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The new economic governance framework

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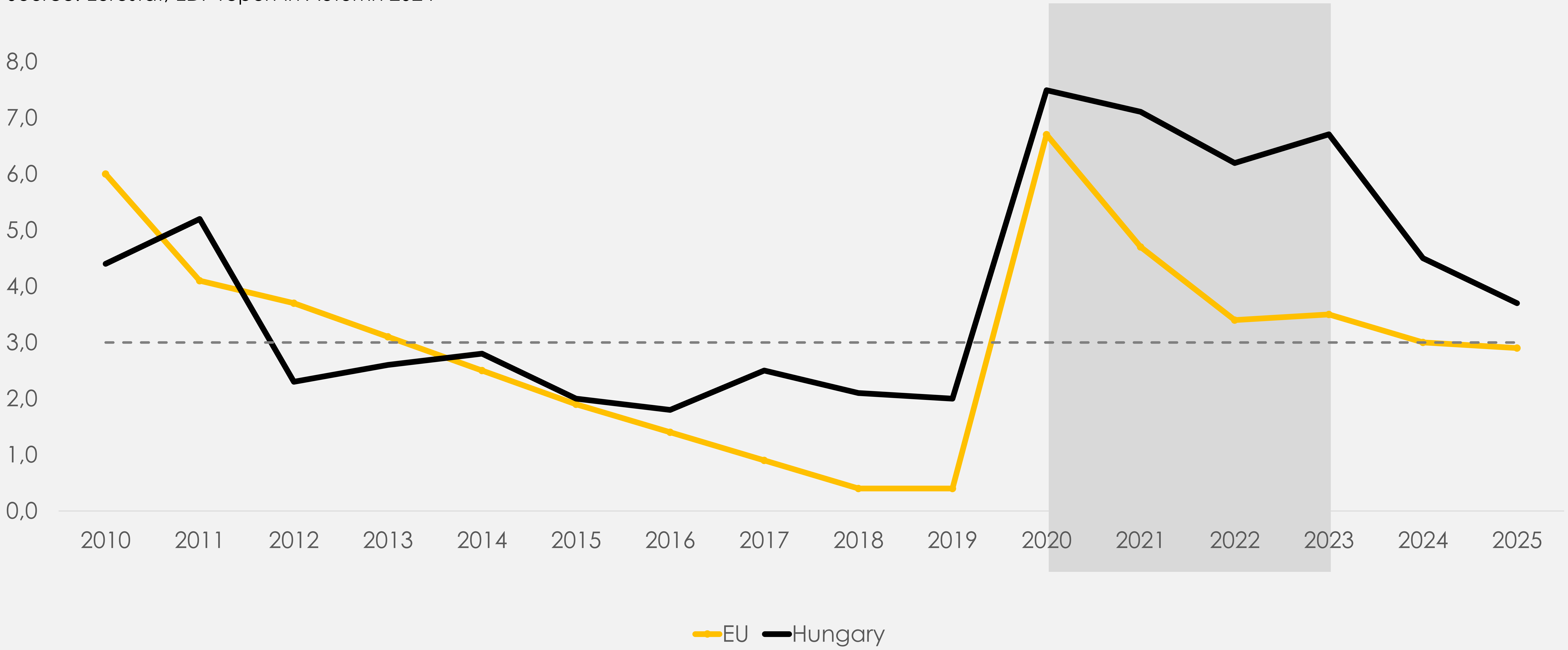
Budgetary policy in Hungary followed EU fiscal rules, and lived with the common option of relaxing these rules in crisis years

