	33,97	-30,1%
Total	**9 452,80**	**9 849,20**	**4,2%**

The revenues of the central budget will increase by 4.2 percent to 9849bn HUF due apparently to the greatest extent to **taxes on consumption** (increase of 13 percent). Within the above, VAT revenues will be 104bn HUF higher. The increase is primarily a result of the consumption growth of households at current prices which is a consequence of the increase of growth at both the consumption component calculated at unchanged prices and the inflation component. Excise taxes with regard to certain excise goods will increase as the tax rate of tobacco products shall reach the minimum tax rate defined by the European Union for 2018, and the increase will boost the share of revenues from excise taxes in the tax system.

Three new kinds of taxes on consumption will be introduced. First, the **telecommunication tax** will be implemented which is payable by the telecommunication service provider and revenues expected from it is expected to total 44bn HUF. The second one is the **financial transaction duty**, a sales-type charge, which is levied basically on retail and corporate bank as well as postal transactions. The great advantage of this instrument is that it is levied on a broad tax base so the extra revenues expected from it amount to 283bn HUF. The third liability is the **insurance tax** and the government plans to receive 52.5bn HUF of revenues in 2013 thereby.

Payments of economic units will decline by almost 15 percent as a result of lower revenues from simplified entrepreneurial tax (EVA), the 50 percent cut in bank tax and the phasing out of crisis taxes. The bill expects 380bn HUF more from **corporate tax** which is 6.7 percent higher than the amount of this year. I**ncome tax revenues by energy service providers** increase to 40bn HUF, and other central revenues will rise to 250bn HUF. This item includes the revenue of 75bn HUF anticipated from electronic road tolls.

Revenues from simplified entrepreneurial tax will be lower by 21 percent or 47bn HUF. The reason for the huge decline is the shrinking due to regulatory changes of the number of taxpayers who opt for paying EVA. **The extra tax of financial institutions will decrease from 187bn HUF in 2012 to only 72bn HUF and the extra taxes levied on specific sectors will be almost entirely abolished.**

As one can see, **payments by households will increase by only 1.1 percent** to 1696bn HUF. Personal income taxation will be a purely flat-rate system, tax base adjustment affecting incomes above an annual consolidated tax base of 2 million 424 thousand HUF will be abolished. The rate of tax levied on every kind of consolidated tax base, regardless of the amount of income, will be 16 percent.

The expenditure side of the budget:

Expenditures of the central budget (billion HUF)			
	2012	**2013**	**Change**
Special and normative subsidies	237,5	268,7	13,1%
Subsidies to public broadcasting service providers	64,8	68,2	5,2%
Public transport fare subsidies	93,0	93,0	0,0%
Housing grants	120,1	173,9	44,8%
National Family and Social Policy Fund	852,6	854,3	0,2%
Budgetary institutions and chapter administered appropriations	4 883,0	5 564,1	13,9%
Transfers to general government subsectors	1 789,9	1 352,3	-24,5%
Debt service related expenditures	1 065,0	1 325,5	24,5%
Transfer to non-profit organizations	3,8	3,8	0,0%

Extraordinary expenditures of the government	12,5	3,9	-68,5%
Government guarantees redeemed	40,2	30,2	-24,8%
Other expenditures	34,1	39,6	16,1%
Reserves	360,0	299,5	-16,8%
Contribution to EU budget	264,3	283,6	7,3%
Expenditures related to state property	127,6	131,7	3,2%
Total	**10 046,6**	**10 492,4**	**4,4%**

As it is also highlighted by the wording of the bill, the government – contrary to the expectations of international institutions and the routine of austerity which some countries are forced to undergo –, aims to maintain a balance by saving measures which do not hurt the interests of pensioners and families.

The expenditures of the central budget will increase by 4.4 percent to 10 492bn HUF.

Special and normative subsidies will be 13 percent higher due on the one hand to the subsidies related to the operation of railway networks and on the other hand the increasing subsidies with regard to the interest equalization of Eximbank Ltd.

Housing grants are aimed at implementing the home construction programme and to this end the amount projected for this objective will increase significantly (by 45 percent), and it will thus total 174bn HUF.

In accordance with the obligations assumed in the Convergence Programme, the expenditures of the **National Family and Social Policy Fund** will not be substantially modified.

Payments to local governments will decrease by 38 percent, from 1042bn HUF to 647bn HUF, while the expenditures associated with **budgetary institutions and chapter administered appropriations** will increase by 681bn HUF.

Debt service related expenses will increase by 24.5 percent according to the draft version. The increase of interest expenses is partly a consequence of the nominally rising general government debt and partly a result of the refinancing from the market of the expiring international loan package, as market yields surpass the yields of the loan package.

As soon as the EU/IMF agreement is concluded, however, further **significant decline in CDS prices and in the yields of government securities is expected** and that will further improve the balance sheet. In addition, in line with the recommendation of the Fiscal Council, the government increased the Country Protection Fund by 50bn HUF, consequently the **deficit as a whole will not be higher even if GDP growth is almost 1 percentage point lower than anticipated.**