



# Center for Strategic and Defense Studies

## CSDS Analyses 2019/5.

13 02 2019

### Tamás Csiki Varga:<sup>1</sup> Explaining Hungarian defense policy I. – Defense spending trends

#### Executive Summary

- The increased attention and resources dedicated to defense and the significant modernization drive are part of an overarching normalization process taking place, that in many respects aims to change outdated strategies and doctrines, replace worn-out equipment, re-develop branches that had been given up and reverse those trends, including political neglect, societal resignation, residual financing and technological abandonment, that had been weakening the Hungarian Defense Forces (HDF).
- In 2014, ten years after Hungary joined the European Union, nominal defense funds were 17.6% lower than in 2004 – not mentioning the real value loss attributed to (defense) inflation.
- Nominal increase began in 2015 with a 14.74% leap and the increasing trend has been preserved since. To meet sustained political expectations and the outlined resource-demand of national capability development within the ‘Zrínyi 2026’ – National Defense and Armed Forces Development Program, the Hungarian defense budget is set to reach 2% of the GDP by 2024, and from 2025 onwards the achieved level should be sustained. In nominal terms, by 2019 the Hungarian defense budget increased by 70% since its lowest level in 2014.
- Four indicative scenarios, based on the GDP-growth trends and planned continuous increase of the defense budget, show that independent of the (forecasted) GDP growth rate, the 2% target in terms of GDP would be met in case of a more intensive, 0.2% annual increase scenario: by 2025 in the low-growth scenario and by 2026 in a high GDP-growth scenario.
- The approved nominal budget of the HDF for 2019 was 433.1 billion HUF (1.35 Bn EUR), supplemented by an additional 79.7 billion HUF (0.25 Bn EUR) since then – altogether making up 512.8 billion HUF (1.6025 Bn EUR), or 1.17% of the forecasted GDP.

Defense has become a central issue of strategic discourse among NATO’s Central European member states after 2014, following the Russian aggression against Ukraine. Reinforcing capabilities and readiness within the framework of collective defense requires much from these countries in terms of strategic thinking, capability planning, defense procurement and modernization – and as a central element to realizing their aims, in terms of funds for defense. U.S. President Donald Trump’s sustained criticism calling for ‘more fair’ burden sharing among member states, resulting in the adoption of The Wales Declaration on the Transatlantic Bond<sup>2</sup> (Defense Pledge), further incentivized member states’ willingness to dynamize their efforts. Since then, many European countries – some significantly – have increased their defense budgets and other forms of contribution. Ahead of the February 13-14 NATO Defense Ministers’ meeting, this paper offers an overview and analysis of Hungarian defense spending trends since the country’s accession to the European Union in 2004,<sup>3</sup> as this can highlight what has been achieved in this specific ‘enabling’ field in the past couple of years to counterbalance the trend of underfinancing prevalent for a decade.

The current paper is the first part of a series that will synthesize and assess the strategic processes of Hungarian defense policy. Subsequent papers will map up the

<sup>1</sup> Tamás CSIKI VARGA, PhD ([csiki.tamas@uni-nke.hu](mailto:csiki.tamas@uni-nke.hu)) is a research fellow at the Institute for Strategic and Defense Studies of Eötvös József Research Center at the National University of Public Service (Budapest, Hungary).

<sup>2</sup> The Wales Declaration on the Transatlantic Bond [online], 05 09 2014 Source: Nato.int [10 02 2019]

<sup>3</sup> This milestone offers a practical starting point for the analysis, as Hungarian security policy experts themselves argue that after accomplishing the accession to Euro-Atlantic defense (NATO – 1999) and European political-economic integrations (EU – 2004), the political and military elite of the country felt ‘satisfied’ with the safe and stable conditions and diverted their attention – and resources – to other policy fields. This resulted in a restrained willingness to spend on defense. See for example: Péter TÁLAS: Negyedszázad magyar haderőreform-kísérleteinek vizsgálódási kereteiről. In: Péter TÁLAS – Tamás CSIKI (eds.): *Magyar biztonságpolitika, 1989-2014 – Tanulmányok*. NKE NI SVKK, Budapest, 2014, pp. 18-19.



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evolving strategic landscape in terms of threat perception, strategic alternatives and the current initiatives of Hungarian defense policy, as well as the overarching defense modernization program, ‘Zrínyi 2026’. The aim of these papers is to gain a better understanding of the drivers of Hungarian defense policy, including those opportunities and challenges that the Hungarian Defense Forces (HDF) may face during the next years.

