



Weekly Briefing

Hungary social briefing:
Energy prices and effects on the Hungarian society
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Energy prices and effects on the Hungarian society

Social policy is sustainable if it can be financed without tearing a hole in the public budget. In this context, it is worth noting that the Hungarian government was aware of this simple link between finance and policy. This briefing addresses the question of why this policy of "low utility prices" had to be partially abandoned. At least for the duration of the war, because the government promised to reintroduce the subsidy system as soon as energy prices returned to a level where they were no longer affected by the war.

Introduction

The Orban government has often been accused in the past of choosing populist measures as a way to gain public support. The measures taken in recent weeks have shown that the government is ready to take even unpopular decisions if external conditions would worsen and force an adjustment of policies to the new conditions in the world economy and politics. The change in the KATA special tax form sparked protests and even demonstrations, but the protest will subside in a few weeks, especially since the protest did not gain much popular support and did not change party sympathies. The change in the energy subsidy program and the re-actions require more attention from the government because they affect broader social strata than the changes in the so-called KATA tax form.

The background

The Hungarian government announced changes to the way it sets energy prices in early July. The measure is part of broader austerity efforts. It should be recalled that the government has already cut government spending in 2022 and 2023. Special taxes will generate 800 billion forints in 2022 and 1,000 billion forints of additional revenue in the state budget in 2023, according to the government's plans. The plan to change the system for setting energy prices was part of the government's energy package, which included six items in addition to this change:

- The government intends to increase domestic natural gas production from 1.5 to 2.0 billion cubic meters.

- The Minister of Foreign Affairs has been tasked with continuing negotiations on natural gas supplies from other sources.
- The government has imposed an export ban on energy sources and firewood.
- The government intends to increase domestic coal production.
- The power plant in Mátra must be restarted.
- The government wants to extend the lifespan of the nuclear power plant in Paks and will examine the costs and feasibility. ¹

The government argued that the situation arose from a combination of two factors: the unpredictability of the war and the inappropriate economic sanctions from Brussels.

To understand why the government subsidy scheme had to be changed, let us look at the numbers. Attila Steiner, the state secretary in charge of energy and climate policy, gave the following figures in his Facebook post:

- The average gas bill is HUF 15,833; without government action it would be HUF 131.44.
- The average electricity bill is 7,750 HUF, without the government's action it would be 50,833 HUF.²

According to the government's plans, the new regulations will take effect on August 1, 2022. Generally, government subsidies apply only to a certain amount of energy and natural gas consumption. The amount exceeding the average monthly consumption must be paid at market prices. The average consumption is 210 KWh and 144 cubic meters monthly. Those who consume average or below average electricity and natural gas will continue to pay the original prices. Those who consume more than average will pay the market prices for gas and electricity, but only for the consumption above the average consumption, the government announced. When the announcement was made, the market price for electricity was 242 forints per KWh and for natural gas 912 forints per cubic meter. The details were announced on Thursday (21-07-2022), as the government wanted to take into account special cases, such as

1 <https://kormany.hu/hirek/megovjuk-az-energiabiztonsagot-es-megvedjuk-a-rezsicsokkentest>
 2 <https://www.origo.hu/itthon/20220717-rezsicsokkentest-mutatjuk-a-szamokat.html>

families with three or more children or buildings with several apartments but one heating system, etc.

The new regulation further clarifies the rule:

- The subsidized electricity price applies to 2.523 KWh of annual consumption at a price of 36 forints.
- The amount exceeding this limit costs 70 forints per KWh. Even this so-called market price is far below the actual market prices, which are currently 288 forints.
- The subsidized natural gas price applies to an annual consumption of 1729 cubic meters KWh at a price of 102 forints.
- The quantity exceeding this limit costs 747 forints per cubic meter. Even this so-called market price is far below the real market prices, which are currently 1020 forints.³

As we can see, the final regulation is more favorable than originally assumed by the public, and we should also add that the prices are revised every quarter. As mentioned above, the government pays attention to special cases, so that large families and buildings with multiple apartments require a special regulation. For large families, the subsidized gas consumption is increased by 300 cubic meters if there are three children. For each additional child, another 300 cubic meters of subsidized consumption is added, i.e., 600 cubic meters for families with four children, 900 cubic meters for families with five children, etc. In the case of buildings with multiple apartments, the building community must provide an official declaration of how many apartments the building has, and the amount of subsidized consumption is multiplied by the number of apartments in that building.

Reactions of the voters and the market players

The most recent survey on political sympathies was conducted by the Nézőpont Research Institute between July 11 and 13, 2022.⁴ Thus, the results of this survey do not take into account the (potential) impact of the new regulation on party sympathies, since the policy change was announced on July 13, 2022. According to the Nézőpont Research Institute, the change in the

³ <https://index.hu/gazdasag/2022/07/21/rezsi-rezsi-tablázat-rezsi-kalkulator-rezsicsokkentes-valtozas-rezsicsokkentes-tablázat-rezsi-emelkedes/>

⁴ <https://nezopont.hu/valsagallo-fidesz-elony/>

special tax form (KATA) did not significantly alter the balance of political forces. Among the most likely voters, Fidesz-KDNP would receive 54 percent of the vote, and even the best-performing opposition parties are at 5 percent, which is the threshold to qualify for and form a political group in the Hungarian Parliament. The public response is not quantifiable now, but we are seeing news of increased demand for solar panels⁵ and traditional stoves that can be heated with firewood. The main impact on public sentiment will be seen in early September, when the first bills arrive in the new system and the details of the new regulations are finalized. Time for evaluation is necessary, because several headlines falsely claimed that Hungarian families would pay more than the actual world market prices.⁶

Another level is the reactions of market participants. When the regulations were published in the Hungarian Official Bulletin on July 21, 2022, the immediate reaction of the stock market was a rise in stock prices and, more importantly, the Hungarian forint strengthened in the last week. On July 13, 2022, when the policy change was announced by the government, the euro/HUF exchange rate was 409.35; to date, it is 401.83. Obviously, the exchange rate is influenced by several factors; the change in energy pricing was only one factor; the other factors are policy measures by the government and the central bank must have influenced the exchange rate as well.

Summary

The change in energy pricing will have a negative impact on the standard of living of many Hungarians, as it will lead to a significant increase in energy prices despite the efforts of the Hungarian government. The Hungarian government has four basic messages for the public in this context: (1) There is a trade-off between the country's secure financing and social measures. This means that social measures cannot be sustained in the long term if funding is not secure. (2) The problem was caused by the war, which is an unpredictable factor. (3) And for this reason, the government believes that we can return to the "full version of politics" after the war. (4) Even the market prices introduced are not real market prices, they are lower than the current world market prices, so this slimmed down version of the low price policy contains favorable elements that require government subsidies. On the other hand, the opposition is

⁵ <https://index.hu/gazdasag/2022/07/21/rezsicsokkent-es-napelem-rezsi-valtozas-atlagfogyasztabb-arak-rendelet-aram/>

⁶ <https://www.portfolio.hu/uzlet/20220720/rezsicsokkent-es-a-piacinal-is-magasabb-arat-kellene-fizetni-a-gazert-es-az-aramert-557193>

trying to exploit the situation and accuse the government of lying in the political campaign before the April 2022 parliamentary elections.