PhD Thesis

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Miskolc

2026

UNIVERSITY OF MISKOLC

Deák Ferenc Doctoral School in Law and Political Sciences

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A Comparative Study of Financial Law in Syria and Hungary: General Budget Deficit and Income Tax Systems

PhD Dissertation

Manuscript closed on: 28 October 2026

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Acknowledgments

The completion of this doctoral thesis marks a significant milestone in my academic and personal journey. It is the culmination of years of dedication, perseverance, and intellectual growth achievements that would not have been possible without the encouragement, guidance, and support I received from numerous individuals and institutions, to all of whom I owe a deep debt of gratitude.

First and foremost, I would like to express my sincere thanks and appreciation to my academic supervisors, Dr. Zoltán Varga, and professors at the University of Miskolc for their invaluable guidance, constructive feedback, and constant encouragement throughout my doctoral studies. Their academic expertise, sound advice, and commitment to scholarly excellence have profoundly shaped both this research and my own development as a researcher.

I also extend my special thanks to the University of Miskolc, its Faculty of Law, and the Deák Ferenc Doctoral School of Law for providing a supportive academic environment that enabled me to expand my knowledge, refine my research skills, and pursue my academic aspirations. Furthermore, I am grateful to the Stipendium Hungaricum scholarship program for granting me the opportunity to complete my doctoral studies in Hungary.

Finally, a great deal of my appreciation and gratitude goes to my family; their unconditional love, patience, and unwavering belief in me have been my greatest sources of strength. Despite the distances and the challenges, I encountered along this journey, their encouragement served as a constant reminder of the importance of perseverance and the value of striving to achieve one's dreams.

I also extend my sincere thanks and appreciation to my friends, colleagues, and everyone who supported me throughout this path; through their kindness, understanding, and encouragement, they transformed what could have been an arduous journey into a profound experience filled with unforgettable memories.

In closing, as someone who began his academic journey in Syria and completed it far from his homeland, I am deeply grateful for all the experiences, opportunities, and individuals who have helped shape my path. This thesis represents not only the culmination of years of academic work but also a personal journey defined by determination, resilience, and hope.

To everyone who has been a part of this journey, I offer my deepest gratitude and appreciation.

THESIS SUPERVISOR RECOMMENDATION

It has been my pleasure to supervise Jafaar Sakkour during his doctoral studies at the University of Miskolc and throughout the preparation of his dissertation entitled “A Comparative Study of Financial Law in Syria and Hungary: General Budget Deficit and Income Tax Systems.” His research addresses a significant and complex subject within financial law, combining constitutional, budgetary, and taxation issues through a comparative examination of two countries with substantially different legal, economic, and institutional backgrounds.

The selection of the dissertation topic is particularly relevant in the context of contemporary challenges facing public finance systems. The general budget deficit remains one of the most persistent problems confronting governments, while the legal regulation of public revenues and expenditures plays a fundamental role in maintaining fiscal stability and ensuring the sustainability of public finances. Although budget deficits and income taxation have been extensively examined from economic perspectives, their analysis within a comprehensive comparative legal framework remains particularly valuable. The comparison between Syria and Hungary offers an opportunity to explore how different constitutional arrangements, legislative traditions, and institutional mechanisms influence the regulation of public finance.

I particularly appreciate the originality of the comparative approach adopted by the candidate. Syria and Hungary represent two distinct legal and financial systems shaped by different historical developments, economic structures, and political circumstances. Hungary's financial legislation has undergone substantial transformation through its transition to a market economy and subsequent integration into the European Union. Syria, on the other hand, has experienced a different legislative development, influenced by its historical legal traditions, state-directed economic policies, and the consequences of prolonged armed conflict. Examining these two systems together provides an interesting perspective on the relationship between financial legislation, institutional effectiveness, and fiscal sustainability.

The dissertation addresses a clearly formulated central research question concerning the extent to which financial law, through its historical development and

regulation of public revenues and budgetary mechanisms, influences the emergence and management of the general budget deficit in Syria and Hungary, and the role of income taxation within this broader legal framework. This research question is appropriate for doctoral-level investigation and establishes a coherent foundation for the theoretical and comparative analysis undertaken throughout the dissertation.

The candidate employs a combination of doctrinal, historical, and comparative legal research methods. The doctrinal approach enables the examination of constitutional provisions, financial legislation, taxation rules, and budgetary regulations in both countries. The historical method provides the necessary background for understanding the evolution of the two financial systems, while the comparative method identifies similarities, differences, and possible lessons arising from their respective legislative experiences. The dissertation also draws upon selected economic and fiscal indicators to support the legal analysis and to demonstrate the practical implications of financial regulation.

The structure of the dissertation follows a logical progression from general theoretical foundations to specific legal and fiscal questions. The first chapter examines the concept, legal nature, sources, and historical development of financial law in Syria and Hungary. This provides the conceptual and institutional framework necessary for understanding the subsequent analysis.

The second chapter addresses the general budget deficit from a comparative legal perspective. Particular attention is devoted to the constitutional and legislative regulation of public budgets, the preparation and approval of budgetary legislation, the classification of public revenues and expenditures, financial transparency, and mechanisms of fiscal control. The chapter also considers the causes of budget deficits and the legal instruments adopted to address them. I appreciate the candidate's effort to connect the theoretical principles of financial law with their practical implementation and the institutional conditions affecting fiscal discipline.

The third chapter focuses on the comparative legal regulation of income taxation, including income from employment, self-employment, and capital. The candidate examines the relevant legislative frameworks, taxable income categories, tax assessment mechanisms, and differences between progressive and flat-rate taxation. This analysis is particularly important because income taxation represents a significant component of

public revenue and raises fundamental questions concerning tax justice, economic efficiency, administrative effectiveness, and the equitable distribution of fiscal burdens.

One of the valuable aspects of the dissertation is its effort to go beyond the description of legislation and to evaluate the practical consequences of different legal arrangements. The candidate considers how constitutional safeguards, budgetary oversight, legislative design, and tax administration may contribute to fiscal stability. The comparative discussion also identifies areas in which institutional and legislative improvements could strengthen the management of public finances, particularly in the Syrian context.

The dissertation demonstrates the candidate's ability to engage with complex legal questions requiring knowledge of different national legal systems and an understanding of their economic and institutional environments. The research draws upon national legislation, constitutional provisions, academic literature, official financial reports, and relevant European legal instruments. The combination of these sources reflects the multidisciplinary character of modern financial law and the challenges associated with comparative legal research.

I also appreciate the candidate's effort to formulate independent observations and critical conclusions. The dissertation does not merely reproduce existing legal provisions but seeks to interpret their implications for budgetary discipline, taxation, and financial governance. The comparative approach contributes to a broader understanding of the importance of coherent legal frameworks, effective financial institutions, and transparent fiscal procedures in addressing persistent budgetary imbalances.

In my assessment, the dissertation makes a meaningful contribution to the comparative study of financial law by bringing together two legal systems that are rarely examined within the same analytical framework. Its principal value lies in the examination of the relationship between legal regulation, public budget deficits, and income taxation, as well as in the identification of legislative and institutional considerations relevant to financial law reform.

The research also demonstrates the candidate's capacity to undertake independent academic work, organize substantial legal material, and develop comparative arguments concerning complex issues of public finance. The dissertation addresses questions of

relevance not only to academic researchers specializing in financial and tax law but also to policymakers, legislators, and public institutions concerned with fiscal governance.

In conclusion, I consider the dissertation to be a substantial and relevant contribution to comparative financial law. Its subject, methodological approach, and legal analysis provide an appropriate basis for scholarly discussion at the doctoral level.

Based on the above, I consider Jafaar Sakkour's PhD thesis to be fully suitable for workshop discussion.

Miskolc, 29. October 2026.

Dr. Varga Zoltán PhD
Associate professor
Supervisor

Summary

This doctoral dissertation presents a comparative legal analysis of financial law in Syria and Hungary, focusing on two interconnected areas of public finance: the general budget deficit and the personal income tax system. The research examines how constitutional provisions, financial legislation, budgetary regulations, and taxation frameworks influence the management of public resources, fiscal discipline, and the sustainability of public finances. Its central argument is that the general budget deficit should not be understood exclusively as an economic phenomenon but also as a legal and institutional issue shaped by the rules governing public revenues, expenditures, borrowing, and financial oversight.

The study adopts a combination of doctrinal, historical, and comparative legal research methods, supplemented by findings from existing empirical legal and economic studies. Legislative provisions, constitutional principles, official fiscal reports, and academic literature are examined to identify the legal foundations of public finance in both countries and assess their practical implications. The comparative analysis takes into account the significant differences between Syria and Hungary in their political, economic, and institutional development, while identifying common legal challenges associated with budgetary imbalances and taxation.

The first chapter establishes the theoretical, constitutional, and historical foundations of financial law. It examines the concept, legal nature, functions, and sources of financial law and traces its development in Syria and Hungary. Particular attention is given to Hungary's transition from a centrally planned economy towards a market-orientated financial system, its tax reforms, and its subsequent integration into the European Union. In contrast, the Syrian experience is examined through the development of its financial legislation, the influence of state-directed economic policies, subsequent economic reforms, and the consequences of armed conflict. The chapter demonstrates how different historical and institutional circumstances have shaped the structure and operation of financial law in both countries.

The second chapter examines the general budget deficit from a legal perspective, addressing its definition, relationship with public debt, constitutional foundations, and regulatory mechanisms. It compares the legal procedures governing budget preparation,

legislative approval, revenue classification, public expenditure, transparency, and financial control. The analysis further investigates the principal causes of budget deficits, particularly the growth of public expenditure and the inability of public revenues to keep pace with financial obligations. By examining the evolution of fiscal imbalances and the legislative measures adopted in Syria and Hungary, the chapter evaluates the role of financial legislation in promoting fiscal discipline and limiting the accumulation of public debt.

The comparison reveals important differences in the legal and institutional approaches adopted by the two countries. Hungary has developed a more elaborate framework of fiscal regulation, including constitutional debt provisions, public finance legislation, and fiscal rules influenced by European Union requirements. Nevertheless, the persistence of fiscal pressures demonstrates that legal restrictions alone cannot guarantee budgetary stability without effective implementation and institutional coordination. Syria, meanwhile, has faced structural weaknesses in revenue collection, budgetary oversight, and public debt management, compounded by the severe economic consequences of armed conflict. The analysis therefore emphasizes the importance of coherent legislation, transparent financial administration, effective oversight, and sustainable revenue policies in addressing budgetary imbalances.

The third chapter focuses on the comparative legal regulation of personal income taxation, examining income derived from employment, self-employment, professional and commercial activities, and capital. It analyses the legal definition of taxable income, taxpayers' obligations, tax assessment and collection procedures, applicable tax rates, and the treatment of different income categories. Particular attention is devoted to the contrast between Hungary's predominantly flat-rate personal income tax system and Syria's differentiated and progressive taxation arrangements. The chapter evaluates these approaches in relation to tax equity, proportionality, administrative efficiency, economic incentives, and the capacity of taxation systems to generate public revenues.

The analysis of capital income taxation further highlights differences in the scope and structure of the two legal systems. Hungary's legislation provides a relatively

comprehensive framework for taxing various categories of capital income, whereas the Syrian framework is characterized by more differentiated legal treatment and limited

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A Comparative Study of Financial Law in Syria and Hungary: General Budget Deficit and Income Tax Systems

Introduction

Introduction of the topic

Public finance constitutes one of the most sensitive and decisive areas of state activity, as it directly reflects the relationship between public authority, legal regulation, and socio-economic reality. Through financial law, the state determines how public resources are collected, allocated, and redistributed in pursuit of economic stability, social justice, and sustainable development. Among the core issues addressed by financial law, the general budget deficit and the legal regulation of tax revenues occupy a central position, particularly in times of prolonged fiscal imbalance and structural economic challenges.

In both developing and developed countries, persistent budget deficits have become a defining feature of contemporary public finance. These deficits are not merely economic phenomena but are deeply embedded in legal frameworks that govern public expenditure, revenue generation, and fiscal policy instruments. The way in which financial legislation structures taxation, public spending, and deficit-financing mechanisms plays a decisive role in determining whether budgetary imbalances are temporary and manageable or structural and chronic.

Syria and Hungary provide two contrasting yet comparable case studies for examining these issues from a legal perspective. Despite their distinct political, economic, and historical trajectories, both countries have experienced long-standing general budget deficits, albeit for different reasons and under different legal and institutional conditions. In Syria, fiscal imbalances have been shaped by structural weaknesses in the tax system, heavy reliance on specific revenue sources, and, more recently, the profound impact of armed conflict and economic sanctions. In Hungary, budget deficits have evolved within the context of economic transition, European Union membership, fiscal convergence requirements, and significant tax policy reforms.

A key common denominator in both systems is the pivotal role of tax revenues in financing the general budget. Taxes constitute the primary and most stable source of public revenue, and among them, personal income taxes hold particular significance due to their direct

connection with taxpayers' economic capacity and their potential role in achieving both fiscal efficiency and tax justice. However, Syria and Hungary have adopted fundamentally different approaches to personal income taxation. While the Syrian tax system relies predominantly on a progressive structure characterized by multiple specific taxes and differentiated rates, Hungary has undergone a profound reform process culminating in the adoption of a flat personal income tax system.

This divergence raises fundamental legal questions regarding the relationship between income tax systems, budgetary stability, and principles of tax justice. Progressive taxation is traditionally associated with vertical equity and redistribution, while flat taxation is often justified by arguments of simplicity, efficiency, and improved compliance. Yet, the effectiveness of either model cannot be assessed in abstract terms; it must be examined within the broader legal, institutional, and socio-economic context in which it operates. In this regard, financial law serves as the appropriate analytical framework, as it bridges normative legal regulation with fiscal outcomes. Within this framework, the analysis of public finance cannot be detached from its legal foundations. Financial law does not merely provide technical rules for revenue collection and expenditure authorization; rather, it establishes the normative boundaries within which fiscal policy operates. The effectiveness of public finance mechanisms, particularly in relation to managing budget deficits, depends largely on the coherence, adaptability, and enforcement of the legal rules governing taxation and public budgeting.

The general budget deficit, as regulated by financial law, represents a point of intersection between state obligations, legislative choices, and economic realities. Legal provisions concerning public revenues, especially tax legislation, shape the state's capacity to respond to fiscal pressures, maintain financial stability, and uphold principles of legality and accountability. Consequently, deficits should be understood not only as outcomes of economic imbalance but also as reflections of legislative design, institutional capacity, and the legal philosophy underpinning fiscal governance.

In this context, the comparative examination of Syria and Hungary offers valuable insight into how different legal approaches to taxation and budgetary regulation influence fiscal outcomes. Despite the disparities in their systems, both legal orders demonstrate that tax

legislation, particularly personal income tax law, plays a decisive role in determining the sustainability of public finances. The structure of income taxation affects not only the volume and stability of public revenues but also the distribution of the tax burden among taxpayers, thereby directly engaging fundamental principles of tax justice.

Accordingly, an introduction to the subject of this dissertation must begin by situating the general budget deficit and income tax systems within the broader domain of financial law. This perspective allows for a nuanced understanding of how legal norms regulate fiscal behavior, mediate between economic objectives and social considerations, and ultimately shape the relationship between the state and taxpayers. By focusing on these legal dimensions, the study remains anchored in its core disciplinary framework while addressing one of the most pressing challenges of contemporary public finance.

Research problem and research scope

Many countries, whether developed or developing, grapple with the fundamental problem of persistent public budget deficits. This issue gives rise to a complex legal question that cannot be fully addressed by economic analysis or the field of economics alone. Academic and scientific research has predominantly focused on analyzing budget deficits through a quantitative lens, examining them within the broader context of macroeconomics, public debt, or fiscal policy choices. Conversely, the legal foundations that underpin these deficits, rooted in a state's financial law, public finance, budgetary rules, and constitutional framework, remain insufficiently explored, with relatively little research dedicated to them. In comparing Syria and Hungary, one observes that fiscal deficits in both nations have evolved over long periods, shaped by divergent historical, political, institutional, and demographic circumstances. This historical development of financial law has played a significant role in both countries in defining the legal framework that governs revenue collection, public expenditure, deficit-financing mechanisms, and the strategies employed to address such deficits. These legal frameworks do more than merely define how deficits arise; they also dictate the mechanisms through which a state responds to them, utilising various legislative and institutional tools.

Consequently, the central problem addressed in this thesis concerns the extent to which financial law as a comprehensive legal system influences the causes, persistence, and

management of public budget deficits. This includes studying the historical evolution of financial legislation as reflected by the political and social conditions in both countries—the legal regulation of public revenues and expenditures, the mechanisms of response through legislative and institutional instruments, and the role of taxation (particularly personal income tax) as a primary source of revenue for addressing financial imbalances.

Accordingly, the research problem can be formulated as follows: How does financial law, through its historical development and its regulation of public revenues and budgetary mechanisms, contribute to the emergence and management of public budget deficits in both Syria and Hungary? Furthermore, what role do income taxes play within this legal framework?