One of the central arguments of these papers is that the increased attention and resources dedicated to defense and the significant modernization drive are part of an overarching normalization process taking place. This normalization process in many respects aims to change outdated strategies and doctrines, replace worn-out equipment, re-develop branches that had been given up and reverse those trends, including political neglect, societal resignation, residual financing and technological abandonment that had been weakening the HDF. At the same time, the Hungarian Defense Forces must meet the challenges of a rapidly changing security environment, sometimes in unanticipated ways, therefore, as a secondary drive, such qualitative development must take place in terms of manpower, equipment, institutions and doctrines that would serve well both for providing national and collective defense, as well as executing crisis management tasks.

### Getting our primary resources

As both the Ministry of Defense and the Hungarian Defense Forces exercise a very restrictive stance on releasing hard data related to the funding, manning or strength of the HDF going beyond the necessary minimum requirements to ensure budgetary transparency, it is a rather challenging task to acquire reliable open-source data on issues such as defense spending. According to the Homeland Defense Act (Par. 38, Sec. 7.), last modified in 2018, *‘data related to the institutional structure, functioning, military equipment, munitions and materiel of the Hungarian Defense Forces are non-public for 30 years due to their sensible nature in terms of homeland defense and national security. The release of such data is to be authorized by the Minister of Defense upon the recommendation of the Commander of the Hungarian Defense Forces upon deliberation of homeland defense and national security interests.’<sup>4</sup>* This provision has become even stricter over the years, since in its original version in 2011 the Chief of Defense was still authorized to release such data (for meeting inquiries on behalf of the media or the public in a timely manner).

Still, all data and information included in this paper are publicly available, based on the budgetary laws that the Hungarian Parliament must adopt and make publicly available. Annual budgets for the next fiscal year (FY)<sup>5</sup> are usually approved by early summer (June, July) each year, before MPs leave for their summer administrative break, while Final Accounting Acts that provide controlling for respective FYs’ budgets are approved towards the end of the subsequent year (November, December). Thus, for example the Annual Budget for FY 2017 was adopted on 24 June, 2016,<sup>6</sup> while the Final Accounting Act for the FY 2017 budget was approved on 27 November, 2018.<sup>7</sup> This analysis builds its conclusions on the data derived from these legal sources and the open-source data provided by NATO regarding Hungary (and all other member states).

Given the unquestioned role and importance of visibility, transparency and accountability towards democratic institutions and the people – at the same time acknowledging and respecting the sensitive nature of many information and hard data that relate to the defense forces and accepting a somewhat restrictive stance and careful deliberation based upon national security interests –, a more transparent information policy on the above mentioned issues might be considered, since it was the case prior to 2011, and because such practice is followed by many allied nations. The benefits of such practice – beyond sustaining scholarly and analytical

<sup>4</sup> 2011. évi CXIII. törvény a honvédelemről és a Magyar Honvédségről, valamint a különleges jogrendben bevezethető intézkedésekről. [online], 27 07 2011 Source: Net.jogtar.hu [10 02 2019]

<sup>5</sup> Fiscal years coincide with calendar years in Hungary.

<sup>6</sup> 2016. évi XC. Törvény Magyarország 2017. évi központi költségvetéséről. [online], 24 06 2016 Source: Net.jogtar.hu [10 02 2019]

<sup>7</sup> 2018. évi LXXXIV. Törvény a Magyarország 2017. évi központi költségvetéséről szóló 2016. évi XC. törvény végrehajtásáról [online], 27 11 2018 Source: Magyarkozlony.hu [10 02 2019]



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endeavors – would be manifold. For example, these would manifest in intensifying public discourse about defense (not only the costs but also the benefits of defense), thus legitimizing public spending in this field, also justifying the development programs that are being undertaken. Besides, fact-based information sharing could increase public awareness and knowledge about defense and strengthen societal support for the HDF. Moreover, allies would also gain a clearer picture of what the Hungarian government and the HDF are planning, thus creating a room for a better understanding of the potential fields of cooperation bilaterally and regionally as well.

