

## EXECUTIVE SUMMARY

The benefits and damages expected from the Paks II nuclear power plant investment could be studied from various points of view. This summary focuses on the budgetary policy aspects.

Experience shows that with cases of such magnitude, normally political interests are also taken into account. At the same time, the EU's current regulations on statistical accountability that determine the effects of the project on the Maastricht budgetary balance and on public deficit are clear enough to force the state to record the project in the government sector.

The EU's regulations on statistical recording and debt reduction underline the fact that the financial burdens of the Paks investment cannot be put on the future generations; they have to be mainly borne by taxpayers and beneficiaries of public funds at the time of the investment. The current debt rate of approximately 80% should be reduced to around 70% by 2024.

The Paks investment, which amounts to 10% of the GDP, will challenge this goal to the extent of trying to reduce the rate to 60% by the same date without the investment. The opportunity to take out a Russian loan – however favourable the financial construction is – instead of issuing state bonds will not ease this burden. This target can only be achieved by privatisation or by a much better budgetary balance.

How the current average European market price of 35-36 EUR/MWh will change is highly unpredictable. There are at least as many arguments for falling prices as there is to increasing ones.

The current price on the Hungarian market is significantly higher than that as there are still technical barriers to exporting electricity. If these barriers last long due to mainly political decisions, the price on the national free market may go up, but then the new plant will force out other power plants of the market, which will significantly decrease the project's added value at a macro level, compared to the baseline scenario. Our calculations are based on a Hungarian electricity market integrated with the European one.

If in the investment perspective only the owners' revenues are taken into account, the threshold price guaranteeing 4% of profit would be around 80 EUR/MWh, which is very close to what the Regional Centre for Energy Policy Research estimated earlier.

If however, on top of the owners' revenues all extra tax revenues are taken into account, then from a strictly budgetary point of view, even at a price of 40-45 EUR/MWh the whole project could break even. This however does not mean at all that the project would be profitable from the whole economy's point of view.

When looking at the economy as a whole, not just the state itself, two more effects need to be taken into consideration. One is the part of the extra GDP generated by the project that is not withheld by the state. The other is the sacrifice in growth caused by the fact that in order to comply with the EU regulations on public deficit reduction, during the time of the investment, corrective measures will be necessary to create room for manoeuvre in the budget, worth of 3000 billion HUF.

To put it in numbers, this means that at the launch of the investment, measures will have to be introduced to improve the balance by 450 billion forints and these will have to be maintained basically until the end of the investment. This clearly shows that a one-off measure in 2018 will not solve the problem. The amount of the sacrifice in growth will highly depend on the nature of the long-term corrective measures.

If the government decides to raise consumption taxes or reduce cash transfers, then at the level of the whole economy, even with an electricity price of 50-60 EUR/MWh a modest 4% return rate could be guaranteed for the project. If, on the other hand, government spending or subsidies for private investment are reduced because of the project, the price of electricity necessary for social profitability may rise to a significantly higher 80 or even to a completely unrealistic 200 EUR/MWh.

These predictions are clearly generous with the project for two reasons. First, when calculating the cost of the investment, no excess time or costs were included. Second, the 4% real interest rate used is only the average long term return of risk free government securities and does not contain any risk premium, while private investment options, which are competitors of the government in attracting household savings, are expected to provide a much higher return.

A valid point, which is not discussed here, is the following: if the state is able to create a 450 billion forint room for manoeuvre in the budget a year, is building a new nuclear power plant really the most socially beneficial way to make use of that?

The government would meet the constitutional requirements for a sustainable and transparent budgetary policy if it made its predictions and calculations public, alongside with its specific plans on the corrective measures to be introduced. If the government is not planning to delay the project, it will have to come out with the truth in the convergence program of 2015 – planning ahead until 2018 – the latest.

The longer this uncertainty is maintained, the bigger the sacrifice in growth will be due to the necessary budgetary measures, as it is clearly seen from the events of 2011-2014.