Research Scope

This dissertation is positioned within the field of financial law and takes a comprehensive legal approach to studying the general budget deficit. The research encompasses three interrelated dimensions.

First, the study explores the historical development of financial law in Syria and Hungary, with a focus on the evolution of budgetary rules, revenue systems, and fiscal legislation. This historical perspective helps to explain the legal foundations of contemporary financial systems and the origins of current fiscal challenges.

Second, the research analyzes the general budget deficit as a legal phenomenon, discussing its causes and consequences from a financial law perspective. While economic factors are acknowledged, the emphasis is on the legal rules governing public expenditures, revenue collection, deficit financing, and fiscal discipline.

Third, within this broader framework, the dissertation examines taxation as a central component of public revenues, particularly focusing on personal income taxes. Income taxation is analyzed not in isolation but as part of the legal mechanisms through which the state seeks to finance public expenditures and manage budgetary imbalances.

The geographical scope of the research is limited to Syria and Hungary, chosen for their differing legal traditions and fiscal models, which facilitate a meaningful comparative analysis. Temporally, the study concentrates on contemporary legal frameworks while also

incorporating earlier legislative stages when necessary to understand current legal solutions. The research remains primarily legal in nature and does not aim to conduct detailed economic modeling or statistical forecasting.

Mythology

This dissertation adopts a legal research methodology grounded primarily in the field of financial law. Given the nature of the research problem, which concerns the legal foundations of the general budget deficit and the role of financial legislation in regulating public revenues and expenditures, the study relies on a combination of complementary legal research methods.

First, the research employs the doctrinal (analytical) legal method. This method is used to examine financial and tax legislation in Syria and Hungary, as well as relevant constitutional provisions, budgetary laws, and regulatory instruments. Through systematic legal analysis, the study interprets legislative texts, identifies underlying legal principles, and evaluates the coherence and effectiveness of existing legal frameworks governing public finance and budgetary balance.

Second, the dissertation applies to the historical legal method in order to trace the development of financial law in both countries. This method is used to examine the evolution of budgetary rules, taxation systems, and fiscal legislation over time, with particular attention to the legal reforms that have shaped current approaches to managing budget deficits. The historical analysis is not conducted for its own sake, but rather to clarify the legal roots of contemporary fiscal challenges and legislative choices.

Third, the research adopts a comparative legal method, which constitutes a central component of the methodology. By comparing the financial law frameworks of Syria and Hungary, the study highlights similarities and differences in the regulation of public revenues, budget deficits, and income taxation. The comparative approach enables an assessment of how different legal models operate in practice and how legal solutions developed in one system may inform reform discussions in another, while respecting each country’s specific legal and institutional context.

In addition, the research makes limited use of an interdisciplinary approach, drawing on selected economic and fiscal data where necessary to contextualize legal analysis. Such data are used solely to illustrate the practical implications of legal rules and to support the evaluation of legislative effectiveness, without transforming the study into an economic or statistical analysis.

Primary sources for this research include national legislation, constitutional texts, budget laws, tax statutes, governmental regulations, and official reports. Secondary sources consist of legal doctrine, academic literature, conference papers, and comparative studies in financial and tax law. International and European legal instruments are also considered where relevant, particularly in relation to Hungary's obligations as a member of the European Union.

Through this combination of analytical, historical, and comparative legal methods, the dissertation seeks to provide a comprehensive and legally grounded examination of the general budget deficit and the role of financial law in Syria and Hungary.

The thesis adopts an empirical research approach grounded in existing legal and economic studies. Rather than conducting independent econometric analyses, which would entail venturing deep into the realm of economics, the study leverages previously published empirical research. Given that financial law frequently intersects with economics, this method allows for an examination of the practical effects of financial legislation and public fiscal policy, all while avoiding a primary focus on raw data and statistics and preserving the research's overarching legal framework. This approach facilitates an assessment of the extent to which theoretical legal principles and legislative arrangements align with tangible financial outcomes in the real world.

Chapter I

1. Financial Law in Syria and Hungary: Theoretical Framework and Historical Development

1.1.Concept and Legal Nature of Financial Law:

Before examining the specific legal mechanisms through which states regulate public revenues and expenditures, it is necessary to clarify the conceptual and legal foundations of financial law as an independent branch of public law. Understanding the nature, scope, and functions of financial law is essential for analyzing how legal systems structure public finance and respond to fiscal challenges, particularly those related to persistent budget deficits.

Financial law represents the legal framework through which the state organizes its financial activity, determines the rules governing public revenues, regulates public expenditures, and establishes the legal basis of the general budget. In this sense, financial law does not operate merely as a technical regulatory tool, but rather as a normative system that reflects the state's economic priorities, social objectives, and institutional capacity.[1]

This conceptual clarification is particularly relevant for the present research, which examines the legal dimensions of the general budget deficit within the broader framework of financial law. Since budget deficits are closely linked to the structure of public revenues and the legal regulation of fiscal instruments, analyzing financial law from a theoretical perspective provides the necessary foundation for understanding how legislative choices influence fiscal stability. Within this broader legal framework, taxation and particularly income taxation emerges as one of several legal mechanisms through which the state seeks to finance public expenditures and address budgetary imbalances.

Accordingly, defining financial law in legal doctrine and clarifying its relationship with other branches of public law constitute a necessary starting point for analysing the

[1] Charkiewicz, M. and Popławski, M. (2022) 'Regulation of public finances in Poland in light of financial constitutionality,' in *Legal studies on Central Europe*, pp.
108. https://doi.org/10.54171/2022.zn.ropfatilofc_6.

evolution of financial legislation in Syria and Hungary and for understanding the legal context within which contemporary fiscal challenges, including budget deficits, arise.

1.1.1 What is Financial Law?

From a legal perspective, financial law can be defined as the set of legal rules that govern all the financial operations of a state, including the collection of public revenues such as taxes and fees, and the allocation of public budgets to various projects and services. It also encompasses oversight of public spending to ensure that public funds are not misused or resources are not wasted. Financial law is closely linked to the national economy and the state's fiscal policy, as it defines the powers of the competent authorities in managing financial resources and establishes precise standards for distributing funds in a way that serves the public interest.[2] Through this regulation, financial law provides a means to ensure rational and transparent spending and limits financial excesses and deviations that could affect the stability of the state and its economy.

Although financial law is not a modern concept in itself, the regulation of the state's financial activity is very old, dating back to the very inception of the state.

Since the emergence of political authority, there has been:

Tax collection

Management of public expenditures

Organization of the state treasury

Oversight of spending

However, these rules were not known as an independent branch called "Financial Law," but rather were part of:

Or traditional public law.

In ancient Mesopotamia, where financial transactions were closely intertwined with religious rituals, the first forms of codified financial organization emerged. Temples played both spiritual and economic roles, serving as custodians of wealth and resources. They

[2] Doctor Law UAE (n.d.). Available at: https://doctorlaw.ae/ar/post-140 (Accessed: 12 Jan 2026).

acted as repositories of riches, controlling vast tracts of land, agricultural produce, and silver. Temples provided lending, tax collection, and depository services to merchants, farmers, and the general public. To ensure the smooth operation of these activities and to maintain public trust in the institutions that held their money or extended credit, some form of regulation was necessary.

Although formal regulatory frameworks, as we know them today were absent, these early financial institutions possessed oversight and verification systems to ensure the smooth functioning of the financial system.[3]

The primary objectives of these systems were to protect depositors' wealth and maintain the integrity of financial transactions. While temple administrations established internal rules for dispute resolution and ensuring fairness in lending and borrowing, this regulatory framework was not always as codified as modern financial laws.

From a historical perspective, these early institutional practices represent the embryonic foundations of financial law as a component of public authority. Despite lacking codified legal structures, they reveal a close link between financial regulation, regulatory oversight, and the exercise of institutional authority, a relationship that would later be formalized within the framework of public law.

The historical development of financial law as a branch of public law cannot be studied in isolation from the broader development of European legal traditions and the role of jurisprudence within them. The foundations of modern public law were shaped by long-term historical processes in which the relationship between state power and judicial interpretation played a crucial role. Roman law, which gradually evolved from a relatively simple legal system into a sophisticated framework capable of regulating the needs of an expanding imperial society, developed through centuries of legal interpretation and case-based reasoning.

The codification of law under Emperor Justinian marked a turning point in this development. By placing the emperor above the law and attempting to centralize both

[3] Reetu and Devi, M. (2025) 'The Evolution of Financial Regulation: A Historical Overview', *International Journal of Creative Research Thoughts (IJCRT)*, 13(3), pp. 729-730. ISSN 2320-2882.

legislative and interpretative power, Justinian's reforms sought to limit the independent development of jurisprudence. While this shift did not entirely eliminate interpretative practice, it created a persistent tension within European legal traditions between the centralization of legislative power and the judicial development of law.

This tension continued to influence the development of legal systems across the European continent. In the Napoleonic tradition, codification strengthened state power and reduced judicial discretion, reflecting a model in which law was viewed primarily as an expression of the legislative will. In contrast, public law systems have historically maintained a stronger role for the courts and emphasized the protection of private property through the judicial development of legal principles. Comparative legal studies demonstrate that these structural differences have long-term implications for the ability of legal systems to adapt to and respond to changing socioeconomic conditions.

Since fiscal law regulates the financial powers of the state, public revenues, and the legal framework for economic governance, its development has been closely linked to these broader constitutional and institutional traditions. When legal systems prioritized the authority of the central state, fiscal law tended to develop as an instrument of administrative control within the public law structure. Conversely, when judicial independence and property protection were more firmly established, fiscal regulation developed within a more balanced institutional framework. Consequently, these historically rooted differences in legal origin help explain the divergent paths by which fiscal law emerged as a significant and independent branch of public law.[4]

Furthermore, we cannot claim that the historical development of fiscal law, as a branch of public law, is the product of linear doctrinal evolution or purely rational legislative design. Recent studies have shown that major fiscal laws often emerge from unforeseen historical events, fragile political alliances, and institutional experiments, rather than from fixed theoretical frameworks. In their historical analysis of prominent fiscal laws, Conti-Brown and Feinstein) demonstrate that fiscal legislation is often shaped by unpredictable political dynamics, policy pioneers, and temporary alliances formed to address perceived

[4] Beck, T., Demirgüç-Kunt, A. and Levine, R. (2003) 'Law and finance: why does legal origin matter?,' *Journal of Comparative Economics*, 31(4), pp. 6-7-8-30. https://doi.org/10.1016/j.jce.2003.08.001.

institutional challenges. Thus, legislative outcomes are not the product of long-term, coherent constitutional planning, but rather of negotiated compromises within the broader structure of public authority.[5]

This perspective is crucial for understanding fiscal law. Fiscal legislation reflects the distribution of power between the legislative and executive branches, the limits of judicial review, and the state's capacity to reorganize economic governance structures. The novelty and diversity of financial regulatory institutions, rather than being anomalies, are characteristic features of the fiscal lawmaking process. Therefore, financial law should be viewed as a dynamic field shaped by institutional design, political circumstances, and evolving concepts of state responsibility in economic governance.

Consequently, the development of financial law is inseparable from the constitutional and administrative structure of the state. Its evolution reflects broader shifts in public authority, democratic accountability, and institutional experimentation, thus underscoring its status as a fundamental component of modern public law, rather than merely a technical branch or a derivative of private regulation.

For example, in 1931, the United States enacted the Securities Act of 1933, the first and most important piece of legislation to regulate the country's financial affairs. This act, a response to the Great Depression of the 1930s, marked a turning point in the historical development of financial law and regulatory governance. Beyond its catastrophic economic consequences, the crisis exposed fundamental shortcomings in the existing legal and institutional framework governing financial regulations, revealing weak legal constraints on financial and securities activities.[6] The 1929 stock market crash and the subsequent collapse of the banking system demonstrated that unregulated financial activity posed not only specific economic risks but also structural threats to public order and social stability. Consequently, the crisis revealed the inadequacy of a legal framework that largely treated financial markets as areas of private autonomy, with very limited government

[5] Conti-Brown, P. and Feinstein, B.D. (2021) 'The contingent origins of financial Legislation,' *SSRN Electronic Journal* [Preprint], pp. 151-158. https://doi.org/10.2139/ssrn.3778189.
[6] Reetu and Devi, M. (2025) 'The Evolution of Financial Regulation: A Historical Overview', *International Journal of Creative Research Thoughts (IJCRT)*, 13(3), pp. 734-735. ISSN 2320-2882.

intervention. This realization represented a crucial shift in the legal understanding of financial regulation, making it a central concern of public law.

1.1.2 Nature and Functions of Financial Law

As mentioned previously, the traditional concept of financial law refers to it as a branch of public law concerned with regulating public finances, including budget law, taxation, and public spending. However, recent trends have emerged that view financial law not only as a product of parliament but also as a dynamic and evolving legal system. It is influenced not only by legislative authorities but also by numerous financial variables within the state, such as financial norms, banking regulations, and market standards. Here, financial law transcends its traditional function of regulating public finances to encompass the broader legal framework governing financial activity. Therefore, contemporary legal scholars consider financial law to include banks, financial markets, insurance, financial derivatives, and investment management, and to be closely linked to commercial law.[7] In this sense, financial law is characterized by its functional and practical nature.

Addressing this discussion is crucial before delving into the historical development of financial legislation in Syria and Hungary, and before analyzing the public deficit and income tax in both systems. Understanding the theoretical framework of the concept of financial law enables us to determine whether the financial legislation in these two countries has reduced financial law to its traditional function of regulating state finances, or whether it has moved towards adopting the modern concept that views financial law as a broader legal framework regulating financial activity in its entirety.

To answer this question, we must discuss several ideas to achieve our research objective:

First,

1.2 The sources of financial law

Most contemporary legal systems rely on positive law as the fundamental framework for regulating legal relations, particularly in countries with a written legislative tradition, such as Syria and Hungary. This reliance is clearly evident in the field of financial law, as we

[7] Benjamin, J. (2007) 'Overview,' in *Financial law*, pp. 4-5-

will see later. Therefore, it becomes necessary to analyze the jurisprudential opinion concerning the sources of law in general, as an entry point for understanding the theoretical foundations upon which the sources of financial law, in particular, are based. Proponents of legal positivism believe that the source of law lies in officially recognized authority, not in moral or natural considerations.[8] Early positivist thought, especially that of John Austin (1790-1859), reduced the source of law to the ruler's orders, enforced through punishments. In this decree-based model, the law derives its authority from the ruler's power, reflecting a rigid and centralized understanding of legal sources.

This narrow conception was later significantly revised and developed by H. L. A. Hart (1958; 1994), who rejected reducing law to the ruler's decrees, emphasizing the structural complexity of legal systems. Hart argued that every mature legal system consists of a combination of primary rules, which impose duties on individuals, and secondary rules, which grant powers and regulate the creation, modification, and application of the primary rules. These secondary rules include, in particular, rules of recognition, rules of change, and rules of dispute resolution. Importantly, Hart's analysis recognizes that legal systems are not limited to rules that impose duties but also include rules that grant powers, enabling both officials and individuals to create legal relationships, such as binding contracts and wills.

Hart argues that law should be analyzed in its full and institutional sense, not through an abstract or overly general definition. The determination of legal rules depends on the internal perspective of those who accept the legal system as a normative framework. This perspective is essential for understanding how legal norms function as binding rules within a specific legal system, rather than being merely external patterns of behavior. Hans Kelsen's contribution to legal positivism represents a different, more formal, and normative approach. Kelsen sought to construct a "pure" legal theory by separating legal validity from moral, political, and social considerations. In his theory, the validity of legal rules derives from a hierarchical structure culminating in a fundamental norm, presupposed by those

[8] "Positive" law, according to positivists of the nineteenth century, is equivalent to what a legitimate authority declares and upholds through penalties. Therefore, political authority which is reflected not only in the "ruler" but also in Kelsen's "the constitution" (at least in the American phase of his thought)—is the ultimate and decisive basis for the legal (and binding) nature of norms.

who consider the legal system normative. According to legal positivism, the sources of law vary depending on the adopted conceptual framework.[9]

Thus, according to legal positivism, the sources of law are limited to social facts and human decisions expressed through recognized legal institutions. These sources include legislation, constitutional norms, judicial rulings, and customs, where recognized by the legal system. The validity of legal rules depends on their source and institutional recognition, not on their moral or value-based content.

Based on that, what are the sources of financial law?

1.2.1 Sources of Law: Theoretical Approaches

Financial law is a separate area of public law, according to Oksana Shubitskaya's study "Origins of Financial Law," and its origins are solely found in laws passed by local and public authorities, including financial law regulations. The sources of law are defined by the researcher using a classical positivist approach as the external forms that are used to articulate and officially establish legal principles within a particular legal system.