Budget balance (GDP percent)
Source: Eurostat, EDP report in Autumn 2024



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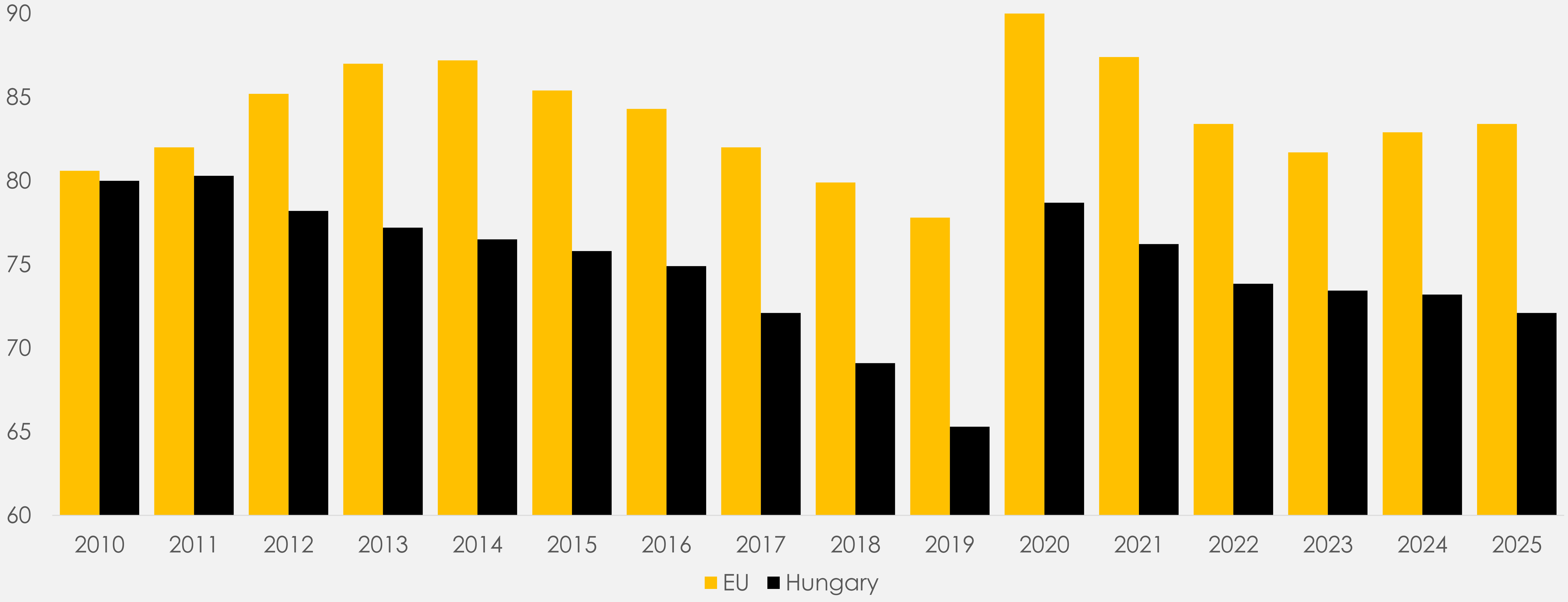
Accordingly government debt declined in „peace years", and grew in Covid-period

Government debt in Hungary and EU (GDP percent)
Source: Eurostat, EDP report 2024, European Commission