### Defense spending trends, 2004-2019

Once enjoying the benefits of NATO (1999) and EU membership (2004) and a less volatile period of international security from a (Central) European perspective, subsequent Hungarian governments began to pay less attention to defense and adopted a restrained approach towards funds. As a first step, in 2004, compared to the provisionally approved budget of 347 billion Hungarian Forints (HUF),<sup>8</sup> more than 10% less, close to 312 billion HUF was provided for the MoD.<sup>9</sup> With the increased burden of international engagement on the Balkans and in Afghanistan, defense expenditures were moving in the following years in a +/-10% threshold on average, and six years later, in 2010, were still standing around the same level (317.8 billion HUF) as in 2005 (Figure 1).

The effects of the financial and economic crisis that emerged in 2008 had been realized with a shocking 16% drop of funds in 2010, and the slightly decreasing trend in nominal terms lasted until 2014. Ten years after the Hungarian EU accession, nominal defense funds were 17.6% lower than in 2004 – not mentioning the real value loss attributed to (defense) inflation. Not surprisingly, this decade gave way to hardly any modernization within the HDF, with significant capability losses, particularly after 2009.

Starting in 2012, normalization and then the gradual shift to an increasing path took place in three steps:

- Government Decree No. 1046/2012<sup>10</sup> was adopted to stop the decline at least by keeping the nominal value of the defense budget of 2012 for the years 2013-2015, and then increasing the budget by 0.1% of the GDP annually until 2012, thus reaching 1.39% of the GDP in sum by 2022. Still, FY 2013-2014 saw further nominal decrease – though with a slowing tendency, hitting the bottom in 2014 with 256.75 billion HUF. By that time the nominal defense budget was almost 54.5 billion HUF (17.5%) lower than in 2004.
- Nominal increase began in 2015 with a 14.74% leap. To further reinforce this process, Government Decree No. 1273/2016<sup>11</sup> provided for a sustained annual 0.1% increase in terms of GDP for years 2017-2026, aiming to reach 1.79% of GDP by the end of the decade-long development period.
- To meet sustained political expectations and the outlined resource-demand of national capability development within the ‘Zrínyi 2026’ – National Defense and Armed Forces Development Program, Government Decree No. 1283/2017<sup>12</sup> went further: accordingly, with higher-ratio annual increases, the Hungarian defense budget was set to reach 2% of the GDP by 2024, and from 2025 onwards the achieved level should be sustained.

<sup>8</sup> All data represent (then) current values throughout the analysis.

<sup>9</sup> 2005. CXVIII. Törvény a Magyar Köztársaság 2004. évi Költségvetéséről és az államháztartás hároméves kereteiről szóló 2003. évi CXVI. Törvény Végrehajtásáról. [online], 11 11 2005 Source: Net.jogtar.hu [10 02 2019]

<sup>10</sup> 1046/2012. Kormányhatározat a honvédelmi kiadások és a hosszú távú tervezés feltételeinek megteremtését szolgáló költségvetési források biztosításáról. [online], 29 02 2012 Source: Kozlonyok.hu [10 02 2019], p. 5340.

<sup>11</sup> 1273/2016. Kormányhatározat a honvédelmi kiadások és a hosszú távú tervezés feltételeinek megteremtését szolgáló költségvetési források biztosításáról. [online], 07 06 2016 Source: Net.jogtar.hu [10 02 2019]

<sup>12</sup> 1283/2017. Kormányhatározat a honvédelmi kiadások és a hosszú távú tervezés feltételeinek megteremtését szolgáló költségvetési források biztosításáról szóló 1273/2016. Kormányhatározat módosításáról. [online], 02 06 2017 Source: Net.jogtar.hu [10 02 2019]