As a result, the researcher pinpoints the origins of financial legislation as a logical hierarchical structure that is mostly found on constitutional precepts. At the top of this hierarchy is the constitution, which lays out the basic guidelines for public finance, state organisation, and the allocation of financial authority among state bodies. The framework and procedures of financial legislation are determined by these.[10]

1.2.2 Sources of financial law in Syria and Hungary

1.2.2.1 Sources of Financial Law in Syria

The main sources of Syrian law are divided into the following:[11]

1. Legislation:

[9] Golding, M.P. and Edmundson, W.A. (eds.) (2005) *The Blackwell Guide to the Philosophy of Law and Legal Theory*. Oxford: Blackwell Publishing. pp 29-40. doi:10.1002/9780470690116.
[10] Mrkývka, P. (ed.) (2015) *System of Financial Law: General Part: Conference Proceedings*. 1st edn. Brno: Faculty of Law, Masaryk University, pp. 174-175. ISBN 978-80-210-7826-0.
[11] Syrian Arab Republic (1949) *Legislative Decree No. 84 of 1949 Promulgating the Syrian Civil Code*. Damascus: Government of the Syrian Arab Republic, Art.1.

Definition and Characteristics of Legislation:

Legislation is defined as the enactment of written laws by the competent authority, according to specific procedures. It includes all laws separate from the fundamental framework of the state. Therefore, these laws must conform to the constitution in their essence and structure. Any violation or contradiction of the Constitution, whether in content or form, renders it unconstitutional.[12]

• Enactment of Legislation:

Originally, the legislative authority was responsible for enacting legislation, but the Constitution granted the president the power to enact it in certain cases.

2. The Constitution and Regulations:

• The Constitution: This is a set of legal rules issued by the constituent authority. It regulates the state's powers, the jurisdictions of each branch, and their relationships with individuals. It also defines the form of government in the state and the rights and duties of citizens.[13]

In Syria, Decree No. 33 of 2011 established the National Committee for Drafting the Constitution of the Syrian Republic. The people approved this decree in a 2012 referendum, and it remained in effect[14]

There are some less important reserve sources such as custom, Islamic law, principles of natural law, justice, jurisprudence, and the judiciary.

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[12] Al Daoudi, G. (2014) *Introduction to the Science of Law*. Amman: Dar Wael for Printing, Publishing and Distribution, pp. 107. ISBN 9957110594.

[13] It seems that the order in which these sources were mentioned is binding, as the judge searches for the applicable legal rule in the legislation first, and if he does not find it, he returns to the rest of the sources according to the order mentioned in the text. Hence, legislation in Syria is considered an original official source, while the rest of the sources are considered backup official sources, in addition to the two explanatory sources represented by jurisprudence and jurisprudence. And the official source of the law is the source from which the legal rule emerges to become binding and applicable, such as legislation and custom. [13]As for the interpretive sources, it means the party that interprets what is obscure of the legal rules and shows what is meant by them

[14] Al Jazeera (2025) Text of the 2025 Constitutional Declaration of Syria. Available at: https://www.aljazeera.net/encyclopedia/2025/3/14/2025-لسوريا-الدستوري-الإعلان-نص.(Accessed: 13 Jan 2026).

1.2.2.2. The System of Sources of Law in Hungary

Hungary adopts a hierarchical, predominantly legislative system of sources of law, firmly rooted in legal positivism. The Hungarian legal system is based on the principle of constitutional supremacy, under which all legal rules derive their authority from higher-ranking sources within a clear normative hierarchy. The Constitution defines the fundamental principles of state organisation, the distribution of powers, and the framework within which legislation and other laws must operate. All lower-ranking laws must conform to the Constitution. After the Constitution, parliamentary legislation is the central source of law in Hungary. Parliamentary legislation includes ordinary laws and so-called fundamental laws, which require a qualified majority for adoption. These laws regulate the most important areas of public life and form the core of the legal system, including areas closely related to public finance. The Hungarian legal system also recognizes a wide range of model implementing laws with binding general force.[15]

Finally, the Hungarian legal system differs from the Syrian system in its integration of international treaties and EU law. Ratified international agreements form part of the domestic legal system, and as a member state of the European Union, Hungary is bound by EU law, which takes precedence over national legal rules and is directly applied within the domestic legal system. [16]

We observe that in both countries, the constitution is the fundamental and binding source of law. Naturally, the sources of financial legislation, as part of the legal system, are also based upon it.

But what is the constitutional and legal basis for financial law in both Syria and Hungary?

[15] Lukács, K. (2022) 'The system of sources of law,' in *Legal studies on Central Europe*, pp. 255–264. https://doi.org/10.54171/2022.lcslt.ccice_14.

[16] European Union (2021) Primacy of EU law (precedence, supremacy). EUR-Lex. Available at: https://eur-lex.europa.eu/EN/legal-content/glossary/primacy-of-eu-law-precedence-supremacy.html.(Accessed: 13 June 2026)

1.3 Constitutional and Legal Foundations of Financial Law in Syria and Hungary

Comparative Evaluation of Financial Constitutionalism in Syria and Hungary:

By broadening the scope of constitutional regulations about fiscal law, the new Basic La w of 2011 paved the way for additional regulations in Hungary.

It includes provisions about the market economy, basic economic rights and principles, th e state's monetary and fiscal policy, and economic provisions of the roles and authority of specific public agencies as well as the restrictions placed on them.

The chapter on public finance covers the following topics: limits on the Constitutional Court's authority; regulations of state and local government property as national assets; th e concept of public finances and the principles of their management; the Hungarian Natio nal Bank; the Court of Accounts; the Fiscal Council; the legislative obligation regarding t he central budget and its implementation; the government's mandate to manage the annua l budget; the principles of budget management; the determination of the optimal ratio of g overnment debt (50% of GDP) and related budget management; budget management duri ng a period of special legal regime.[17]

The definition of the principle of a balanced, transparent, and sustainable budget, the desi gnation of the forint as the official currency, and the duty to protect public and national pr operty are all included in the chapter on "Foundations," which contains the fundamental theoretical provisions of the law.

Another chapter of the Basic Law contains the detailed asset management regulations as well as the duty to bear the public burden.[18]

In reference to public obligations, the chapter on "The State," which defines several finan cial law institutions, now includes a section on public money.

In addition, this chapter has many financial provisions.

These clauses cover the following topics: the National Assembly's financial authority, the President of the Republic's budgetary authority, the ban on national referendums on speci fic financial issues, and the economic principles of local governments.[19]

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[17] Hungary (2011) *Fundamental Law of Hungary*. Budapest: Government of Hungary, Arts. 36–44.
[18] Hungary (2011), Fundamental Law of Hungary, Foundation, Articles K–P.
[19] Hungary (2011), Fundamental Law of Hungary, The State, Articles 1–34.

To put it briefly, the Basic Law on Public Finance governs the monetary system, governm ent debt, public fees, and the administration of public funds and assets.[20]

In addition to the constitutional basis of financial law in Hungary, parliamentary legislation is the primary source of financial law, providing the detailed regulatory framework. Key legislation includes: Law No. 135 of 2011 on Public Finance, which forms the cornerstone of public finance management, the national budget, and public accounting; [21]Act CXVII of 1995 on Personal Income Tax; the Banking Act (Law No. 137 of 2013), which regulates the operation of credit institutions and financial companies, replacing older legal frameworks such as Law No. 112 of 1996; [22]the Capital Markets Act (Law No. 120 of 2001), which regulates investment services, securities, and market operations; and the Accounting Act (Law No. 1 of 2000).

Syrian financial law (budget preparation, taxation, and public spending) is based on a set of constitutional articles in the 2012 Constitution of the Syrian Arab Republic, in addition to basic laws and legislative decrees regulating public finances. The current Syrian Constitution establishes several key constitutional financial principles, most importantly those concerning the imposition of taxes, which may only be imposed, amended, or repealed by a law issued by the People's Assembly.[23]The general budget is also approved by the People's Assembly. The draft budget is prepared by the President of the Republic and submitted to the People's Assembly.[24] The Constitution also establishes the "Central Financial Control Authority" to inspect public revenues and expenditures and ensures the financial independence of administrative units.[25]

As is the case in Hungary, parliamentary legislation is the main source of financial law. Among the basic financial legislations are: basic financial law, the most important of which is Law No. 64/2006, which represents the basic financial system that sets the rules for preparing, approving, and implementing the budget, and the basic monetary law No. 23 of

[20] Nagy, Z. (2022) 'Regulation of public finances in Hungary in light of financial constitutionality,' in *Legal studies on Central Europe*, pp. 85. https://doi.org/10.54171/2022.zn.ropfatilofc_5.
[21] Hungary, Act CXCV of 2011 on Public Finances, §§ 2, 4–4/A, 5–6/A, 6/B–6/C.
[22] Varga, Z. and Szende, I. (2022) *Banking Regulation: Hungary*. In: Lyons, G.J., Hashmall, A.M., Xu, C., Dikkers, J. and Zhang, A.A. (eds.) *Getting the Deal Through: Banking Regulation 2022*. London: Law Business Research, p. 5/30.
[23] Syrian Arab Republic (2012) *Constitution of the Syrian Arab Republic*, Article 75(2).
[24] Syrian Arab Republic (2012) *Constitution of the Syrian Arab Republic*, Article 115.
[25] Syrian Arab Republic (2012) *Constitution of the Syrian Arab Republic*, Article 75(4).

2002, which regulates the work of the Central Bank of Syria and the Monetary and Credit Council, the financial law for administrative units No. 37 of 2021, and Law No. /24/ of 2003 concerning income tax. Law No. 28 of 2001 (as amended by Law No. 3 of 2010) is also the primary legislation regulating the private banking sector, defining capital requirements and allowing foreign participation of up to 60%.[26]

We note a very important point here: the Syrian constitution sets out very general frameworks, but it refers most of the procedural and substantive rules to the budget and tax laws, while in Hungary, we note that the constitutional legislator did not merely set out general frameworks, but rather enshrined general rules that were usually left to ordinary laws. As we mentioned, he made there a complete chapter on public finance, and this is a very strong point that is credited to the Hungarian legislator, as he gave the financial rules a constitutional and sovereign status.[27]

Also in Syria, the Financial Control Authority is an independent oversight body linked to the Council of Ministers. It aims to monitor state funds, but its oversight is subordinate and non-judicial, lacking any constitutional powers.[28] It reports to the Prime Minister and has no right to prevent the budget's approval. In Hungary, however, the law stipulates the existence of a Fiscal Council (Finance Council), which has the power to pre-approve the draft budget before the final vote. If the draft budget violates the debt-to-GDP ratio, the Council can reject it. The study describes this power as unprecedented internationally.[29]

We also note that most sovereign financial measures in Syria are governed by ordinary laws, such as the Public Debt Law and the Monetary and Credit Law, which sets monetary policy in the Syrian Arab Republic and manages it according to the state's general strategy and the needs of the national economy, making them easier to change or amend.[30]

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[26] Central Bank of Syria (n.d.) *Monetary and Credit Council*. Available at: https://cb.gov.sy/index.php?page=dept&ex=2&dir=councils&lang=2&service=5&cat_id=78 (Accessed: 13 June 2026).

[27] Kovács, Á. (2016) 'The Fiscal Council in the Hungarian Fundamental Law – Sketch on the Development of the Institution and the European Union Practice', Public Finance Quarterly, 61(3), pp. 312.

[28] Syrian Arab Republic (2003) *Legislative Decree No. 64 of 2003 on the Central Organization for Financial Control*, Article 2.

[29] Kovács, Á. (2016) 'The Fiscal Council in the Hungarian Fundamental Law – Sketch on the Development of the Institution and the European Union Practice', Public Finance Quarterly, 61(3), pp. 312–319.

[30] Syrian Arab Republic (2002) *Basic Monetary Law No. 23 of 2002*, Article 1(2).

In Hungary, however, all these measures are enshrined in the constitution, such as the Public Debt Law, which makes reducing the debt-to-GDP ratio a central objective of budgetary policy.[31] Furthermore, the constitution establishes a cardinal authority to regulate all public finances and taxation in the country, making amendments more difficult and providing institutional and constitutional safeguards.[32]

As is known, according to the rule of the hierarchy of rules, lower procedures are always subject to higher procedures, and naturally, the constitution is at the top of any legal organization.[33] Therefore, when the Hungarian legislator constitutionalized (fiscal policy), he gave it a binding character, while the Syrian legislator left it as mere procedures and authorizations.

1.4 Historical Development of Financial Law in Syria and Hungary

Understanding the historical context of financial law is essential because modern economic systems are the product of a historical trajectory in which past legal, political, and economic choices dictate current structures. [34]

Therefore, it is essential to study the historical development of fiscal law in Hungary and Syria to properly understand the issues at hand, including the state budget and fiscal deficit, personal income tax, and declining tax revenues. These issues cannot be assessed in isolation from their legal and institutional development, as current fiscal outcomes are often rooted in previous legislative structures, administrative practices, and constitutional arrangements. Empirical studies have repeatedly confirmed this hypothesis. This view is supported by empirical evidence from Spain. Martínez-Vásquez and Torgler (2009) studied the evolution of tax compliance between 1981 and 2000.[35] Their findings indicate that constitutional reform, modernization of tax administration, criminalization of tax evasion,

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[31] Kovács, Á. (2016) 'The Fiscal Council in the Hungarian Fundamental Law – Sketch on the Development of the Institution and the European Union Practice', Public Finance Quarterly, 61(3), pp. 318.

[32] Simon, I. (2018) 'The Transformation of the Hungarian Fiscal and Monetary Constitution,' *Annales Universitatis Scientiarum Budapestinensis De Rolando Eötvös Nominatae Sectio Iuridica*, 57, pp. 113. https://doi.org/10.56749/annales.elteajk.2018.lvii.10.113.

[33] Ladner, A. *et al.* (2018) *Swiss Public Administration*, *Governance and Public Management*, pp. 79. https://doi.org/10.1007/978-3-319-92381-9.

[34] Xu, G. (2011) 'THE ROLE OF LAW IN ECONOMIC GROWTH: A LITERATURE REVIEW,' *Journal of Economic Surveys*, 25(5), pp. 836. https://doi.org/10.1111/j.1467-6419.2011.00691.x.

[35] Torgler, B. (2011) 'Tax Morale and Compliance: Review of evidence and case studies for Europe,' *World Bank eBooks* [Preprint], pp. 33-34-35. https://doi.org/10.1596/1813-9450-5922.

and decentralization—all implemented after the Franco regime were associated with significant improvements in citizens' attitudes toward paying taxes. Thus, the Spanish case demonstrates that the current commitment of the Spanish people to tax compliance, their tax awareness, and the decline in tax evasion rates result from a long history of the transition from dictatorship to democracy.

It is important to note at the outset that the laws of Syria and Hungary are derived from different legal traditions. French and Egyptian law significantly influenced Syrian law[36], while Austro-German traditions influenced Hungarian law after the end of the communist era. [37] This is crucial because legal traditions are the historical foundation of any modern law. Legal traditions connect a country's legal system to the culture of which it is a part, and upon which the context of all legal texts, including financial ones, is based. [38] This is vital for comparative studies because studying the laws of different countries is fundamentally about classifying them into legal families rooted in cultural traditions, patterns, and the historical and cultural environments from which they arose, rather than studying them abstractly, divorced from these contexts. This is the essence of comparative legal work.[39]

1.4.1 The historical development of Hungarian financial law Before transition

Prior to this period, financial law was subsumed under administrative law and referred to as financial management, encompassing the regulatory framework for public finance. This included the authority to collect state revenues, impose taxes, and manage the financial system. [40] However, between 1945 and 1988, financial law had not yet emerged as an autonomous legal discipline; rather, it consisted of three principal areas: budget law, which

[36] Eijk, E. van. (2013, September 19). Family law in Syria: a plurality of laws, norms, and legal practices, pp. 21. Retrieved from https://hdl.handle.net/1887/21765
[37] Xu, G. (2011) 'THE ROLE OF LAW IN ECONOMIC GROWTH: A LITERATURE REVIEW,' *Journal of Economic Surveys*, 25(5), pp. 838. https://doi.org/10.1111/j.1467-6419.2011.00691.x..
[38] Sun, Q. (2024) 'Challenges and transformations of international Financial law in the context of globalization,' *Law And Economy*, 3(4), pp. 53. https://doi.org/10.56397/le.2024.04.07.
[39] Juhász, Z. (2026) 'About legal culture: main theories and their consequences,' *ELTE Law Journal*, (1), pp. 156–157. https://doi.org/10.54148/eltelj.2026.1.141.
[40] Nagy, Z. (2022b) 'Regulation of public finances in Hungary in light of financial constitutionality,' in *Legal studies on Central Europe*, pp. 83. https://doi.org/10.54171/2022.zn.ropfatilofc_5.

represented the most significant portion; selected provisions concerning personal and corporate income taxation; and, notably, the growing prominence of general budgetary law and tax law a trend that continues in contemporary Hungary.[41] From the 1940 s to the mid-1960s, the primary instruments of state revenue comprised the turnover tax, often with sector-specific rates designed to regulate prices and capture profits, [42]and the corporate profits tax. Additionally, a wealth tax was implemented,[43] while the personal income tax remained weak and ineffective as a tool for advancing the ideals of socialist justice.[44]

It is important to note that during this era, the communist regime enacted highly inequitable tax legislation targeting capitalists, the wealthy, and affluent individuals, employing taxation as a punitive measure against private property, which was perceived as a bastion of capitalism. The system relied heavily on progressive taxation, and fiscal law was explicitly non-neutral, serving as an instrument to coerce private business owners into the collective economy. This fiscal policy, often identified as the "Lenin policy,[45]" was primarily oriented toward altering the social structure, but it also engendered widespread tax evasion and the expansion of the informal economy. [46] Ultimately, the state failed to achieve social justice objectives by imposing a more stringent progressive tax regime.[47]

All these matters necessitated the need to frame and codify the financial law to protect it constitutionally. In 1979, Act XI on State or Financial Affairs was enacted, marking a pivotal moment in the evolution of Hungarian financial law. This legislation is widely regarded as the cornerstone of the country's financial legal framework, as it regulates most

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[41] Erdős, É. (2010). *Studies in European Tax and Financial Law*. Miskolc: Faculty of Law, University of Miskolc, pp.7.