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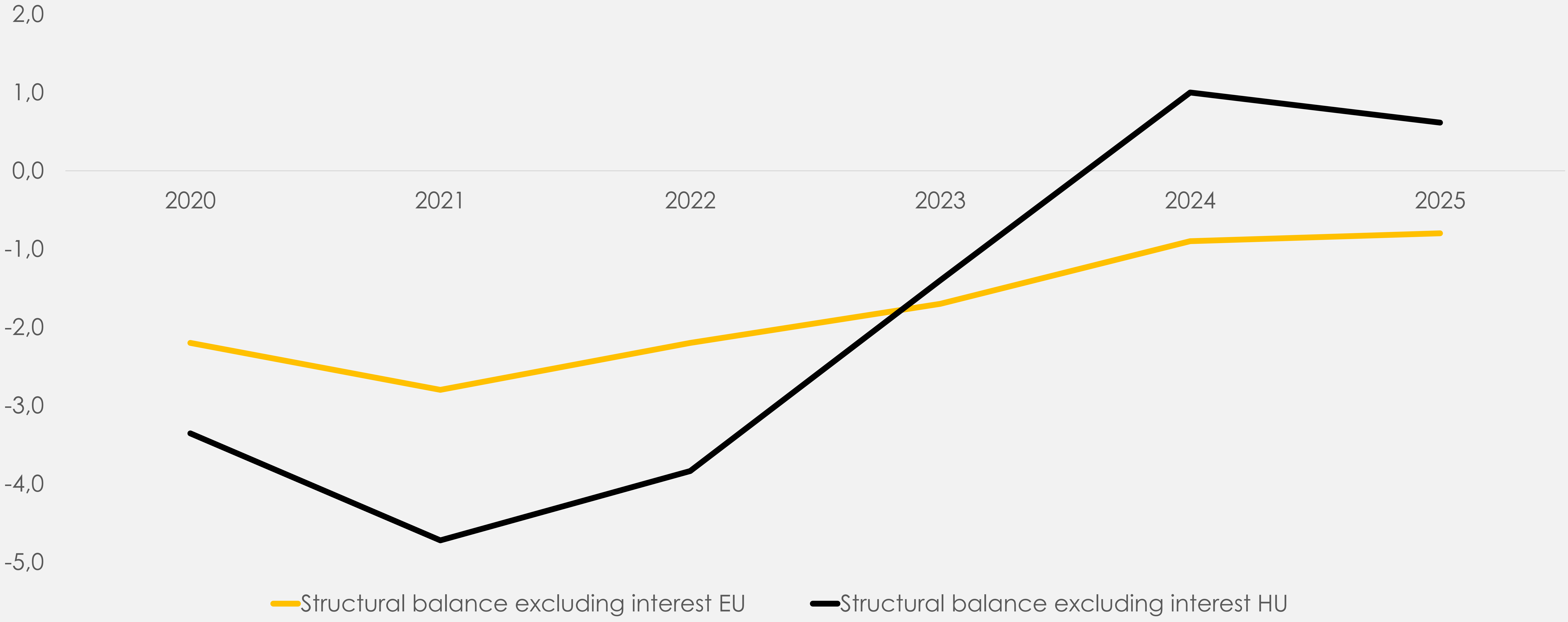
After 2023 EU fiscal rules being in force again, member states started budget consolidation