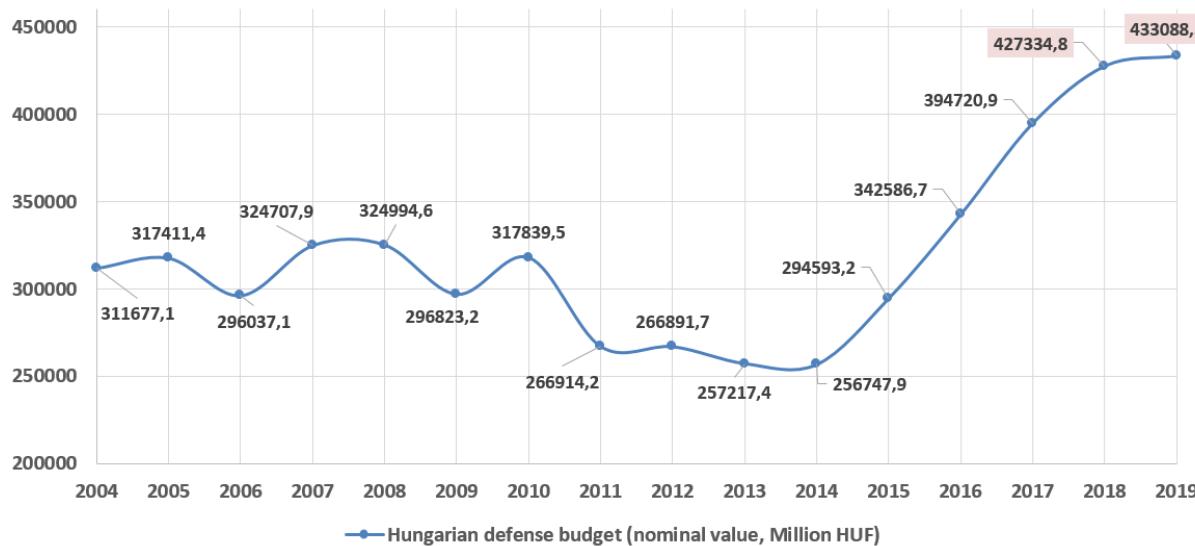


Figure 1: The nominal value of the Hungarian defense budget, 2004-2019. Source of data: respective annual state budgets' Final Accounting Acts for FY 2004-2017. For FY 2018-2019 (highlighted) data from the approved State Budget are indicated as no Final Accounting Act has been adopted yet.

2016 (16.29%) and 2017 (15.22%) saw further significant annual increase respectively, and the adopted budgets for 2018 and 2019 also continue this trend of year-on-year growth, though at a decreasing rate. In nominal terms, the Hungarian defense budget increased by 70% since its lowest level in 2014.

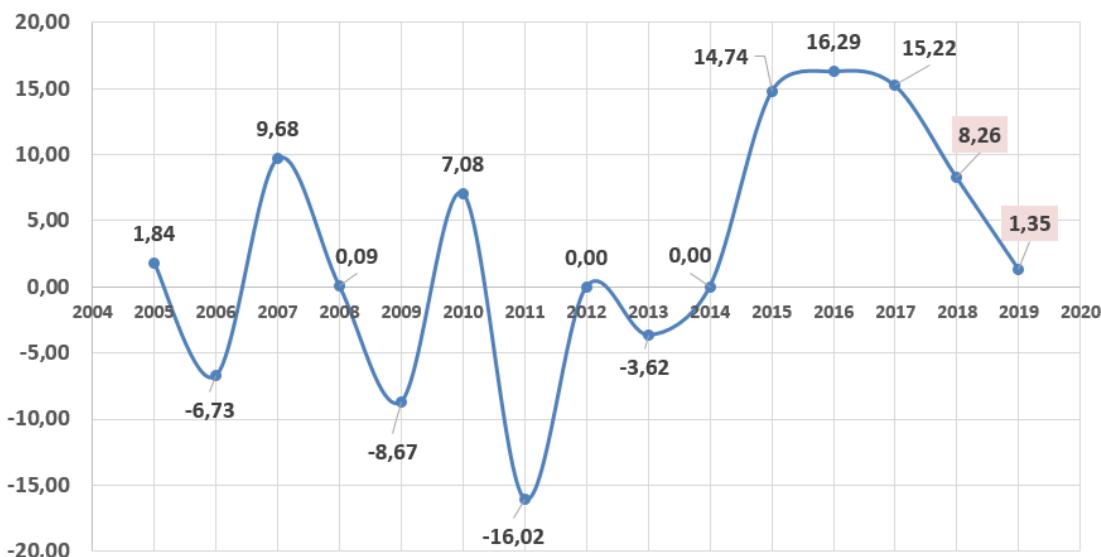


Figure 2: The annual change of the Hungarian defense expenditure compared to the previous year respectively. Source of data: respective annual state budgets' Final Accounting Acts. For years 2018-2019 (highlighted) data for the provisional approved budget is indicated as no Final Accounting Act has been adopted yet.

Defense spending in terms of the GDP (Figure 3) had also been decreasing in the period 2004-2014 with brief pauses in 2007 and 2010, and hitting rock-bottom in 2014 with only 0.79%. Since then, a gradual increase has begun – which runs parallel with the general GDP-growth (Figure 4), thus yielding in the sizeable nominal expansion of the Hungarian defense budget shown in Figure 1.

