

FLASH REPORT

12 February 2019

Better-than-expected revenues will keep public balance on track this year, but the uptake from the demographic program could lock the deficit above 2% after 2020

- On 10 February, PM Viktor Orbán announced a new, seven-point demographic plan to boost the economy and initiate a turnaround in population growth. A subsidy scheme for secondary school students' language studies was also communicated. Furthermore, what we know is that the measures will be implemented from July 2019 onwards. This means that we can only expect half-year effect for this year.
- At this stage, all calculations about the potential costs of the program are largely uncertain, as full details were not yet disclosed. Based on some announcements on the costs, expenses could add up to HUF 240 bn in 2020.¹ Nevertheless, this short note tries to give a detailed first estimate on the overall effect of the measures. As several assumptions were made during the calculation, in addition to the announced measures and the budgetary effect, we summarized the main assumptions in the calculation in Table 1 (page 3).
- Overall three measures deserve particular attention, as ones having gross cost around or above 0.1% of GDP in any of the following years:
 - Subsidized loan program for young married couples:** In this case the program is available not only for newlyweds but also for married women. As a substantial number of people are potentially affected (around 220,000 of already married women who are employed, plus newlyweds), and the loan terms seem favourable (with an implied interest rate of max. 2% for 20-year loans), the total loan take-up could be quite significant. Practically, we expect all couples who want children and otherwise qualify to sign up. Additionally, the yearly costs will accumulate annually for three years, while the scheme is open. Nevertheless the accumulated stock of debt relief from newly born second and further babies will kick in only gradually, after the second or third year of entering the program, hence from 2021 the earliest. Until that time, the interest subsidy component dominates.
 - Debt relief for mortgage loans:** In this case the substantial size of the debt relief (HUF 4 mn for the third child and HUF 1 mn per other children except the first one) makes the program significant. Here we can assume a more equal cost distribution along the years.
 - Car sales subsidy program for large families:** Here again the HUF 2.5 mn (but max. 50% of the sales price) subsidy for new, seven-seater family cars is quite significant. Although a substantial part of large families is typically financially worse off than the average, still 10-15% of all families could use this opportunity each year.
- A further important point in the calculation is that these plans, together with the newly extended CSOK (family housing benefit) scheme, could be used simultaneously.² An important point in the calculation is that we do not assume extra costs for CSOK compared to the current budget, as 2018 brought some savings and the planned 2019 figure is HUF 100 bn larger than the previous year's figure.

¹ State Secretary Mrs Katalin Novák said that the demography program could cost HUF 150 bn in 2020, while the Minister for Human Capacities said the student language courses could cost around HUF 90 bn per year.

² For the sake of illustration, under a bit extreme scenario, a young married couple with an existing mortgage loan, who enter all programs in July 2019, and manage to have three children over the next three years, will be eligible for (1) full debt relief in the subsidized scheme for young married couples, (2) for additional HUF 5 mn debt relief for the existing mortgage, (3) for a further HUF 10 million subsidy in the CSOK scheme, and (4) for HUF 2.5 mn subsidy for car purchase.

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- Finally, we calculated a lower and a higher take-up in the programs, which indicated the uncertainty around the estimation, although admittedly, given several assumptions, in fact the uncertainty is even larger than indicated here. Our estimates suggest that the program could cost around HUF 122-146 bn, 244-288, 265-311 bn in 2019, 2020, 2021 respectively, which is around 0.3%, 0.5-0.6%, 0.5-0.6% of Hungary's GDP. The growing cost from 2020 to 2021 indicates the program's effect on young married couples where each year's flow will add to the existing stock. Furthermore, debt relief in this scheme from the second and further babies will gradually kick in from 2021.
- The gross cost is the expense the budget has to bear without taking into account the feedback from the macroeconomy. As the fiscal multiplier on some items could be very large (for example we calculate that while the budget cost in the newlywed scheme could be around HUF 19 bn in 2019, the actual cash these couples receive in form of loan could be around HUF 635 bn. While part of this sum could go to refinance previous loans, still a significant amount could be spent on new purchases of households goods and services, generating VAT and other taxes), the program could stimulate the economy to such an extent that finally no substantial cost on the budget will appear until 2020. However later, once the stimulus is faded, the budget deficit could increase under no policy change. As our original projection stood slightly below 2% starting from 2021, the medium-term deficit figures could climb to the 2-2.5% range, under the assumption of a slowing economy and no-policy change.

Table 1 – The effect of the recently announced measures on the ESA balance

Program element	Some details	Assumptions for the calculation	Gross cost per year (bn HUF)		
			2019	2020	2021
1. Subsidized loan for young married couples	<i>Mortgage loans with subsidized interest rate for women below the age of 40, who have worked for more than three years. When the third child is born, the government repays the full loan; when the second child is born, the government assumes 30% of the loan amount. For couples who already have a child, only newly born infants will be taken into account for debt relief. We assume that the interest subsidy should be reimbursed if no child is born.</i>	<i>Roughly 520,000 mothers (newlywed and already married) may be affected. 65-70% of this cohort will use the program and will have children, but the actual loan amount will be 50-65% of maximum HUF 10 mn. We assumed a 50% growth in yearly marriage figures, a 2% increase in third child birth rate per year and 1% increase for other children per year.</i>	16-19	32-35	51-57
2. Extending CSOK (subsidized housing scheme for families)	<i>Extending subsidized loans in the CSOK scheme to families with two children for real estates in the secondary market, removing the HUF 35 mn ceiling for the real estate's value.</i>	<i>No additional spending compared to our baseline (there was HUF 100 bn increase compared to 2018 already in the budget, and we identified some savings from last year's envelope)</i>	0	0	0
3. Debt relief for mortgage loans	<i>HUF 4 mn debt relief from all mortgage loans after the birth of the third child, HUF 1 mn for the second and fourth or later born child.</i>	<i>It is assumed that 60-80% of families where second or further child is born have mortgage loan. We assumed a 2% increase in third child birth rate per year and 1% increase for other children per year.</i>	20-27	41-55	42-55
4. PIT exemption for mothers with at least four children	<i>For all mothers who gave birth during her lifetime to at least four children</i>	<i>We calculate that 200,000 mothers could be affected, 25% of them are assumed to work.</i>	14	27	27
5. Car sales subsidy program for large families	<i>Large families (with at least three children) can have a maximum of HUF 2.5mn subsidy to purchase seven-seat cars. The subsidy is capped at 50% of the sales price.</i>	<i>10-15% of the families per year use the program</i>	27-41	55-82	55-82
6. Increasing the number of nurseries		<i>No additional spending compared to our baseline</i>	0	0	0
7. Child care allowance for grandparents	<i>Grandparents could be entitled for child-care allowance (GYED)</i>	<i>This affects labour supply but does not bear direct extra cost</i>	0	0	0
8. Supporting language studies for secondary-school students	<i>Free two-week language school for secondary school students (9th and 11th grades)</i>	<i>Based on the Minister's announcement, we assume HUF 90 bn cost per full year.</i>	45	90	90
Total gross cost (bn HUF)			122-146	244-288	265-311
Total gross cost (% of GDP)			0.3	0.5-0.6	0.5-0.6

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