Structural primary balance (% of GDP)
Source: Ameco, MoF



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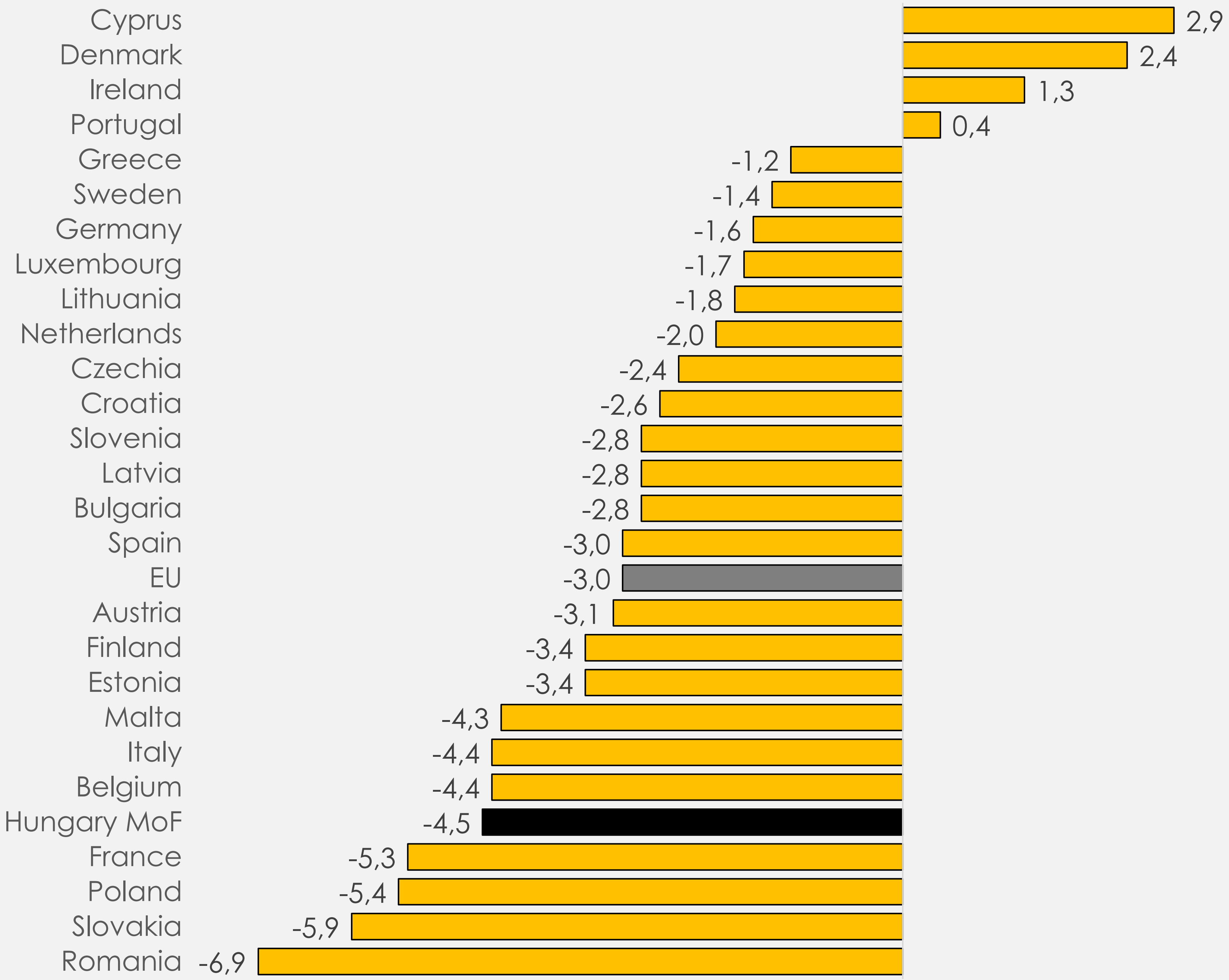
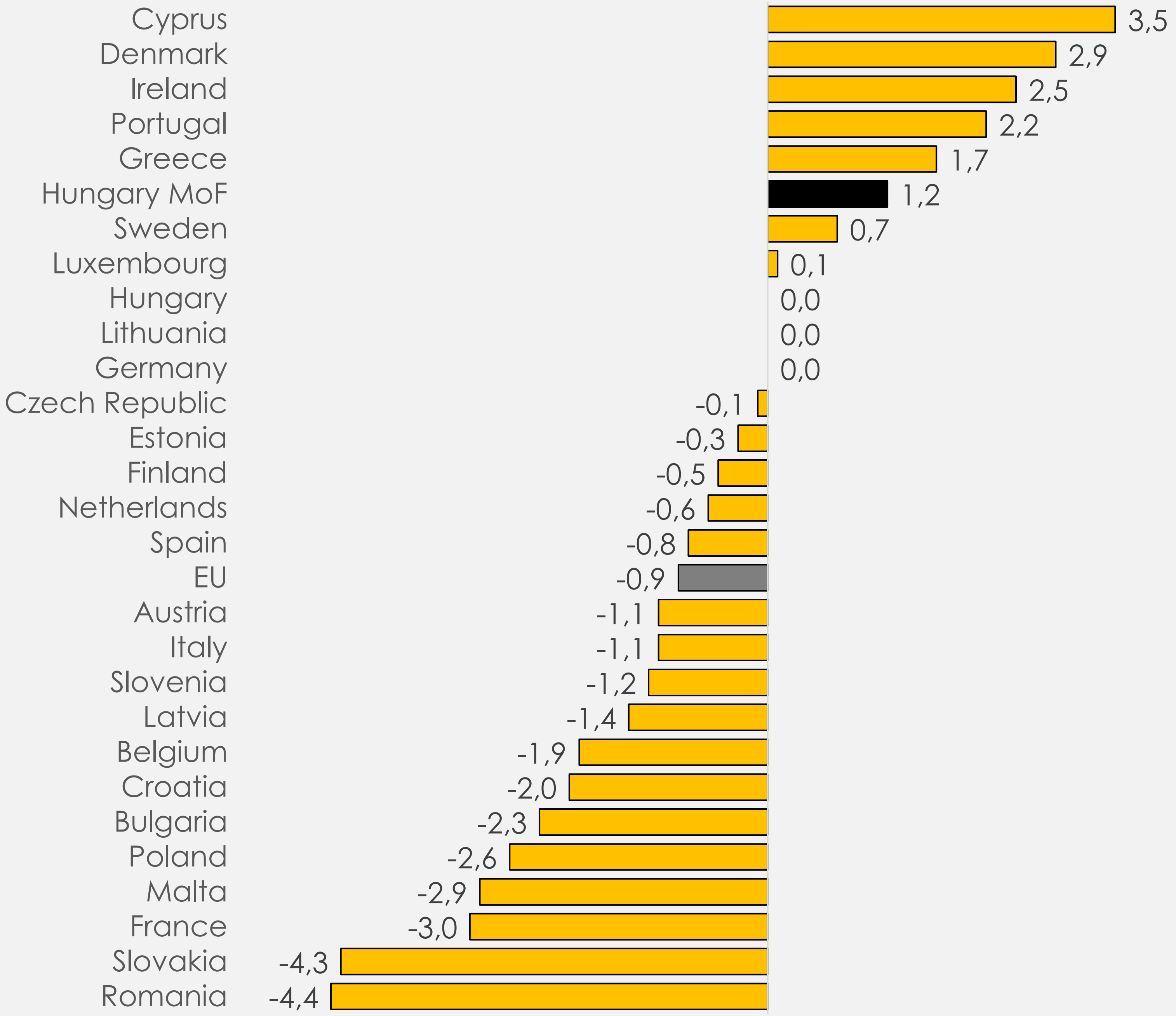
Rather than headline budget deficit, structural primary balance reflects the efforts