[42] Grey, C.W. (1990). Tax Systems in the Reforming Socialist Economies of Europe. Policy, Research, and External Affairs Working Paper No. WPS 501. Washington, DC: World Bank, pp. 2-3.

[43] Hungary (1947) *Decree of the Government No. 10.130 of 1947*.

[44] Hungary (1951) *Decree of the Council of Ministers No. 42 of 1951*.

[45] The government of the Hungarian Soviet Republic, initially led by Béla Kun and the Communist Party, implemented a policy of transforming Hungary into a socialist society beginning after World War II. The government used revolutionary councils, workers' organizations, and state institutions to carry out socialist reforms such as nationalization, land redistribution, and the expansion of workers' political power. This led to the elimination of the political influence of the aristocracy, capitalists, and clergy, and granted workers and poor citizens greater political rights through workers' councils. Large estates, factories, and major industries were nationalized so that production would serve the public interest rather than private profit. Education became free and compulsory, schools were placed under state control, and healthcare services were expanded.

[46] Radi, S. (2025) ''Socialist money': Power, temporality and historical change in postwar Hungary,' *Economy and Society*, 54(1), pp. 402-403-405. https://doi.org/10.1080/03085147.2025.2450144.

[47] Radi, S. (2025) ''Socialist money': Power, temporality and historical change in postwar Hungary,' *Economy and Society*, 54(1), pp. 414-415. https://doi.org/10.1080/03085147.2025.2450144.

major financial matters, including the general budget and the banking system. The influence of this Act continues to be felt in contemporary Hungarian financial law.[48]

1.4.2 Financial Law Reforms in Hungary in 1988

Dr. Eva Erdős argues that the most significant aspect of this period was the transformation of the absolute concept of the public budget, which had prevailed before the reforms, or what she termed the "sanctification of the public budget." This also led to the emergence of a new, modern, and distinctive Hungarian tax code, as we shall see.[49]

On 1 January 1988, Hungary introduced the personal income tax (PIT) and value-added tax (VAT), replacing the former turnover tax system and marking a major shift toward a market-based fiscal system. The enterprise profits tax was reformed in 1989, while PIT rates and allowances were repeatedly adjusted during the transition period [50]:

- Transition to a Market Economy (beginning in 1985):
    - Adoption of transparent and neutral financial instruments to promote efficiency and competitiveness.[51]
    - Establishment of a two-tier banking system that separates central banking from commercial banking functions, aligning with international practices.[52]
    - Enactment of bankruptcy and comprehensive company laws, providing a legal framework for business operations and insolvency procedures.

[48] Erdős, É. (2010). *Studies in European Tax and Financial Law*. Miskolc: Faculty of Law, University of Miskolc, pp.9.
[49] Erdős, É. (2010). *Studies in European Tax and Financial Law*. Miskolc: Faculty of Law, University of Miskolc, pp.10.
[50] Newbery, D.M. and Révész, T. (2000) 'The evolution of the tax structure of a reforming transitional Economy: Hungary 1988–98,' *International Tax and Public Finance*, 7(2), pp. 214. . https://doi.org/10.1023/a:1008708621725.
[51] Kopits, G. (1993) *Hungary: A Case of Gradual Fiscal Reform* , in Tanzi, V. (ed.) *Transition to Market: Studies in Fiscal Reform*. Washington, DC: International Monetary Fund, p. 65. doi:10.5089/9781557752758.071.
[52] Lentner, C. (2021) 'Outline of the Evolution of the Hungarian Monetary Policy from the Restoration of the Two-level Banking System to the Present Day,' *Public Governance Administration and Finances Law Review*, 6(1), pp. 103-104-105. https://doi.org/10.53116/pgaflr.2021.1.9.

- Liberalization of foreign trade and expansion of private sector activities, reducing the state's role in economic planning and encouraging entrepreneurship.[53]

- Issuance of Market Economy Instruments:
  - Companies Act: Provided modern legal foundations for corporate governance and business formation.
  - Foreign Investment Act: Opened the Hungarian economy to foreign investors, offering protections and incentives to attract international capital.
  - Act on the Transformation and Privatization of Public Enterprises: Facilitated the restructuring and privatization of state-owned companies, accelerating the development of the private sector.
  - Liberalization of Foreign Trade: Removed many restrictions on imports and exports, integrating Hungary more fully into the global economy.
  - Price Liberalization and Subsidy Reduction: Allowed market forces to determine prices, phasing out state subsidies and encouraging market-driven allocation of resources.[54]
  - Act No. 6 of 1990 (relating to the Budapest Stock Exchange): Established the legal basis for stock market operations, supporting capital market development and investment opportunities.[55]

These legislative reforms played a pivotal role in Hungary's successful economic transformation and integration into the global financial system.

- Comprehensive tax reform in 1988, more conducive to a market economy.

These reforms are: Act No. 5 on Value Added Tax, Act No. 6 on Income Tax, and Act No. 9 on Corporate Profits Tax.[56]

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[53] Kopits, G. (1993) *Hungary: A Case of Gradual Fiscal Reform* , in Tanzi, V. (ed.) *Transition to Market: Studies in Fiscal Reform*. Washington, DC: International Monetary Fund, pp. 65. doi:10.5089/*9781557752758.071.*

[54] *Gyulavári, A. and Neményi, J. (1996) 'Fiscal Policy in Hungary under Transition', Vol. I. Warsaw: CASE – Center for Social and Economic Research, pp.4-5.*

[55] Erdős, É. (2010). *Studies in European Tax and Financial Law*. Miskolc: Faculty of Law, University of Miskolc, pp.11.

[56] Karnosh, K. (2019) 'The Evolution of the Hungarian Tax System'. *International Immersion Program Research Paper. Chicago: University of Chicago Law School, pp.4.*

- Act No. 5 on Value Added Tax:

Introduced a VAT system aligned with EU practices.

A standard rate of 25% was applied to most goods and services.

A reduced rate of 15% was applied to certain services, such as freight transport, repairs, and tourism.

Essential goods and services such as food, public transport, books, housing, healthcare, education, culture, and sports were exempt from VAT.[57]

- Act No. 6 on Income Tax:

Replaced the previous system with a comprehensive personal income tax.

Regarding personal income tax, the previous differentiated system of individual income tax was replaced by a broader and more uniform system. In its original form, the tax, subject to personal exemptions, was applied to virtually all income derived from employment and self-employment, and assessed on an individual rather than a household basis. The system initially consisted of eleven progressive tax brackets, with marginal rates ranging from 20% to 60%. However, several income categories continued to receive preferential treatment through additional deductions or full exemptions, notably income from agricultural, cultural, and intellectual activities, as well as social security pensions, bonuses, and incentives.[58] The 1988 tax reform abolished local taxes (including property taxes). The personal income tax in Hungary imposed a tax on all income, regardless of its source, on each individual; the tax was calculated on an individual basis and not on a family basis) According to a standard progressive tax schedule.[59] During the period 1989–1990, personal income tax underwent further liberalization: the highest marginal tax rate was gradually reduced, first to 56% and then to 50%, while the number of tax brackets decreased significantly, and the brackets themselves were expanded.[60]

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[57] Hungary (1987) *Act V of 1987 on Value Added Tax*, §§ 5, 10(1)–(3), Annex 1/A and Annex 2. Budapest: Hungarian Parliament.

[58] Hungary: A Case of Gradual Fiscal Reform George Kopits, p71

[59] Karnosh, K. (2019) 'The Evolution of the Hungarian Tax System'. *International Immersion Program Research Paper. Chicago: University of Chicago Law School, pp.5.*

[60] Kopits, G. (1993) *Hungary: A Case of Gradual Fiscal Reform* , in Tanzi, V. (ed.) *Transition to Market: Studies in Fiscal Reform*. Washington, DC: International Monetary Fund, pp. 72.

- The Corporate Profits Tax (EPT) was reformed.[61] The 1988 Company Law established the legal framework for newly emerging business entities within Hungary's transition to a market economy, while the 1988 Corporate Profit Tax Act introduced a modern corporate taxation regime. Subsequently, the 1991 corporate tax legislation directly linked taxation to the accounting law framework, thereby facilitating the calculation of the tax base and improving legal and financial transparency.[62]
- Law No. xxxviii of 1992 on Public Finance was enacted. It includes substantive and procedural regulations related to budget approval and establishes the general principles for managing and overseeing public finances. It also sets forth appropriate principles for the rule of law, such as the principle of proportional tax participation and increasing contributions to public expenditures in proportion to income growth.[63]

1.4.3 End of the Tax Reform Phase and Preparations for EU Accession

During the same period of rapprochement with the European Union, Hungary was experiencing a severe financial crisis, with high deficits and public debt.[64] The combined effect of systemic change, tax reform, and external trade shocks led to a significant decline in real income and spending. Therefore, the government at the time had to take several measures to control this situation under Finance Minister Lajos Bokros [65]

- A growth-stimulating economic policy called the Brooks Package was implemented, involving rapid spending cuts and tax increases. The

[61] Kopits, G. (1993) *Hungary: A Case of Gradual Fiscal Reform*, in Tanzi, V. (ed.) *Transition to Market: Studies in Fiscal Reform*. Washington, DC: International Monetary Fund, pp. 74.
[62] Fülöp, K. (2024) 'A magyar út a versenyképes adórendszer irányába 1988–2024: adalékok a magyar uniós elnökség versenyképességi programjának adópilléréhez', *Pro Publico Bono: Magyar Közigazgatás; A Nemzeti Közszolgálati Egyetem Közigazgatás-tudományi Szakmai Folyóirata*, 12(3), pp. 52–55.
[63] Erdős, É. (2010). *Studies in European Tax and Financial Law*. Miskolc: Faculty of Law, University of Miskolc, pp.12.
[64] Magyar Nemzeti Bank (2018) *Growth Report 2018*. Budapest: Magyar Nemzeti Bank, pp.12.
[65] Richter, S. (2012) The Hungarian Economy: A Hostage of Populism. wiiw Research Note No. 1. Vienna: The Vienna Institute for International Economic Studies (wiiw), pp. 4-5.

exchange rate policy was also changed, adopting a creeping peg that proved effective in curbing inflation.[66]

- To transform the harmonization of laws into a comprehensive harmonization policy:

After Hungary signed the European Convention on Local Self-Government, several steps were taken to empower local self-government.[67] The most important of these measures was the adoption of a new public budget policy to limit domestic borrowing. Also, the domestic borrowing model, which was incompatible with the nature of the liberal system being implemented, was changed, and a law on the bankruptcy of local governments was enacted to strengthen fiscal responsibility.[68]

- The Personal Income Tax Act of 1995 was enacted and remains in effect today.

This tax will be discussed in detail in other chapters of the research, but its most important points are:

The most important aspect of this law is that it attempted to address many of the loopholes in previous laws, such as the fragmentation of income based on type and the excessively progressive taxation, which reached 75% on some self-employment incomes.[69]

The implementation of the new personal income tax legislation marked a transition toward a unitary tax regime, effectively consolidating diverse revenue streams into a centralized assessment framework. This structural reform further codified the statutory criteria and general principles governing the application of fiscal deductions and exemptions.[70] The 1995 law kept the tax progressive but made it simpler compared to the years 1988–1992;

[66] FINANCIAL AND ECONOMIC REVIEW Scientific journal of the Magyar Nemzeti Bank p30.

[67] Hoffman, I. (2021) 'Local Self-Government in Hungary', in Brezovnik, B., Hoffman, I. and Kostrubiec, J. (eds.) Local Self-Government in Europe. Maribor: Institute for Local Self-Government Maribor, pp.210. doi:10.4335/978-961-7124-00-2.07.

[68] Kecső, G. (2020) 'Reforms of local finance and taxation in Hungary. *Milestones and junctions since 1990,' Polgári Szemle, 16(Special Issue)*, pp. 332–344, pp. 334. https://doi.org/10.24307/psz.2020.1221.

[69] Kopits, G. (1993) Hungary: A Case of Gradual Fiscal Reform, *in Tanzi, V. (ed.) Transition to Market: Studies in Fiscal Reform. Washington, DC: International Monetary Fund*, pp. 71.

[70] Hungary (1995) Act CXVII of 1995 on Personal Income Tax, s. 1(1)–(3). Budapest: Hungarian Parliament.

in 1995, brackets such as 0%, 20%, 25%, 35%, 40%, and 44% appeared according to the level of income, instead of the old system with higher rates.[71]

- As we mentioned the 1989 reform of **the Hungarian corporate income** tax (CIT) was primarily driven by a strategic imperative to harmonize tax rates with Central European standards and stimulate foreign direct investment.[72]

While the initial phase involved the imposition of a temporary corporate tax although it enhanced financial transparency, it led to a decrease in declared profits and a reduction in tax incentives. the regulatory landscape stabilized following the 1991 enactment of the first unified, sector-neutral accounting law .[73] However, the most significant structural evolution was realized through Act LXXXI of 1996.[74] This legislation provided a rigorous definition of the corporate tax base and codified comprehensive provisions regarding tax base adjustments, including the classification of deductible versus non-deductible expenses, depreciation protocols, and dividend exemptions by lowering the statutory corporate tax rate to 18% and integrating international taxation principles, specifically those concerning tax residency and permanent establishment. The 1996 Act effectively modernized Hungary's fiscal framework and formalized its investment incentive regime.[75]

As for the **value-added tax,** the financial legislator during this period maintained the same rates applied at the beginning of the reform period, with full exemption from the sales tax, while aiming to establish an indirect tax with three rates, as in Western European countries.[76]

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[71] Newbery, D.M. and Révész, T. (2000) 'The evolution of the tax structure of a reforming transitional Economy: Hungary 1988–98,' *International Tax and Public Finance,* 7(2), pp. 234–235. https://doi.org/10.1023/a:1008708621725.

[72] Newbery, D.M. (1997). 'Reforming tax and benefit systems in Central Europe: lessons from Hungary'. In: *Zecchini, S. (eds) Lessons from the Economic Transition. Springer, Dordrecht*, pp.3. https://doi.org/10.1007/978-94-011-5368-3_24

[73] Erdos, G. (2021) 'Tax in History: The 30 year anniversary of the disintegration of the Eastern Bloc: Tax reform process in Hungary,' *Intertax*, 49(Issue 5), pp. 2. https://doi.org/10.54648/taxi2021044.

[74] Karnosh, K. (2019) 'The Evolution of the Hungarian Tax System'. *International Immersion Program Research Paper. Chicago: University of Chicago Law School*, pp.10.

[75] Hungary (1996) *Act LXXXI of 1996 on Corporate Tax and Dividend Tax*, ss. 2, 6–8. Budapest: Hungarian Parliament.

[76] Newbery, D.M. and Révész, T. (2000b) 'The evolution of the tax structure of a reforming transitional Economy: Hungary 1988–98,' *International Tax and Public Finance,* 7(2), pp. 214. https://doi.org/10.1023/a:1008708621725.

1.4.4 2000 to the Present: European Integration and Institutional Alignment

During the pre-accession phase and the subsequent post-2004 era, Hungary consistently prioritized regulatory alignment with European Union standards. Concurrently, the Magyar Nemzeti Bank (the central bank) calibrated its emergency asset frameworks to target aggregate money supply and regulate commercial bank credit expansion, thereby fostering macroeconomic stability.[77]

Upon accession to the European Union in 2004, Hungary enacted foundational constitutional amendments to facilitate the co-exercise of sovereign competences alongside member states, in strict accordance with the founding treaties. This constitutional alignment initiated comprehensive legislative harmonization. [78]Notably, regarding the local business tax (HIPA), post-accession regulations prohibited the introduction of new fiscal incentives or exemptions, while existing preferential treatments were subjected to sunset clauses.[79] Furthermore, structural reforms to the corporate income tax framework included the abolition of withholding tax on corporate distributions as of 2006, establishing a regime wherein Hungary refrains from levying withholding taxes on outbound corporate payments. [80]Finally, to mitigate harmful tax competition and align with international standards, preferential tax incentives previously afforded to offshore entities were systematically dismantled.[81] Regarding value-added tax (VAT), the scope of fiscal exemptions granted to essential goods was systematically curtailed, alongside broader rate adjustments designed to ensure compliance with the harmonized EU VAT Directive.[82]

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[77] Lentner, C. (2021b) 'Outline of the Evolution of the Hungarian Monetary Policy from the Restoration of the Two-level Banking System to the Present Day,' *Public Governance Administration and Finances Law Review*, 6(1), pp. 107. https://doi.org/10.53116/pgaflr.2021.1.9.