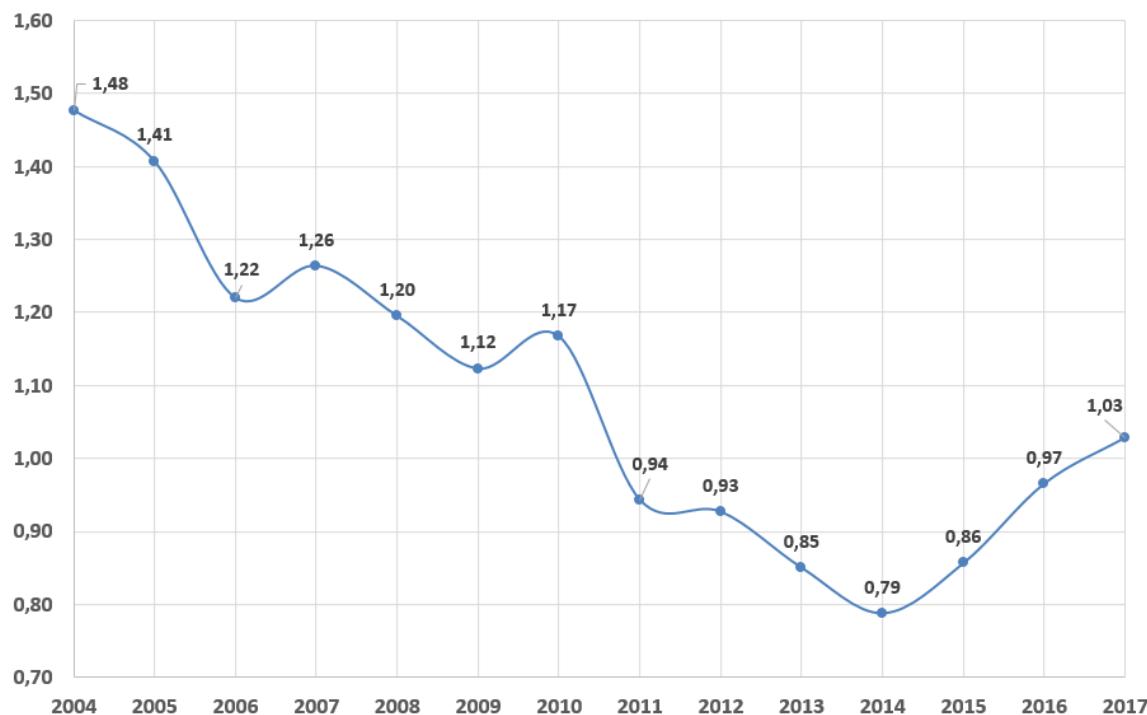


Figure 3: The Hungarian defense budget in terms of GDP, 2004-2017. Calculated by the author based on defense expenditures data (the respective annual state budgets' Final Accounting Acts) and the GDP data published by the Hungarian Central Statistical Office.<sup>13</sup>