Budget deficit target in 2024 (% of GDP)
Source: Ameco, EDP report 2024 Autumn



Structural primary balance in 2024 (% of GDP)
Source: Ameco, MoF



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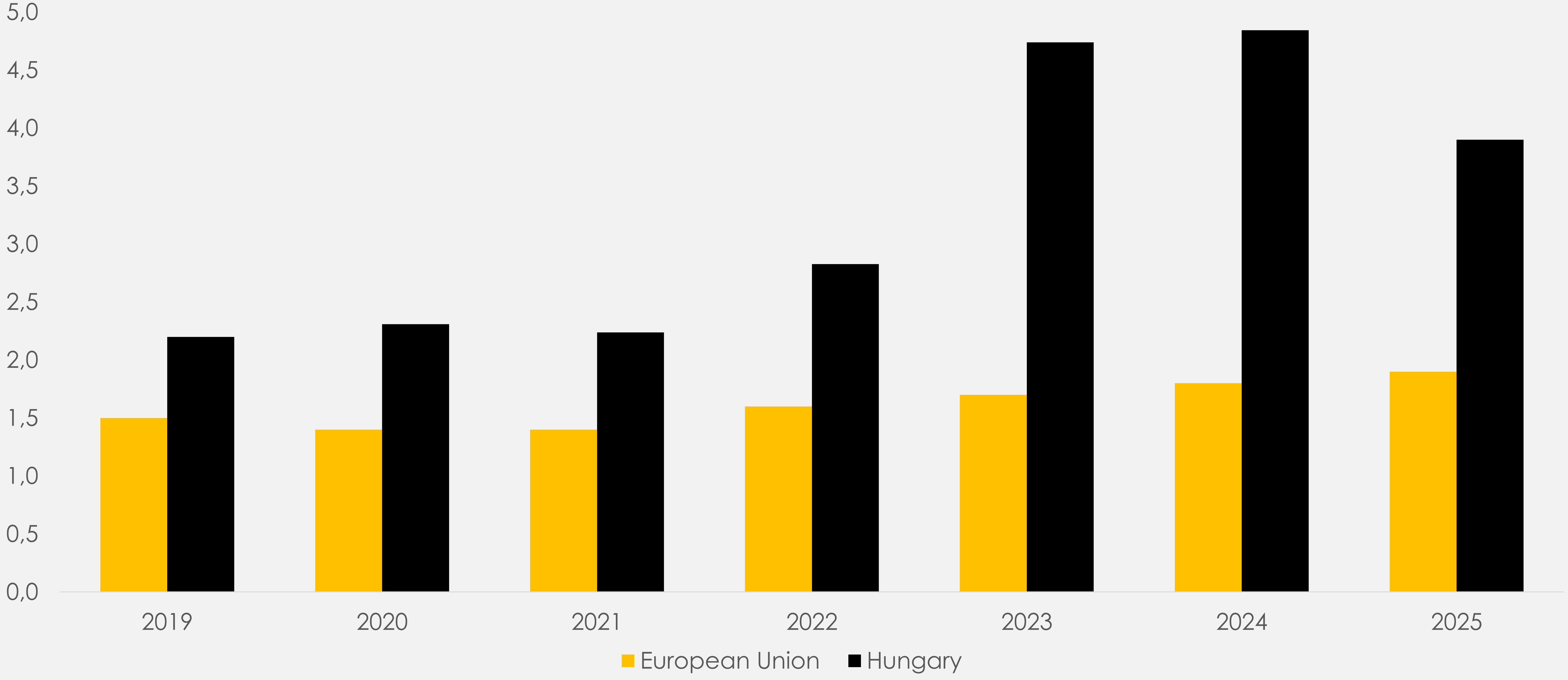
Results of budget consolidation are hidden by extremely high interest expenditures