[78] Ziegler, D.T. and Horváthy, B. (2017). *Europeanization of the Hungarian Legal Order: From Convergence to Cancellation?, in Batory, A., Cartwright, A. and Stone, D. (eds.) Reviewing European Union Accession: Unexpected Results, Spillover Effects, and Externalities. Leiden:* Brill, pp. 5. https://doi.org/10.1163/9789004352070_004.

[79]Erdős, É. (2011). *Law of Public Finances in the EU: The European Tax Harmonization*. Târgu-Mureș: Editura Universității Petru Maior, pp. 128.

[80] Erdos, G. (2021) 'Tax in History: The 30 year anniversary of the disintegration of the Eastern Bloc: Tax reform process in Hungary,' *Intertax*, 49(Issue 5), pp. 4. https://doi.org/10.54648/taxi2021044.

[81] Erdős, É. (2011). *Law of Public Finances in the EU: The European Tax Harmonization*. Târgu-Mureș: Editura Universității Petru Maior, pp. 124.

[82] Hungary, Government of the Republic of Hungary (2004) *Convergence Programme of Hungary 2004*. Budapest: Government of the Republic of Hungary, pp. 4.

Following the 2010 election of the right-wing administration led by Prime Minister Viktor Orbán, Hungary's macroeconomic policy shifted toward an unorthodox, nationalist economic program. While formal alignment and coordination with the European Union persisted, Hungary increasingly diverged from its supranational commitments, most notably within the framework of the European Single Market.[83]Regarding personal income taxation, the central structural reform entailed replacing the progressive marginal rate system with a linear flat rate of **16%**, which was subsequently reduced to **15%** in 2016.[84]Alongside this structural transition from progressive to linear taxation, the reform achieved a significant nominal reduction in individual tax burdens. Concurrently, a new pronatalist family tax allowance system was implemented. To incentivize childbirth, the monthly tax relief base ranged from **62,500 HUF** in 2011 to **660,000 HUF** by 2017 for families with one child, with progressively higher thresholds applied to families with multiple children.[85] By 2020, this policy culminated in a lifetime PIT exemption for mothers raising four or more children. [86]Conversely, consumption tax policies saw an upward adjustment; the standard value-added tax (**VAT**) rate was maintained at **25%** in 2011 before being raised to **27%**, a level that remains sustained and stands significantly above the OECD average.[87]In terms of corporate taxation, the statutory CIT rate was aggressively lowered from **19%** in 2010 to **9%** in 2017, establishing the lowest rate in the EU. This regime was subsequently modified by the 2023 transposition of EU Directive

[83] Ziegler, D.T. and Horváthy, B. (2017). *Europeanization of the Hungarian Legal Order: From Convergence to Cancellation?, in Batory, A., Cartwright, A. and Stone, D. (eds.) Reviewing European Union Accession: Unexpected Results, Spillover Effects, and Externalities.* Leiden*:* Brill, pp. 7.

[84] Bartha, Z. (2014) 'MID-TERM EFFECTS OF THE FLAT RATE PERSONAL INCOME TAX IN HUNGARY,' *Humanities and Social Sciences Quarterly* [Preprint], p26. https://doi.org/10.7862/rz.2014.hss.34.

[85] *Sági, J., Lentner, C. and Tatay, T. (2018) 'Family allowance issues,' Polgári Szemle, 14(Special Issue), pp. 299. https://doi.org/10.24307/psz.2018.0419.*

[86] Government of Hungary (n.d.) *Family care*. Safe in Hungary. Available at: Safe in Hungary – Family Care(Accessed: 15 Feb 2026).

[87] OECD (2024). *Consumption Tax Trends 2024*, *Consumption tax trends*.pp.1-13. https://doi.org/10.1787/dcd4dd36-en.

2022/2523, which integrated the Pillar Two Global Minimum Corporate Tax framework into Hungarian domestic law.[88]

To mitigate a severe budget deficit, the Hungarian government introduced a series of unconventional sectoral taxes in 2010. The most notable was a special tax levied on the revenues of financial institutions, insurance companies, and financial transactions, specifically a 0.53% tax applied directly to the balance sheet assets of banks. This pioneering fiscal measure drew sharp criticism from international financial institutions, including the International Monetary Fund and European banking authorities.[89]Due to market pressures and changing macroeconomic conditions, the government subsequently revised the framework in 2016, reducing the maximum asset tax rate to 0.24%.[90]

Regarding **the general budget,**

In the period following 2010, Hungary implemented a series of comprehensive fiscal measures aimed at restructuring the general budget and reforming public finances. Academic studies indicate that this stabilization strategy centered on a systematic reorganization of public finance management, achieved primarily through the codification of fundamental budgetary rules within "fundamental laws" and the reform of the regulatory frameworks governing both the State Audit Office and the broader state financial apparatus.[91]

Furthermore, institutional capacity was significantly altered by Law No. 139 of 2013, which substantially expanded the powers of the Hungarian Central Bank. This legislative expansion strengthened the Central Bank's ability to intervene in the macroeconomy, particularly with regard to the transmission of monetary policy and inflation targeting [92](Simultaneously, the state reinforced its financial oversight structure. Under the 2011

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[88] PwC (2025) *Hungary – Corporate – Taxes on Corporate Income*. Worldwide Tax Summaries. Available at: PwC Worldwide Tax Summaries – Hungary Corporate Taxes on Corporate Income. (Accessed: 15 Jan 2026).

[89] Osvát, K. and Osvát, S. (2010) 'Bank Tax in Hungary: Quick Analysis on a Debated Pioneering Step'. *The Idea is not Popular Down Under*. ANU Centre for European Studies Working Paper Series, 1(2), pp. 3.

[90] Government of Hungary (2015) *Hungarian Outlook: Major Changes Expected to Increase Tax Competitiveness in Hungary*. Budapest: Ministry for National Economy. Available at: Hungarian Outlook PDF. (Accessed: 15 Jan 2026).

[91] Kovács, Á. (2016) 'The Fiscal Council in the Hungarian Fundamental Law – Sketch on the Development of the Institution and the European Union Practice', *Public Finance Quarterly*, 61(3), pp. 317.

[92] Lentner, C. (2017) 'Scientific Taxonomy of Hungarian Public Finances after 2010,' *Polgári Szemle*, (Special issue), pp. 27. https://doi.org/10.24307/psz.2017.0303.

Public Finance Act No. CXCV, the powers of the institutions responsible for budget implementation were expanded to curb the misappropriation of public funds by establishing a robust three-tiered internal control mechanism.[93]

A key pillar of this macroeconomic policy was reducing the public debt-to-GDP ratio. This objective was pursued through a two-pronged strategy: first, by restructuring the sovereign debt to reduce reliance on external foreign currency financing in favor of domestic markets.[94] (and second, by implementing stringent fiscal consolidation measures under the Széll Kálmán Plan. This structural reform program targeted public spending through comprehensive reforms in key sectors, including the labor market, the unemployment benefits system, higher education, and healthcare infrastructure.[95]

1.5 Historical Development of Financial Law in Syria

1.5.1 Formation of the Syrian Financial System

During the French Mandate, Syrian financial legislation shifted from Ottoman frameworks to a centralized, mandatory structure. In 1928, the High Commission in Beirut established a separate budget for "common interests" alongside individual state budgets. [96]This fragmentation of the state structure in Syria resulted in individual budgets characterized by specific revenue and debt structures.[97]

Until 1935, the public debt framework was divided into three pillars: the remaining Ottoman public debt, the permanent debt obligations of the public pension fund, and specialized local obligations arising from loans from the Bank of Syria and Lebanon to cover the state budget deficit and its obligations to the Agricultural Bank.[98]

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[93] Hottó, I. (2025) 'Public funds and the legal framework of fiscal oversight in Hungary,' *Studia Juridica Et Politica Jaurinensia*, 12(1), pp. 74–75. https://doi.org/10.71100/studia.2025.1.5.

[94] Lentner, C. (2017) 'Scientific Taxonomy of Hungarian Public Finances after 2010,' *Polgári Szemle*, (Special issue), pp. 3. https://doi.org/10.24307/psz.2017.0303.

[95]Hungary (2011). *Hungary's Structural Reform Programme 2011–2014: Based on the Political Thesis of the Széll Kálmán Plan*. Budapest: Ministry for National Economy, pp.11-19. Available at: Hungary's Structural Reform Programme 2011–2014

[96] Moussali, N. (1933). *Études économiques sur la Syrie et le Liban*. Harissa: Imprimerie de Saint-Paul, pp.7.

[97] Centre des Archives Diplomatiques de Nantes (CADN) (1932). *Communication du Haut-Commissariat sur le Compte de Gestion des Intérêts Communs, Historiques*. Beyrouth, June 1932. Carton 385, CADN Archives, pp,7-1-11.

[98] Hamadeh, S. (1935) *The Monetary and Banking System in Syria*. Beirut: American University of Beirut, pp.102.

During this period, provincial budget revenues were divided into ordinary and exceptional categories. [99]Ordinary revenues, paid primarily from direct and indirect taxes—direct taxes including land tax, tithe, enjoyment tax, livestock tax, and road toll, and indirect taxes including taxes on sulfur, spirits, alcoholic beverages, entertainment venues, flammable materials, pharmacies, cement, salt, tobacco, and customs duties—constituted the core of public finances, averaging 88% of annual ordinary revenues between 1925 and 1938.[100]

It can be argued that the period between 1944 and 1946 witnessed the beginning of the disintegration of the financial system imposed by France. It cannot be overlooked that during the Mandate period, with its fragile monetary system, mismanagement of the banking system, and the adoption by the Mandate authorities of a financial policy ill-suited to the country's economic realities, all of this hindered the country's development rather than supporting its progress. Immediately after independence, a liberal capitalist economic policy was adopted, and this trend continued until 1958.[101]

The most important updates to the financial law issued during this period were the establishment of the Central Bank of Syria, based on a decision issued by the then head of state, Shukri al-Quwatli.[102]The most important achievement of this law was that it defined the Syrian pound as the basic monetary unit, determined its value, and linked it to gold.[103] During this period, this was a significant accomplishment for the national government because it severed the link with the French franc and granted the Central Bank new and expanded functions. The Central Bank of Syria is the financial agent of the government within and outside the territory of the Syrian Republic in all banking operations and transactions of its trust funds, and it is authorized to issue national bonds.[104]

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[99] Al-Qadi, H. (2011). *Economic and Social Development in Syria*. Damascus: Twenty-Fourth Economic Tuesday Seminar at the Syrian Economic Sciences Association, pp.4.

[100] Barakat, A. (1948). *Le problème budgétaire en Syrie (1920–1939)*. Beirut: Imprimerie Nassar, pp.73.

[101] El-Saleh, M.A. (2004) 'Une évaluation de la gestion mandataire de l'économie syrienne,' in *The British and French Mandates in Comparative Perspectives/Les mandats français et anglais dans une perspective comparative*, pp. 203–210. https://doi.org/10.1163/9789047402695_024.

[102] Fares, C. (2022) *History of the Syrian Pound*. WANA. Available at: https://www.wanabqa.com/history-of-the-syrian-pound/ (Accessed: 2 Mar 2026).

[103] Syrian Republic, Ministry of Finance (1953) *The Basic Monetary System and the Creation of the Central Bank of Syria, Legislative Decree No. 87 of 28 March 1953*. Damascus: Syrian Republic Press, Articles 11–14.

[104] Syrian Republic, Ministry of Finance (1953) *The Basic Monetary System and the Creation of the Central Bank of Syria, Legislative Decree No. 87 of 28 March 1953*. Damascus: Syrian Republic Press, Articles 66.

This stage was characterized by the issuance of Law No. 85 of 1949, which defined the sources of income and the taxes imposed on them scientifically and realistically, and is considered the beginning of the establishment of the progressive tax system in Syria.[105]

1.5.2 Financial Law during the Socialist Period

In 1963, after the failure of the union between Syria and Egypt, the Ba'ath Party took power. It adopted socialism, nationalized all joint-stock companies, and tightened restrictions on capital owners.[106] In 1966, there was a further increase in profit taxes, capital taxes, and especially inheritance taxes.[107] Not to mention, the first bank mergers took place in 1963, when the entire banking system was consolidated into five main units, taking into account economic and local conditions, as well as the volume and type of credit.[108]

But the Basic Financial Law No. 92 of 1967 represented a major turning point in the development of Syrian financial legislation, as it first established a comprehensive legal framework for public finance management, unifying the state's general budget and unifying the principles of expenditure and the commencement of specific instructions.[109] It regulated the preparation, approval, implementation, and control of the general budget, and enshrined the principles of budget comprehensiveness, annuity, and The provisional one-twelfth budget rule, and defined the stages of implementation of public expenditures and revenues and the powers of the competent administrative bodies.[110] It remained the basic reference for Syrian financial legislation until the issuance of the new Basic Financial Law No. 54 of 2006.

During this period, the Syrian legislator continued to apply the same tax system issued in 1949, which included direct and indirect taxes and divided taxes into categories that

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[105] Bashour, I. (1982) *Tax Legislation*. Damascus: Cooperative Press, pp. 166.

[106] Sorby, K.R. (2010) 'The Ascendancy of the Baath in Syria (1963–1966)', *Asian and African Studies*, 19(1), pp. 49.

[107] Al-Qadi, H. (2011). *Economic and Social Development in Syria*. Damascus: Twenty-Fourth Economic Tuesday Seminar at the Syrian Economic Sciences Association, pp.6.

[108] Bayraktutan, Y. *et al.* (2024) *A general overview of the Syrian economy*, *Özgür Yayınları eBooks*, pp.273. https://doi.org/10.58830/ozgur.pub520.

[109] Bin Tata, A. (2009). *The Tax System in Syria and Algeria*. Damascus: Faculty of Economics, Damascus University, Postgraduate Studies, pp.6.

[110] Syrian Arab Republic (1967) *Basic Financial Law, Legislative Decree No. 92 of 1967*, Articles 1–3 and 11–14.

included taxes on professions and crafts (industrial, commercial and non-commercial), in addition to taxes on salaries and wages.[111] Following this period, and as President Hafez al-Assad continued his strict socialist approach, economic problems began to surface,[112] Consequently, structural reforms became a macrofiscal imperative. This liberalization process began with **Decree No. 10 of 1986**, authorizing public-private joint ventures where the state contributed land as equity, followed by **Investment Law No. 10 of 1991**, which introduced corporate tax exemptions of up to **15%** on net profits to stimulate private capital accumulation.[113] Dr Samir Seifan observes that "despite these piecemeal liberalizations, the economy from 1980 to 1988 remained constrained by hyper-centralized planning and institutional underdevelopment. However, the private sector maintained a vital structural role; by 2002, it absorbed **78.6%** of the domestic labor force and generated nearly half of national GDP. Conversely, the public sector demonstrated chronic inefficiencies, leaving the state fiscal apparatus heavily dependent on oil revenues."[114]

1.5.3 Relative Economic Openness Under Bashar al-Assad and During the Syrian Civil War

After Bashar al-Assad took power, he launched the economic reform program project in 2003.[115] These reforms led to the activation of tax reform factors, resulting in the issuance **of Law No. 24 of 2003**, in addition to a package of other laws. In fact, Law No. 24 is a reproduction of Decree No. 85 of 1949, as it adopted a system of specific taxes, which led to the preservation of the complexity and chaos of the tax system, which represents a suitable environment for corruption in the tax administration. The law specified the persons subject to the tax on profits from industrial, commercial, and non-commercial professions and crafts from the category of actual profit taxpayers in 32 professions.[116]

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[111] Syrian Arab Republic (1949) *Legislative Decree No. 85 of 1949 on Income Tax*. Damascus: Government of the Syrian Arab Republic. Available at: http://parliament.gov.sy/arabic/index.php?node=201&nid=12161 (Accessed: 9 Mar 2026).

[112] Mugarbal, A., Al-Terkawi, K. and Masry, M.S. (2024). *The Economy of the Syrian Regime: Approaches and Policies (1970–2024)*. Analytical Report. Istanbul: Jusoor for Studies, pp.5.

[113] Syrian Arab Republic (1991) *Law No. 20 of 1991 Amending Tax Rates and Tax Brackets*, Articles 2–11.