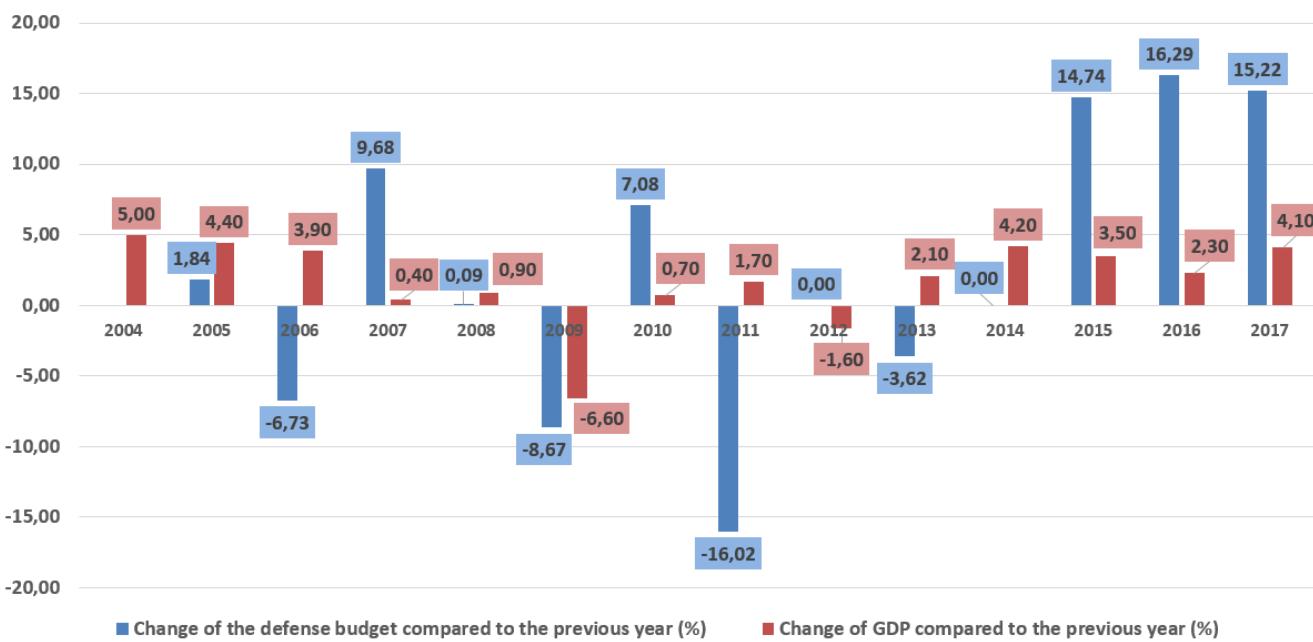


Figure 4: The parallel annual variance of GDP and defense expenditure in Hungary, 2004-2017. Data are derived from previous calculations in this study.

<sup>13</sup> [A bruttó hazai termék \(GDP\) értéke és volumenindexei \(2000– \).](#) [online] Source: Ksh.hu [10 02 2019] GDP data for 2017 are the estimates of the Hungarian Central Statistical Office.



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### Defense spending forecast: indicative scenarios

Regarding the prospects of meeting the 2% target by 2024, we can formulate approximate estimates based on various scenarios. Four indicative scenarios are outlined below, based on two variables: 1) the prognosis of GDP-growth following the average annual growth of a) the examined 14 years (for FY 2004-2017, 1.8% annually) and b) for the past 5 years (for FY 2013-2017, 3.24% annually);<sup>14</sup> 2) the annual growth scenarios of the defense budget in terms of GDP, by i) 0.1% or ii) 0.2%.<sup>15</sup>

Scenario I.	2024	2025	2026
<b>Total GDP (million HUF) by +1.8% average annual growth until 2026</b>	43 456 799.19	44 239 021.58	45 035 323.97
<b>2% of GDP spent on defense would be (million HUF)</b>	869 135.98	884 780.43	900 706.48
<b>Nominal value of the defense budget (million HUF) by +0.1% annual growth in terms of GDP</b>	642 823,05	687 062,07	732 097.39
<b>Meets the 2% target?</b>	1.48%	1.55%	1.63%

Table 1: The low GDP-growth & low defense budget increase scenario

Scenario II.	2024	2025	2026
<b>Total GDP (million HUF) by +3.24% average annual growth until 2026</b>	47 946 809.48	49 500 286.11	51 104 095.38
<b>2% of GDP spent on defense would be (million HUF)</b>	958 936.19	990 005.72	1 022 081.91
<b>Nominal value of the defense budget (million HUF) by +0.1% annual growth in terms of GDP</b>	658 239.99	707 740.28	758 844.38
<b>Meets the 2% target?</b>	1.37%	1.43%	1.49%

Table 2: The high GDP-growth & low defense budget increase scenario

Scenario III.	2024	2025	2026
<b>Total GDP (million HUF) by +3.24% average annual growth until 2026</b>	47 946 809.48	49 500 286.11	51 104 095.38
<b>2% of GDP spent on defense would be (million HUF)</b>	958936.1896	990005.72	1 022 081.91
<b>Nominal value of the defense budget (million HUF) by +0.2% annual growth in terms of GDP</b>	883 391.68	982 392.26	1 084 600.46
<b>Meets the 2% target?</b>	1,84%	1,98%	2,12%

Table 3: The high GDP-growth & high defense budget increase scenario

<sup>14</sup> Calculations in these indicative scenarios (carried out by the author) are based on the GDP dataset of the Hungarian Central Statistical Office. The statistical average of GDP-growth had been calculated for FY 2004-2017 and FY 2013-2017 respectively, for which timespan we have available data. Source: [A bruttó hazai termék \(GDP\) értéke és volumenindexei \(2000– \)](#). [online] Source: Ksh.hu [10 02 2019] GDP data for 2017 are the estimates of the Hungarian Central Statistical Office. Data forecasts within the scenarios take FY 2017 as the base year for GDP as this is the last year for which we have official data, while FY 2019 is taken as the base year of the defense budget forecast as currently the last official data is available for this year.