Interest expenditure (GDP percent)
Source: Ameco, KSH, MoF



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New fiscal framework: partly well known challenges, but higher emphasis on structural position

Stability and convergence programmes	National medium-term fiscal-structural plans
new document was published each year	the first plan is valid between 2025-2028
4-year time horizon	4-year time horizon, which can be extended by 3 years
reference values for deficit and debt (3%, 60%)	reference values for deficit and debt (3%, 60%, 90%)
country-specific MTO, occasionally recalculated	-1.5% MTO for all Member States
focus is dominantly on ESA deficit and debt	**focus is more on structural deficit (net expenditure path)**
no feedback on the previous target values	annual assessments
Member States used their own forecasts	macroeconomic and budgetary projections are based on Commission's forecast
more detailed budgetary outlook, less optional sections	the revenue and expenditure outlook is optional except interest expenditures and investments
reforms and investments are indicated in a separate document (NRP)	reforms and investments are part of the FSP

Net expenditure growth (e^t) is the main indicator of the new fiscal framework – the adjustment must take place *in structural terms*

Net expenditure growth (e^t) =

$$GDP\ growth\ rate + GDP\ deflator\ - \left(\frac{annual\ adjustment\ of\ the\ structural\ primary\ balance}{Primary\ expenditure\ in\ GDP\ percent * 100}\right)$$

Net expenditures can grow with GDP volume and GDP deflator minus annual average adjustment need by which the MTO can be reached till the end of the plan.

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Hungary's latest official medium-term plan (COP of Hungary 2024 Spring) is in line with the new rules

	2023	2024	2025	2026	2027	2028
net lending / net borrowing	-6,7	-4,5	-3,7	-2,9	-2,4	-1,9
structural balance	-6,1	-3,9	-3,2	-2,7	-2,3	-1,9
structural primary balance	-1,4	1,0	0,6	0,7	0,9	1,0
gross debt	73,5	73,2	72,1	68,8	66,0	62,8

By the end of the adjustment period,

- ✓ debt plausibly declines, or stays below 60 % of GDP over the medium-term
- ✓ deficit is brought below 3% of GDP over the medium-term

Referece trajectory must ensure that

- ✓ the debt decreases by a minimum annual average of 0.5 pp of GDP (as long as the debt >60% of GDP
- ✓ the structural balance reaches 1.5% of GDP by the end of the adjustment period
- ✓ the annual average improvement of the structural primary balance reaches 0.4 pp of GDP

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Thank you for your attention!