[114] Seifan, S. (2024) *Economic Reform in Syria during the First Decade of Bashar al-Assad's Presidency*. Analytical Report. Doha, Qatar and Istanbul, Turkey: Harmoon Center for Contemporary Studies, pp.7.

[115] Seifan, S. (2024) *Economic Reform in Syria during the First Decade of Bashar al-Assad's Presidency*. Analytical Report. Doha, Qatar and Istanbul, Turkey: Harmoon Center for Contemporary Studies, pp. 20.

[116] Al-Jalilati, M. (n.d.) The Syrian Legal System and Trends in its Reform. Available at: http://www.mafhoum.com/syr/articles/jlaylati/jlaylati.htm (Accessed: 13 Mar 2026)

Law No. 18 of 1987 concerning the consumption tax was updated, and Legislative Decree No. 61 of 2004[117] was issued, addressing the most important luxury goods and services at rates ranging from 10-20% depending on the value of the required good or service.[118]

Also, the new Basic Financial Law No. 54 of 2006, which we mentioned earlier, was issued. It did not abolish the philosophy of the 1967 law but rather relied heavily on it, while introducing several updates and new details in the management of the general budget and the classification of expenditures and revenues. The most important of these updates are: expanding the scope of the general budget, clarifying the principle of the twelfth-month budget, and adding an economic classification of expenditures.[119] Following 2006, Syria enacted several subsidiary financial laws to modernize its institutional architecture. Notably, **Law No. 41 of 2007** established the General Authority for Taxes and Fees, centralizing the implementation of the state's macrofiscal policies.[120] This period also witnessed structural diversification through the authorization of microfinance institutions and private Islamic banks, alongside the reinforcement of prudential banking supervision.[121]

To formalize these supervisory frameworks, in 2009, the Central Bank of Syria issued:

Comprehensive instructions for banking governance.

Requiring banks to issue annual financial reports in Arabic and English.

Regulating the work of internal and external audit committees and improving transparency and financial disclosure.[122] **In 2011, the war in Syria began,** and the country transitioned to a war economy in its fiscal and monetary policies as a result of the deteriorating economy

[117] Decree 61 was amended seven months after its issuance, and then amended three more times, indicating a weakness in the legislation. Furthermore, laws are issued without any practical or applied studies demonstrating their impact. However, it can be said that the Ministry of Finance views the consumption expenditure tax as a sales tax, a first step towards implementing value-added tax in Syria.

[118] Syrian Arab Republic (2004) *Legislative Decree No. 61 of 2004 on the Imposition of the Consumption Expenditure Tax*. Damascus: Government of the Syrian Arab Republic.

[119] Syrian Arab Republic (2006) *Basic Financial Law No. 54 of 2006*, Articles 11–19.

[120] Syrian Arab Republic (2007) *Law No. 41 of 2007 Establishing the Syrian Authority for Taxes and Fees*, Article 1.

[121] Syrian Arab Republic (2005) *Legislative Decree No. 35 of 2005 on the Establishment of the Islamic Bank in Syria*. Damascus: Government of the Syrian Arab Republic.

[122] Al Mashhour, O.F., Asalie, M.I., Abd Aziz, A.S. and Mohd Noor, N.A. (2024) 'An Overview of the Banking System in Syria after a Decade of Unrest', *International Journal of Law, Government and Communication (IJLGC)*, 5(19), pp.70.

and declining financial capacity.[123]In the same year, Decree No. 24 of 2011 was issued, amending the income tax rate and raising the minimum income tax exemption threshold. This threshold was also raised in 2015 and again in 2023.[124]Law No. 17 of 2013 was also issued, exempting institutions and companies from taxes on food imports, as well as Law No. 13 of 2013, which added a 5% tax levy called the National Reconstruction Contribution.[125]All these measures were accompanied by a decrease in real per capita income and a decline in GDP, particularly between 2013 and 2015.[126]

During the war, the Ministry of Finance's policy of mitigating inflation and reducing the deficit by borrowing from the Central Bank to secure the necessary funding remained unchanged.[127] No amendments were made to the 2006 Public Budget Law, which relied on domestic borrowing from the financial sector through the issuance of treasury bonds a measure deemed ineffective.

It is also worth noting that in 2011, the Syrian legislature issued Legislative Decree No. 29 of 2011, which constitutes the new Companies Law. Its most significant provision allows the state to sell all institutions and establishments wholly or partially owned by the state.[128] It also established a new type of company: "Wholesale State-Owned Joint-Stock Companies," thus permitting the state to sell public assets after converting these institutions into joint-stock companies.It is also worth mentioning that in 2025, following the change of regime in Syria, the first draft of the Value Added Tax (VAT) law was completed by a specialized technical committee. It is expected to come into effect in 2025, a step that

[123] Mugarbal, A., Al-Terkawi, K. and Masry, M.S. (2024). *The Economy of the Syrian Regime: Approaches and Policies (1970–2024)*. Analytical Report. Istanbul: Jusoor for Studies, pp.14.

[124] Al-Hindi, F. (2021) 'The Impact of the Economic Crisis and the War on Tax Revenues in Syria', *Damascus University Journal of Economic and Political Sciences*, 37(3), pp.44.

[125] Agha, M.O. (2023) 'Coercive Deprivation: Unraveling the Assad Regime's Policy on Domestic Reconstruction', *Middle East Institute*, 7 July. Available at: https://www.mei.edu/publication/coercive-deprivation-unraveling-assad-regimes-policy-domestic-reconstruction/

[126] Mashhour, O.F.A. *et al.* (2020) 'AN OVERVIEW OF THE BANKING SYSTEM IN SYRIA AFTER a DECADE OF UNREST,' *International Journal of Law Government and Communication*, 5(19), pp. 29. https://doi.org/10.35631/ijlgc.519005.

[127] Mugarbal, A., Al-Terkawi, K. and Masry, M.S. (2024). *The Economy of the Syrian Regime: Approaches and Policies (1970–2024)*. Analytical Report. Istanbul: Jusoor for Studies, pp.14.

[128] Mugarbal, A., Al-Terkawi, K. and Masry, M.S. (2024). *The Economy of the Syrian Regime: Approaches and Policies (1970–2024)*. Analytical Report. Istanbul: Jusoor for Studies, pp.17.

coincides with the tax administration's acquisition of the electronic invoicing software, which will serve as the implementation tool for the new tax policy.[129]

1.6 Discussion

As we mentioned earlier, the topics of financial law are not phenomena separate from the legal and institutional environment that produced them; rather, they are a direct result of the historical development of financial law in each country.

It is important to note that in our comparative study of Hungary and Syria, this historical narrative is fundamental because it relates to several topics: **Firstly**, in a comparative legal study, it is not important to study the percentages of the public deficit in Syria and Hungary in 2025, or the rate of tax evasion, or any other standard economic topic. Rather, the question is: **why do the results of these economic phenomena differ in the two countries?**

Simply because the legal foundations and hierarchy of financial law differ in the two countries, this is due not only to markets, supply and demand, and economic laws, but also to what is called the legal relationship between economics and law. Although this relationship is distinct and operates at different levels, in terms of social interaction and essence, it is a complementary relationship. This has been emphasized by classical and Marxist economic jurisprudence. This interactive relationship manifests itself in many results, according to empirical studies, the most important of which is the failure of financial market stability without legislative regulation and the effectiveness of legal mechanisms.[130]

So, what is the benefit of the historical narrative regarding the case of Syria and Hungary in the context of a comparative legal study, not an economic one? For example, as we mentioned before, the public deficit **in Hungary** began to improve in 1995 and 2010 as a result of several legal reforms. To address this, the government implemented the Bokros

[129] Agha, M.O. (2023) 'Coercive Deprivation: Unraveling the Assad Regime's Policy on Domestic Reconstruction', *Middle East Institute*, 7 July. Available at: https://www.mei.edu/publication/coercive-deprivation-unraveling-assad-regimes-policy-domestic-reconstruction/(Accessed: 20 Mar 2026).

[130] Deakin, S. (2013) 'The legal theory of finance: Implications for methodology and empirical research,' *Journal of Comparative Economics*, 41(2), pp. 339–340. https://doi.org/10.1016/j.jce.2013.03.005.

package, which included several measures: in the general budget, such as reductions in government spending, strengthening oversight of public expenditures, and increasing tax revenues through amendments to the Value Added Tax (VAT) law and the imposition of exceptional sectoral taxes on banks.[131] The same was evident in the 2010 reforms under Viktor Orbán's government. The improvement or reduction of the deficit in Hungary is linked not only to changes in economic and standard values but also to legislative regulation and a move towards financial legal reform. **In Syria**, this idea is also important. As we mentioned previously, despite the economic liberalization in Syria during the 1980s, the deficit remained large, the public debt crisis worsened, revenues decreased, and public expenditures increased. This is precisely a significant consequence of a history of financial legislative failures in Syria, which we also mentioned, the most important of which was the adoption of complete state control over institutions in what is known as the nationalization system, and the failure to amend old laws such as the 1967 Financial Legislation and the 1949 Income Tax Law.[132] To give another illustrative example, the share of direct taxes in total government revenue declined sharply during the conflict, falling from 21% in 2010 to only 11% by 2024[133], according to state budget figures. This indicates a very high rate of tax evasion in this sector for many reasons, but the most important is the failure to modernize the traditional income tax system, which we will discuss in detail later.

Legal-economic theories prove this idea, especially the theory of the legal scholar Dr Katharina Pistor, **the legal theory of finance**, in which Dr Pistor studied financial markets systematically and for a long time and drew the conclusion that financial markets cannot be unregulated as the economists claimed, but they are organized and restricted by rules based on a formal legal system that can decisively defend the rights and obligations of the contracting parties.[134] The historical account reveals that the differences in financial

[131] Kovács, M.A. (2005) *Hogyan hat az árfolyam? Az 1995-ös stabilizáció tanulságai és jelenlegi ismereteink*. MNB Háttértanulmányok 2005/6. Budapest: Magyar Nemzeti Bank, pp.19-35.

[132] Seifan, S. (2024) *Economic Reform in Syria during the First Decade of Bashar al-Assad's Presidency*. Analytical Report. Doha, Qatar and Istanbul, Turkey: Harmoon Center for Contemporary Studies, p. 7.

[133] Karam Shaar Advisory (2025) 'Taxes in Syria, Episode Two: Achieving Social Equity through Direct Taxation', *Syria in Figures*, Issue 8, May 2025. Available at: https://karamshaar.com/syria-in-figures/taxes-in-syria-episode-two-achieving-social-equity-through-direct-taxation/ (Accessed: 20 Apr 2026).

[134] Pistor, K. (2013) *A Legal Theory of Finance*. Columbia Law School Public Law and Legal Theory Working Paper No. 13-348. New York: Columbia Law School, pp. 321.

outcomes between Syria and Hungary are not solely attributable to economic factors, but are significantly influenced by the historical development of financial law, institutional structures, and the hierarchy of legal rules governing public finance. Therefore, comparative studies of financial law topics such as public deficits and tax revenues should be viewed as products of legal and institutional arrangements, not merely as purely economic phenomena.

From the historical narrative of Hungary and Syria, we observe several points:

Prior to 1988, Hungary's financial law included several important aspects, including general budget legislation, income tax regulations, certain corporate laws, and monetary policies. The communist regime primarily focused its tax policy on capital. Financial law was officially established in 1979, with subsequent reforms in 1988 that created Hungary's contemporary legal framework. The shift to a market economy brought about major financial transformations, moving from scarcity to the opening up of foreign trade and investment. This was succeeded by European integration and joining the European Union, along with its related reforms.

Through these stages, we can conclude that the state's role in Hungary was fundamental in securing financial resources through the budget law and ensuring monetary and financial stability, which was explicitly stated in the basic financial law. Of course, this changed due to the political circumstances, particularly after joining the European Union, leading to a more organized, disciplined, and less centralized role for the state.[135]

Nevertheless, when we look at the scenario in Syria, the country shifted from various budgets to one unified general budget in 1967. This budget depended mainly on income tax revenues, while upholding the socialist principle of nationalization. The government sought to slowly lessen this nationalization during the 1980s with the Investment Law and additional initiatives, and once more in the 2000s.Before 1967, the state's involvement was mainly administrative, focused on assisting with budget preparation. This shifted later, and the government took on a more centralized position in funding and financial strategy.[136] In

[135] Nagy, Z. (2022) 'Regulation of Public Finances in Hungary in Light of Financial Constitutionality', in *Regulation of Public Finances in Light of Financial Constitutionality*. Legal Studies on Central Europe. Budapest and Miskolc: Central European Academic Publishing, pp. 87–88.

[136] Al-Akkam, M.K. (2018) *Public Finance Law (Public Finance 1: Revenues and Expenditures)*. Damascus: Syrian Virtual University, pp. 59.

market economies, the government plays a crucial role in ensuring macroeconomic stability and income distribution via financial laws. To carry out these functions, the state needs to set up regulations and initiatives and establish specific institutions, which necessitate legal approval. This approval is frequently based on the constitution, and compliance with it and regard for this directive are crucial. [137]This authorization may also originate from various laws and regulations, including the European Union's Public Finance Law and Public Administrations Regulations, as detailed in the Maastricht Treaties, which state that "the proper management of public finances in member states should be regarded as a key pillar for developing an open market economy with free competition, creating the need for establishing specific and consistently applicable standards."[138]

Consequently, we note that the function of the state in public finance in Syria and Hungary has followed a distinct path. While the state's function in Syria stayed in its historical context, more centralized and organized, particularly following the war period, in Hungary it shifted towards openness and alignment with the European market. These two distinct routes represent a vital aspect and an important value for legal analysis.

Also, through the historical narrative, several points related to our research topic are noted. Hungary suffered from a chronic problem with budget deficits during periods of transformation, such as the democratic transition and the signing of the preamble to the European Charter, which led to the imposition of a large economic package (the BRICS package). This was also the case in 2010 when the Hungarian government, led by Orbán, implemented several constitutional, financial, and tax reforms, as previously mentioned.

Syria also suffered from a budget deficit for extended periods, particularly during Hafez al-Assad's rule. Despite the reforms implemented in the 1980s, as mentioned, and during the rule of his son, Bashar al-Assad, this problem intensified with the start of the Syrian war, reaching record levels in 2024.

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[137] Tanzi, V. and VTanzi@imf.Org (2000) 'The role of the state and the quality of the public sector,' *IMF Working Paper*, 00(36), pp. 6-7-8. https://doi.org/10.5089/9781451845440.001.

[138] D'Alterio, E. (2025). *Introduction to public finance law in the European Union'* in *Public Finance Law and Public Administrations The Shaping Power of Public Finance in the European Union*, pp. 18. https://doi.org/10.4324/9781003479765-1.

However, as we know, the concept of a budget deficit is an economic one. So, how can we explain the overall deficit within the framework of public finance and legal frameworks? In an empirical study entitled (**Deficits, growth, and the current slowdown: what role for fiscal policy?**), the researchers argue that covering the budget deficit through increased spending is a poor policy and that monetary and fiscal policies must be integrated to stimulate the economy [139] to achieve a more effective fiscal policy. The most common approach to achieving budget balance across all periods, whether recessionary or economically active, is to design financial regulatory frameworks with a clear legislative description.[140] Thus, we conclude that a fiscal deficit, while a standard economic issue, can also be a legally restricted condition. Fiscal policy must be legally and constitutionally constrained, and the law works in conjunction with monetary and fiscal policy to stimulate the economy, as exemplified by the measures Hungary adopted upon joining the European Union in 2010.

The fiscal deficit is a crucial topic in public finance, central to the field, as it is generally linked to public financing, specifically expenditures and revenues. This financing must be legally regulated through more comprehensive and transparent budget legislation, in addition to specific financial rules[141].