The two timespans had been chosen to indicate the full examined period (2004-2017) that included a deep recession period as well, and a positive scenario, the post-crisis growth period (2013-2017).

<sup>15</sup> The two scenarios regarding the volume of defense budget growth had been chosen as 0.1% as the base scenario (the commitment undertaken by the government already in 2012) and 0.2% as a scenario showing higher commitment (and the necessity to provide extra funds).



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Scenario IV.	2024	2025	2026
<b>Total GDP (million HUF) by +1.8% average annual growth until 2026</b>	43 456 799.19	44 239 021.58	45 035 323.97
<b>2% of GDP spent on defense would be (million HUF)</b>	869 135.98	884 780.43	900 706.48
<b>Nominal value of the defense budget (million HUF) by +0.2% annual growth in terms of GDP</b>	852 557.80	941 035.84	1 031 106.48
<b>Meets the 2% target?</b>	1.96%	2.13%	2.30%

Table 4: The low GDP-growth & high defense budget increase scenario

As we can see the summarized assessment in Table 5, independent of the GDP growth rate, the 2% target in terms of GDP would not be met by 2024, neither by 2026, if the annual growth of the defense budget would be set for 0.1% only. While in case of a more intensive, 0.2% annual increase scenario the target could be met by 2025 in the low-growth scenario and by 2026 in case of the high-growth scenario regarding GDP.

	a) 1.8% GDP-growth prognosis (average of FY 2004-2017)	b) 3.24% GDP-growth prognosis (average of FY 2013-2017)
i) 0.1 % annual growth of the defense budget in terms of GDP	Scenario I. falls short of the 2% defense spending target by 2024 and 2026 as well	Scenario II. falls short of the 2% defense spending target by 2024 and 2026 as well
ii) 0.2 % annual growth of the defense budget in terms of GDP	Scenario III. falls short of the 2% defense spending target by 2024 but reaches it in 2025	Scenario IV. falls short of the 2% defense spending target by 2024 but reaches it in 2026

Table 5: Four indicative scenarios combining low & high GDP-growth cases with normal & increased defense budget growth rates, and their derived results with regards to reaching the 2% NATO spending target by 2024. (Calculations done by the author based on official GDP data.)

Even though these scenarios are built on a trend-based data forecast that is likely not to continue in a linear way (accelerated by better economic performance or decelerated by another period of recession, as well as changed by targeted political decisions regarding higher defense investments), it is useful to keep in mind that the original commitment to sustain an annual 0.1% increase might not be enough to meet the 2% target in terms of GDP. Considering the trend, however, the nominal increase would be substantial in any case: in Scenario I. the change would be +69% (732 097.39 million HUF) compared to 2019 (433 088.30 million HUF), in Scenario II. +75,2% (758 844.38 million HUF), in Scenario III. +138.1% (1 031 106.48 million HUF) and in Scenario IV. +150.43% (1 084 600.46 million HUF).

Furthermore, it is worth to note – as we can see in Figure 5 – that in the period 2004-2017 the realized defense budget has on average been 9.2% higher throughout the years than the final budget proposal acted in law. (This final proposal has also tended to be higher than the original proposal formulated at the beginning of the annual budget debate initiated by the government and the Parliament.)