To understand the nature of the fiscal deficit in Syria and Hungary, and to examine the historical context of both countries, we must study several legal aspects related to public finance, as emphasized by Dr. Eva Erdős: 1. The Public Budget Law, the Public Revenue Law, the Public Expenditure Law, the Public Debt Law, and the parties involved in the financial relationship[142]. Dr. Muhammad Khair Al-Akkam focused on the same points

[139] Pelagidis, T. and Desli, E. (2004) 'Deficits, growth, and the current slowdown: What role for fiscal policy?,' *SSRN Electronic Journal*, 26(3), pp. 467–468. https://doi.org/10.1080/01603477.2004.11051408.
[140] van Eden, H., Khemani, P. and Emery Jr., R.P. (2015) 'Developing Legal Frameworks to Promote Fiscal Responsibility: Design Matters', in Cangiano, M., Curristine, T. and Lazare, M. (eds.) *Public Financial Management and Its Emerging Architecture*. Washington, DC: International Monetary Fund, pp. 79–80.
[141] Das-Gupta, A. and Bird, R.M. (2012) 'Public finance in developing countries,' *SSRN Electronic Journal* [Preprint]. https://doi.org/10.2139/ssrn.2111065, pp.5-6.
[142] Erdős, É. and Nguy, N.A. (2026) 'THE BASIC OF PUBLIC FINANCES IN THE REGULATION OF HUNGARY AND VIETNAM COMPARATIVE ANALYSIS,' *Curentul Juridic/Juridical Current*, 104(1), pp. 47–48. https://doi.org/10.62838/cjjc-2024-0074.

regarding Syria but added the economic implications of public finance issues.[143] This makes sense because separating economics from law in public finance is extremely difficult, which is important in my opinion because public finance, with all its related topics, lies at the intersection of economics and law. Consequently, the effects of taxes, government spending, public borrowing, and deficit financing on the economy constitute the subject of public finance.[144]

Historical accounts also reveal that taxes in Syria and Hungary have played a significant role in all economic phases and have been fundamental to the countries. In Hungary, Taxes have played a big role in changing the economy, especially back in 1995. They also helped keep spending under control in 2010. Over the years, taxes have been a keyway for governments to get the money they need, even when they're spending more than they have. In Syria, taxes also play a significant role in financing, but as mentioned, Syrian tax legislation suffers from numerous problems and shortcomings in particular income tax and corporate tax.[145] This is a problem for Syria because public spending, especially spending that leads to budget deficits, is primarily financed through taxes, according to tax theories that place great importance on tax system design and consider it essential to increasing national prosperity. The better the structure of tax legislation, the more flexible it becomes in responding to new spending needs, until it reaches a point where the share of tax revenues in national income increases with economic growth without requiring changes in tax policy.[146] Additionally, there is also a consensus that financing deficits through tax revenues is preferable to financing them through bonds.[147]

[143] Al-Akkam, M.K. (2018). *Public Finance Law (Public Finance 1: Revenues and Expenditures)*. Damascus: Syrian Virtual University, pp. 86.
[144] Thapa, I. (2020) 'Public Finance: Concept, Definition and Importance for Country's Development,' *Public Administration Campus* [Preprint]m pp.4. https://doi.org/10.13140/rg.2.2.25473.48481.
[145] International Monetary Fund (2006) *Syrian Arab Republic: Selected Issues*. IMF Country Report No. 06/295. Washington, DC: International Monetary Fund, pp. 20.
[146] Glenday, G. and Hemming, R. (2013) 'Tax Design from a Public Financial Management Perspective,' in *Palgrave Macmillan UK eBooks*, pp. 417. https://doi.org/10.1057/9781137315304_20.
[147] PELAGIDIS, T. and DESLI, E. (2004) 'Deficits, growth, and the current slowdown: what role for fiscal policy?', *Journal of Post Keynesian Economics*, 26(3), pp. 476. doi: 10.1080/01603477.2004.11051408.

Historically, we see that Hungary relied on several taxes for financing and made continuous legislative amendments to these taxes. These included primarily value-added tax, personal income tax, and taxes on companies and exempted sectors. In Syria, however, the government relied mainly on direct taxes, namely personal income tax, capital gains tax, and taxes on consumption and corporate spending. The state did not give these taxes the same level of importance.

The central question is: Which tax best reveals the extent to which tax legislation contributes to financing the state budget, boosting revenues, and reducing the deficit?

First, by analyzing the Hungarian National Bank's public budget reports for the years 2011-2025, we can determine the contribution of the main taxes to budget financing. We observe that budget financing in Hungary relies primarily on Value Added Tax (VAT) and social security contributions. Each of these typically contributes about a quarter of total revenues. Personal income tax contributes approximately 14–15%, while corporate tax is relatively weak, often less than 4% of total revenue.[148] In Syria, according to data available from the Ministry of Finance, income taxes constituted an average of 32% of tax revenue between 2011 and 2018. When salaries and wages are included within direct income taxes, the contribution of income taxes in Syria during the period 2011–2018 reached approximately 39% of total tax revenue on average. However, this figure decreased from 58% in 2011 to 26% in 2018. Customs duties accounted for 16%, consumption taxes 14%, stamp duty 7%, and other taxes and fees 24%.[149]

Based on this data, the importance of value-added tax (VAT) in financing the deficit and budget in Hungary is noteworthy. This is particularly understandable given that Hungary, after joining the European Union and ratifying the VAT, has a significant role to play in this area. The provisions of the Treaty of Rome and later the Treaty of Lisbon (TFEU) mandate coordination in the area of indirect taxes more than direct taxes, through: unifying the basic rules for Value Added Tax (VAT); applying the Input VAT Deduction principle; adopting the Destination Principle in trade between member states; and removing tax barriers to

[148] Author's compilation based on the Public Finance Reports of the Magyar Nemzeti Bank (2011–2025) https://www.mnb.hu/en/publications/reports/public-finance-report.

[149] Prepared by the researcher based on data from the Syrian Ministry of Finance and official financial reports for the period 2010–2018.

trade within the European Union.[150] Compared with Syria, which still relies on an outdated consumption tax called the "Consumption Expenditure Tax," this shows a clear contrast in tax fairness, since it is levied on basic goods with high demand. [151]

Next, we turn to income tax, the second largest source of revenue in Hungary, the largest before 2011, and the primary source of revenue in Syria. Historically, this tax in both countries has been subject to the most legal reforms, meaning it has faced numerous obstacles and legal challenges.

From the narrative I have written, we can see that:

In Hungary:

1988: Introduction of the modern PIT (Personal Income Tax).

1995: Act CXVII on Personal Income Tax.

2011: Flat Tax

2016: 15% PIT.

In Syria:

Law 85 of 1949.

Law 24 of 2003.

Amendments in 2011, 2015, and 2023.

This means that income tax has been a constant focus of fiscal reforms in both countries, hence its legal significance.

This is especially true given that Syria still operates a progressive income tax system with complex legislation and exemptions. In Hungary, a flat tax system with reasonable exemptions is applied. Studies have confirmed a significant decrease in revenue from this tax in Hungary after its implementation, and an increased tax burden on the poor. [152]

Comparing these two systems is crucial because of their connection to tax fairness. This tax system is considered the most suitable for implementing the ability to pay principle, one of the most important principles of horizontal and vertical tax fairness in fiscal law,

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[150] Erdős, É. (2011). *Law of Public Finances in the EU: The European Tax Harmonization*. Târgu-Mureș: Editura Universității Petru Maior, pp.90-95.

[151] Hadiwa, N. (2014) *Value Added Tax (VAT) and Its Economic and Social Effects in Syria*. PhD thesis. Damascus: Faculty of Economics, Damascus University, pp.43.

[152] Bartha, Z. (2014b) 'MID-TERM EFFECTS OF THE FLAT RATE PERSONAL INCOME TAX IN HUNGARY,' *Humanities and Social Sciences Quarterly* [Preprint], pp.35-36-37. https://doi.org/10.7862/rz.2014.hss.34.

which stipulates that taxpayers should bear the tax burden according to their economic capacity.[153]This allows for measuring the efficiency of legislation in financing the deficit and the extent to which these laws are constitutional.

[153] Bejaković, P. (2020) 'How to achieve efficiency and equity in the tax system,' *Revija Za Socijalnu Politiku*, 27(2), pp. 139. https://doi.org/10.3935/rsp.v27i2.1675.

Chapter II

The General Budget Deficit under Financial Law: A Comparative Study between Syria and Hungary

2. The General Budget Deficit under Financial Law: A Comparative Study between Syria and Hungary

2.1 Concept and Legal Nature of the General Budget Deficit:

2.1.1 Definition of the General Budget Deficit

In the twentieth century, Keynes fundamentally challenged the theories of classical economists such as David Hume, Adam Smith, and David Ricardo, who opposed government intervention to finance budget deficits. Classical economists maintained that government intervention through public debt would inevitably destabilize the national economy. They argued that the economy possessed inherent self-correcting mechanisms, rendering unemployment and economic recessions temporary phenomena. Consequently, they considered government intervention through deficit spending unnecessary. [154]In contrast, Keynes emphasized the necessity of government intervention to finance budget deficits, advocating for a range of financing methods to support government spending. This approach, known as Keynesian theory, posited that increased government spending financed by taxes or loans could positively influence the economy by expanding the capital supply.[155]

According to Hansen, beyond highlighting the government's role in financing deficits through increased spending to stimulate development and ensure an adequate standard of living, it is essential to implement such intervention through targeted fiscal policy. This may involve increasing progressive tax rates, gradually expanding government debt, or

[154] German National Academy of Sciences Leopoldina, acatech – National Academy of Science and Engineering and Union of the German Academies of Sciences and Humanities (2016).*Government Debt: Causes, Effects and Limits*. Halle (Saale): German National Academy of Sciences Leopoldina, pp .19.

[155] *Zahariev, A. (2012) Debt Management. 1st edn. Veliko Tarnovo: Abagar Publishing House, pp. 19. doi: 10.13140/RG.2.1.4872.3607.*

employing monetary policies to regulate cash flows.[156] Accordingly, the theoretical development from the classical to the Keynesian approach confirms that the budget deficit has a dual nature. On the one hand, it is an economic tool used to achieve macroeconomic objectives such as growth, employment, and economic stability. On the other hand, it is a legal institution whose financing methods and limits must be defined by the rules of fiscal and constitutional law to ensure fiscal responsibility and the sustainability of public finances.

In classical economic thought, one of the first to mention the fiscal deficit was the American writer Benjamin Franklin in his economic philosophy, when he warned countries against uncontrolled debt and spending beyond their means, which could burden citizens and force them to live at a lower standard of living.[157]

Economically, the budget deficit is commonly defined as the difference between total government spending and current government revenues. [158]However, Dr. Timothy C. Irwin argues that while this definition is the simplest measure of the deficit (the value of the government's net assets), it is no longer sufficient. The modern concept of the fiscal deficit tends to link it more closely to the government's financial position (differences in assets and liabilities recognized in government accounting), which he calls the direct deficit.

This deficit is divided into a portion resulting from transactions and another portion related to "other economic flows." Thus, according to Irwin, the modern financial concept of the public deficit is linked to several concepts, including the definition of the government in each political system, for example, federal governments, differs in its deficit from those of central governments, as does the type of accounting system used. [159]

I consider the modern definition to be more comprehensive and more closely aligned with the principles of public finance. By associating the deficit with the government's financial position, which is reflected in public finance statistics, it becomes possible to assess the

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[156] *Zahariev, A. (2012) Debt Management. 1st edn. Veliko Tarnovo: Abagar Publishing House, pp. 20. doi: 10.13140/RG.2.1.4872.3607.*

[157] Favor, L. (2024) 'Celebrating Financial Independence: Lessons from Ben Franklin', *LSL CPAs*, 9 July. Available at: https://lslcpas.com/celebrating-financial-independence-lessons-from-ben-franklin/ (Accessed: 2 June 2026).

[158] Blejer, M.I. and Cheasty, A. (eds.) (1993) *How to Measure the Fiscal Deficit: Analytical and Methodological Issues*. Washington, DC: International Monetary Fund, p. 13.

[159] Irwin, T.C. (2015) 'Defining the Government's Debt and Deficit', *IMF Working Papers*, 2015(238). Washington, DC: International Monetary Fund, p. 14. doi: 10.5089/9781513547503.001.

government's economic activities at the time the deficit arises. This approach measures the public sector's assets, including non-financial assets such as land and buildings and financial assets such as deposits in commercial banks, as well as its liabilities, such as bonds issued by the government.[160] This definition is itself linked to the state's general budget, which is regulated by financial law.

Furthermore, the assertion that the deficit is linked to the definition of government—that is, the political system of each state has legal implications related to the financial constitution of the state in question. Financial constitutions guide financial policies derived from the state's fundamental financial rules and play a significant role in drawing conclusions about the frameworks that contribute to supporting the sustainability and efficiency of fiscal policy. In some countries, varying degrees of autonomy are granted to sub-national governments. In the United States, for example, the states enjoy considerable fiscal autonomy, and these unions sometimes even possess fiscal legislative independence, such as granting some states their own tax legislation.[161] Within these centralized constitutions, there are budgetary frameworks that govern the budgeting process and aim to curb discretionary fiscal policy. Sound budget frameworks impose a set of well-defined numerical fiscal rules, including procedural rules and transparent, hierarchical budget rules, and include fiscal boards or other independent bodies. The main reason for establishing fiscal rules is the perceived bias of governments, whether central or federal, in spending and deficits, and the reluctance of states to commit to fiscal discipline.[162] we note that modern definitions of the public deficit give the deficit a legal and constitutional dimension in addition to its economic origin.

Upon conducting a search for sources or studies to ascertain a legal definition of the general deficit, no source was found that explicitly delineates legal parameters for this definition, nor were there studies examining the deficit from a constitutional legal perspective distinct

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[160] Eurostat (n.d.) 'Beginners: Government Finance Statistics', *Statistics Explained*. European Commission. Available at:https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Beginners:Government_finance_statistics (accessed 1 july 2026)

[161] Schick, A. (2009) 'Budgeting for Fiscal Space', *OECD Journal on Budgeting*, 9(2), pp. 7–11. doi: 10.1787/5jrxjctrxp8r-en.

[162] Blöchliger, H. and Kantorowicz, J. (2015) 'Fiscal Constitutions: An Empirical Assessment', *OECD Economics Department Working Papers*, No. 1248. Paris: OECD Publishing, pp. 19–20. doi: 10.1787/5jrxjctrxp8r-en.

from economic considerations. For instance, in the study "**Developing Legal Frameworks to Promote Fiscal Responsibility: Design Matters**," the author does not furnish a direct or technical legal definition of the budget deficit. Instead, the study approaches the issue from the standpoint of fiscal law and fiscal responsibility rules. The author highlights the concept of fiscal responsibility rules, which include policies, procedures, and arrangements designed to enhance financial outcomes, fiscal discipline, transparency, and accountability. Numerous countries implement legal rules that set deficit limits, ensuring that the determination of deficits is not solely a political decision but is governed by binding legal and constitutional constraints.[163] Similarly, Similarly, in his study "**Fiscal Rules: Legal Limits on Government Deficit and Debt**" (though I was unable to access the entire work due to limited access), Dr. Fred L. Morrison emphasizes in the first section that legal, international, constitutional, and institutional constraints established by hierarchical levels represent limits on the budget deficit and borrowing.[164]

In his study, *Hungary: Regulation of Sustainable Fiscal Policy in Hungary*, Dr. Nagy Zoltan is credited with introducing the concept of public deficit as a matter for legal regulation. Although he did not offer a comprehensive legal definition of public deficit, he associated it with the constitutional financial regulations that influence all stages of the budgeting process in Hungary. He underscored the necessity of a sustainable fiscal policy grounded in rules and fiscal discipline, which is crucial given the continuous increase in public debt due to the substantial government deficit. [165]

From a legal perspective, a budget deficit refers to the situation where public expenditures exceed the public revenues approved in the budget, resulting in a funding gap that is subject to constitutional rules, financial law rules, international and institutional limits that regulate its financing methods, borrowing limits, public debt management, and parliamentary and judicial oversight, in order to achieve financial discipline and sustainability. Its scope and measurement depend on the legal definition of government adopted within each political

[163] van Eden, H., Khemani, P. and Emery, R.P. Jr (2013) 'Developing Legal Frameworks to Promote Fiscal Responsibility: Design Matters', in Cangiano, M., Curristine, T. and Lazare, M. (eds.) *Public Financial Management and Its Emerging Architecture*. Washington, DC: International Monetary Fund, pp. 79- 82–85.
[164] Morrison, F.L. (ed.) (2016) *Fiscal Rules: Limits on Governmental Deficits and Debt*. Cham: Springer International Publishing, pp.3. doi: 10.1007/978-3-319-41205-4
[165] Nagy, Z. (2019) 'Regulation of Sustainable Fiscal Policy in Hungary', *Public Governance, Administration and Finances Law Review*, 4(2), 92-107-108.

system, such as whether the accounts cover central or general government, as well as on the accounting framework applied.

We also note that Dr. Jonathan Gruber defined the deficit as "the amount by which expenditure exceeds revenues each year. The deficit flows each year added to the debt balance of the previous year to create a new outstanding debt balance. [166]Dr. Gruber's definition, along with much of the literature on the public budget deficit, indicates a clear connection between the public deficit and public debt, implying a causal relationship. Consequently, this section aims to elucidate the relationship and distinction between the public budget deficit and public debt.

2.2.1 The link between the deficit and public debt in financial law

Public deficit and public debt are two distinct yet fundamental concepts in public finance, each with specific implications, although they are closely related.

A deficit arises when public expenditures exceed public revenues as a result of various legal and economic factors. To address this shortfall, governments typically borrow funds by issuing bonds or other debt instruments. Such debt is categorized as domestic debt, owed to local creditors, or foreign debt, owed to foreign countries or international banks.[167] This borrowing creates a legal obligation for the state to repay the principal and interest to the predetermined creditors according to a specific timetable. [168]

So, what does all this have to do with the public budget deficit?