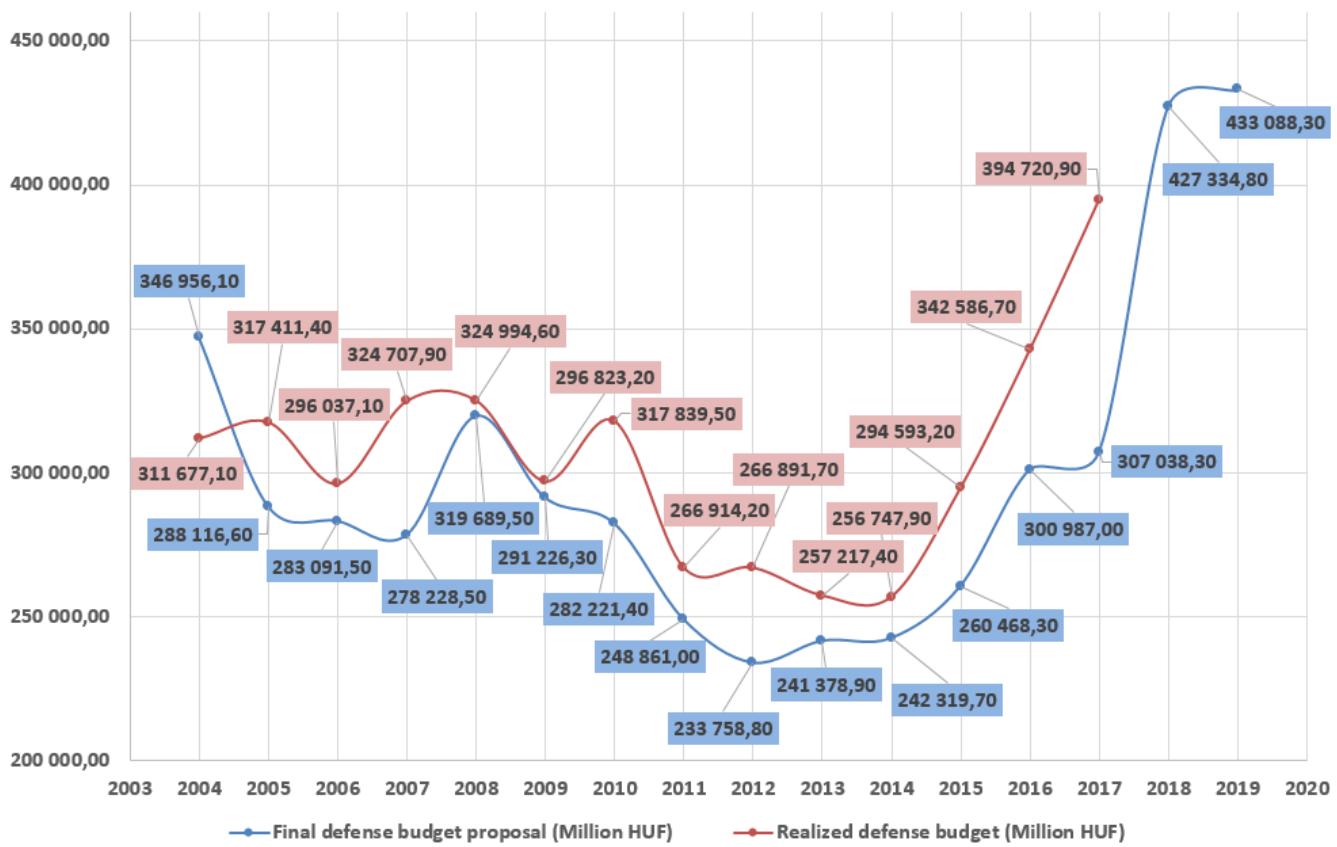


Figure 5: The nominal proposed (blue) and realized (red) Hungarian defense budget values, 2004-2019. Source of data: respective annual state budgets' Final Accounting Acts. For years 2018-2019 the provisional approved budget is indicated only, as no Final Accounting Act has been adopted yet, therefore there are no available values for the realized budget.

Thus, we could expect that for FY 2018-2019 the actual funds available for defense would be higher than indicated in the figure. Indeed, for 2018, an extra 72048.7 million HUF was granted for the Ministry of Defense.<sup>16</sup> Also, for 2019, 79759,9 million HUF as extra funds had been provided since the central budget was approved, thus – as currently seen – altogether 512846.2 million HUF (1.17% of the estimated GDP)<sup>17</sup> are available for the MoD.<sup>18</sup> Having this in mind, it is also possible that – within the limits of the indicative scenarios described above – three out of the four scenarios will result in reaching the 2% spending target in terms of GDP by 2024.

<sup>16</sup> Detailed explanation of the defense budget request 2018. [XIII. Honvédelmi Minisztérium](#). [online] Source: Parlament.hu [10 02 2019]

<sup>17</sup> Detailed explanation of the defense budget request 2019. [XIII. Honvédelmi Minisztérium](#). [online] Source: Parlament.hu [10 02 2019]

<sup>18</sup> These developments have not been noted in Figure 2 as might be subject to change. The final official balance of these years in terms of the provided and used funds will be available in the Final Accounting Acts by the end of 2019 and 2020 respectively.



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Edited by:  
Péter Tálas

Contact:

1581 Budapest, P.O. Box. 15.

Phone: 00 36 1 432-90-92

E-mail: svkk@uni-nke.hu

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