Dr. Laurence S. Seidman's theory can illustrate this. For example, if a government spends $150 billion in a given year and collects $100 billion from various sources such as taxes, and then borrows $50 billion by selling government bonds to the public, the deficit for that year will be $50 billion. If the deficit continues at the same level in the following year, the public debt at the end of the second year will reach $100 billion, because it represents the total amount of government bonds held by the public as a result of government borrowing during those two years. The author then concludes that public debt is the cumulative balance of previous deficits, while a public deficit is a financial flow that occurs over a

[166] Gruber, J. (2007) *Public Finance and Public Policy*. 2nd edn. New York: Worth Publishers, pp.93.

[167] Shanmukhanagouda, S. (2019) 'Government Debt and Its Macroeconomic Implications', *International Journal of Research and Analytical Reviews (IJRAR)*, pp. 186.

[168]Aybarç, S. (2019) 'Theory of Public Debt and Current Reflections', in Yılmaz, B.E. and Özçalık, M. (eds.) *Public Economics and Finance*. London: Intech Open, pp.1. doi: 10.5772/intechopen.82730.

specific period. Therefore, recording a deficit leads to an increase in government debt, while recording a surplus lead to a decrease in government debt. In other words, public debt is a stock measured at a specific point in time, while a public deficit is a flow that occurs over a period of time, usually a single fiscal year.[169] **Recent empirical studies** indicate that the concepts of public debt have changed considerably as a result of shifts in the form of states and their systems of government, as well as changes in legal thinking. These studies distinguish between several concepts related to public debt, the most important of which is net new debt, which includes new borrowing to finance the deficit in a given year. The ratio of this net debt to GDP represents the deficit percentage for a single fiscal year and differs from the overall public debt level, which is the cumulative balance of debts that cover accumulated deficits from previous years. Since the overall debt level is much higher than net new debt (18), the state's fiscal policy should aim to reduce the total debt burden in accordance with fiscal law.[170]

Thus, the public deficit, as mentioned, represents the annual gap between public expenditures and public revenues and is financed by borrowing. It is measured through net new debt. The ratio of this borrowing to GDP expresses the deficit percentage for that year. Therefore, it is a legal indicator for managing expenditures and revenues within the annual budget law. While public debt does not represent a single year's deficit, it is the cumulative balance of net new debt accumulated over previous years-that is, the total borrowing used to finance successive deficits plus net new debt. It is thus measured as a "legal" or contractual obligation undertaken by the state. To further clarify, we can apply this to the countries under study: **Syria and Hungary.**

The distinction between the public deficit and public debt is particularly important in a comparative study of Syria and Hungary, as it reflects a difference in the philosophy of public finance management between the two countries:

The deficit is not a fundamental concept in the Hungarian Basic Financial Law, but it is included in the Economic Stability Act, which is based on the Maastricht Treaty on European integration. This treaty sets the deficit ceiling at 3% of GDP. As a general rule,

[169] Seidman, L.S. (2009) *Public Finance*, pp. 316-317-318.

[170] German National Academy of Sciences Leopoldina, acatech – National Academy of Science and Engineering and Union of the German Academies of Sciences and Humanities (2016) *Government Debt: Causes, Effects and Limits*. Halle (Saale): German National Academy of Sciences Leopoldina, pp.18-19.

public debt arises from financing the deficit. Therefore, strengthening fiscal discipline is a necessary step.[171] Consequently, the Hungarian legislature has been keen to establish fundamental constitutional rules relating to public finance, especially standards related to budget management, by creating the principle of balanced, transparent, and sustainable budget management. Regarding revenue and expenditure management, and to reduce the deficit, public debt represents the state's accumulated financial obligations and responsibilities toward future generations. Therefore, the legislator has given it significant importance. The provisions of the debt rule are explained in detail in the Stability Law, in addition to the Basic Law. The Stability Law specifies in detail the limits governing debt growth and the method for calculating the public debt index to maintain the public debt level. It also specifies the rate of public debt reduction: the government debt ratio must decrease at the rate specified in the Budget Law and by no less than 0.1%.[172]

In Syria, Basic Financial Law No. 54 of 2006 does not explicitly define the deficit. However, the Syrian Basic Financial Law enshrines the principle of balance between public revenues and public expenditures as one of the fundamental principles for budget preparation, and it mandates adherence to this principle when drafting the budget. If estimated expenditures exceed revenues, i.e., if an imbalance occurs, the Minister of Finance is obligated to take the necessary measures to restore equilibrium. This can be achieved by increasing revenues, such as proposing new taxes or fees, or resorting to public borrowing.[173] Regarding public debt, the Syrian legislator views it more as a means of financing the needs of the public treasury and public projects than as a legal obligation. Legislative Decree No. 60 of 2007 (Government Securities Law) is the primary legislation governing this process. The law specifies how bonds and treasury bills are issued, their maturity mechanisms, and risk management, with the aim of providing stable financing while maintaining fiscal and monetary stability.[174]

In conclusion: The way the Hungarian legislature has dealt with the deficit and public debt largely aligns with the financial and legal approach to deficits and debt adopted by the

[171] Hungary (2011) *Act CXCIV of 2011 on the Economic Stability of Hungary*, Section 3/A.
[172] Nagy, Z. (2019) 'Regulation of Sustainable Fiscal Policy in Hungary', *Public Governance, Administration and Finances Law Review*, 4(2), pp .96.
[173] Syrian Arab Republic (2006) *Basic Financial Law No. 54 of 2006*, Art. 7.
[174] Syrian Arab Republic (2007) *Legislative Decree No. 60 of 2007*, Arts. 10–20.

International Monetary Fund (IMF), the Organisation for Economic Co-operation and Development (OECD), and the European Union (ESA 2010). The Hungarian Basic Law and the Economic Stability Act define the deficit as the annual budget balance, subject to a limit of 3% of GDP, and public debt as the accumulated financial obligations of the state (balance), which must be gradually reduced, especially if it exceeds 50% of GDP (flow). Modern concepts of public debt are more clearly reflected in Hungarian legislation. The legislature explicitly distinguishes between the concepts of new net debt (or annual borrowing related to the deficit) and gross public debt (the cumulative balance of government obligations). It also links the annual deficit (flow) to public debt (stock). Furthermore, the Hungarian legislature views debt as a consequence of the deficit and, therefore, imposes constitutional and legal restrictions on both the deficit and borrowing to prevent debt accumulation.

In Syria, however, the legislator did not provide a similar legal definition distinguishing between the deficit as a flow and debt as a stock. Syrian legislation, particularly the Basic Financial Law and Legislative Decree No. 60 of 2007, focused on regulating borrowing methods and managing public debt without establishing a legal definition that clarifies the conceptual relationship between the deficit and public debt. In other words, the Syrian legislator regulates public debt as a means of financing the state, not as a financial obligation that must be constrained.

2.2 Constitutional and Legal Regulation of Budget Deficits

The constitutional and legal regulation of budget deficits constitutes a pivotal aspect of fiscal law. Deficits arise not merely from an economic imbalance between public revenues and expenditures, but within a legal framework that defines how public resources are collected, how expenditures are approved, how budget deficits are financed, and the legal and institutional constraints imposed on fiscal decision-making.[175]

The historical development in the first chapter discussed in the previous chapter illustrates the importance of these legal foundations in both Hungary and Syria. In Hungary, the

[175] Lienert, I. (2013) 'The Legal Framework for Public Finances and Budget Systems', in Allen, R., Hemming, R. and Potter, B.H. (eds.) *The International Handbook of Public Financial Management*. Basingstoke: Palgrave Macmillan, p. 63. doi: 10.1057/9781137315304_4.

transition to a market economy was accompanied by fundamental reforms to the budget and tax systems, including the introduction of personal income tax and value-added tax in 1988. This transformation was subsequently reinforced by European integration and EU membership, which added a layer of fiscal and legal obligations. After 2010, the evolution of Hungarian fiscal law has moved towards a more constitutional foundation for public finances: the 2011 Basic Law included provisions relating to the central budget, public debt, public finance management, and the fiscal council, while ordinary fiscal legislation provides the most detailed regulatory framework.

The historical trajectory in Syria, however, took a different turn. The development of Syrian budget law culminated in the issuance of Basic Financial Law No. 54 of 2006, which retained key elements of the previous financial framework while introducing additional rules concerning the scope of the general budget and the classification and management of public revenues and expenditures. However, the outbreak of armed conflict in 2011 placed this framework under entirely different financial circumstances. The deterioration of the state's financial capacity was accompanied by tax adjustments and other measures to increase revenues. These historical developments indicate that the current budget deficit in any country cannot be studied in isolation from the legal framework within which fiscal authority has developed. This is because the legal basis of the budget varies considerably between countries, reflecting not only differences in the budget system but also differences in political, administrative, legal, and cultural arrangements. **Based on this**, the central question addressed in this section revolves around: **To what extent do the constitutional and legal financial frameworks in Hungary and Syria regulate, limit, and finance budget deficits, and how do these factors interact as an integrated system? To answer this question,** this section analyzes four interconnected dimensions: the constitutional and legal rules that govern the public budget; the regulation of public revenues and expenditures through which budget imbalances arise; and finally, the financial rules that aim to promote fiscal discipline and budget sustainability. The objective is not merely to identify relevant legal provisions, but to assess how each country's legal structure influences the emergence, financing, and reduction of persistent budget deficits.

2.2.1 The constitutional and legal framework of the public budget in Syria and Hungary.

The idea of a budget, or balancing in its broad sense, originated in England during the seventeenth and eighteenth centuries gradually and in stages. The first stage was manifested by granting Parliament, or the people's representatives, the right to approve taxes; the second stage by recognizing Parliament's right to determine the quantities and quality of expenditures; and the third stage by granting the authority to legislate spending and collection periodically. Here, the idea of a budget as we know it today may have emerged. Then it was applied in France starting from the beginning of the nineteenth century, after its revolution, and later in the rest of Europe. [176]one of the earliest definitions of the budget appears in the French law of 1862, which characterizes the budget as a document forecasting the state's annual revenues and expenditures. The budget serves both as a future financial plan and as an official authorization of revenues and expenditures by a competent authority.[177]

We can also define the general budget as an annual financial plan specifying the government's revenues and expenditures for a defined period. Additionally, the budget functions as a fiscal policy instrument, enabling the government to allocate resources, manage public finances, and influence economic activity. [178] Dr. Latfe Alhusseinawi emphasizes the legal function of the general budget, which involves establishing tables that estimate the state's revenues and expenditures for a single fiscal year. These estimates, determined by the budget law, encompass the programs the state intends to implement within the year. The financial costs are specified, and the law identifies the necessary funds and their sources to cover these costs.[179] **In Syria,** the Basic Financial Law No. 54 of 2006 defines the general budget as the annual financial plan for implementing the economic plan, ensuring it achieves the plan's objectives and aligns with its general and detailed structure. It includes the following estimates:

[176] Krause, P. (2013) 'The Origins of Modern Finance Ministries: An Evolutionary Account Based on the History of Britain and Germany', *SSRN Electronic Journal*, p. 9. doi: 10.2139/ssrn.2709241.

[177] Schick, A. (2002) 'Can National Legislatures Regain an Effective Voice in Budget Policy?', *OECD Journal on Budgeting*, 1(3), p. 20. doi: 10.1787/budget-v1-art15-en.

[178] Lokesh, Y. (2022) 'An Overview on Government Budget Meaning and Components', *International Journal of Innovative Research in Computer Science & Technology (IJIRCST)*, 10(Special Issue 6), p. 174.

[179] Alhusseinawi, L. (2019) 'Preparing the General Budget based on the Principles of Governance (Applied Study on a Sample of Government Units)', *LUMEN Proceedings*, 7(1), pp. 12–41, cited at pp. 16–17. doi: 10.18662/lumproc.97.

Expenditures and revenues of ministries and public entities of an administrative nature.
Surpluses of public entities of an economic nature and local units.
Loans.[180] However, **in Hungary**, the general budget is not explicitly defined in the Basic Law of 2012, the Public Finance Act No. CXCV of 2011, and the Economic Stabilization Act (Act CXCIV of 2011). Nevertheless, the Hungarian legislator's perspective on the general budget can be inferred from certain articles in these laws. The Hungarian legislator views the central budget as a legally binding annual financial plan, adopted by Parliament in the form of a law. It specifies the planned public revenues and expenditures for the fiscal year and provides the legal framework for collecting and spending public funds, while adhering to transparency requirements: efficiency, balance, and financial sustainability. [181]
Based on the previous definitions and empirical studies, it can be concluded that the general budget possesses several prominent characteristics:
A budget is a fundamental financial plan that serves as an estimated projection of revenues and expenditures. It functions as one of the state's primary financial instruments for implementing economic programs, relying on forecasts of anticipated revenues and planned expenditures.[182] Also, the general budget plays a pivotal and leading role in the state's financial system and economic and political life. It is linked to the various financial plans that the state sets. Therefore, the budget should be comprehensive, meaning it includes all public revenues and all public expenditures in aggregate, and revenue-collecting entities should not directly deduct their expenditures from it.[183] The general budget is an annual plan, meaning it is prepared for a specific period of time, usually one year. This is because the process of preparing and approving it by the legislative and executive authorities takes a long time. This period also allows the legislative authority to exercise periodic oversight over the executive authority. Also It should be noted that the budget cannot be issued without approval from the legislative authority and must be enacted through a legal statute.

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[180] Syrian Arab Republic (2006) *Basic Financial Law No. 54 of 2006*, Arts. 1–2.
[181] See: Hungary (2011) *The Fundamental Law of Hungary*, Arts. 36–37.
Hungary (2011) *Act CXCV of 2011 on Public Finances (Áht.)*, §§ 4(1), 4/A and 5(1)–(4).
[182] Alhusseinawi, L. (2019) 'Preparing the General Budget based on the Principles of Governance (Applied Study on a Sample of Government Units)', *LUMEN Proceedings*, 7(1), pp. 12–41, cited at pp. 16–17. doi: 10.18662/lumproc.97.
[183] Schick, A. (2002) 'Can National Legislatures Regain an Effective Voice in Budget Policy?', *OECD Journal on Budgeting*, 1(3), p. 8. doi: 10.1787/budget-v1-art15-e

Therefore, the Syrian budget, as the primary source for estimating the fiscal year's expenditures and revenues, is subject to parliamentary approval through legislative instruments and implemented by the executive branch. Consequently, its function is not limited to being an accounting statement of estimated revenues and expenditures but also serves as a legal instrument that subjects the state's financial decisions to specific rules, jurisdictions, and constraints. Since a deficit occurs when revenues are insufficient to cover expenditures, it is essential to understand the rules governing the budget, including revenue allocation, expenditure approval, and the limits of these powers, as these factors significantly impact deficit ratios. For example, if the legal system imposes stricter controls on approving or increasing expenditures during budget implementation, it may possess greater legal authority to manage deficits.

2.2.1.1. Preparation and approval of the general budget in Syria and Hungary

Syria:

The Basic Financial Law No. 54 of 2006 places the primary responsibility for preparing the draft budget on the executive authority, with a central role for the Ministry of Finance. According to Article 11, the process begins with public entities preparing initial estimates of their current and investment expenditures and revenues, which they then submit to their respective ministries. The relevant ministry reviews these estimates before forwarding them to the Ministry of Finance, along with the necessary documents and statistics to justify the requested appropriations. The Ministry of Finance then discusses the expenditure estimates and may amend them to align with the needs of the entities and the available financial resources. Finally, it consolidates the estimates into a unified draft budget. [184]Dr. Muhammad Khair Al-Akkam confirms this executive nature of the preparation phase, noting that Articles 11–13 of the Basic Financial Law grant the Ministry of Finance the authority to prepare the budget after receiving the drafts from the various entities.[185] Upon completion of the consolidated budget project, the process moves to a higher level within the executive branch. Article 12 mandates that the Minister of Finance submit the draft budget to the Cabinet, accompanied by a report outlining the economic and financial

[184] Syrian Arab Republic (2006) *Basic Financial Law No. 54 of 2006*, Arts. 11.
[185] Al-Akkam, M.K. (2018) *Public Finance Law (Public Finance 1: Revenues and Expenditures)*. Damascus: Syrian Virtual University, pp. 329-330.

situation and its relation to the project. This report must include an analysis of expenditures and revenues, comparing them to the previous fiscal year. Then, according to Article 13, the Cabinet reviews the draft and, after approving it in its final form, submits it to the legislative authority at least two months before the start of the fiscal year. [186]The final approval of the budget then transfers from the executive to the legislative branch. Article 15 of the Basic Financial Law stipulates that the draft general budget be submitted to the legislative authority according to the approved classification. analysis of expenditures and revenues, comparing them to the previous fiscal year. Then, according to Article 13, the Cabinet reviews the draft and, after approving it in its final form, submits it to the legislative authority at least two months before the start of the fiscal year. The final approval of the budget then transfers from the executive to the legislative branch. Article 15 of the Basic Financial Law stipulates that the draft general budget be submitted to the legislative authority according to the approved classification.[187]

Hungary

In Hungary, there is a more detailed constitutional basis for the budget preparation and approval process. Article 36(1) of the Fundamental Law of Hungary stipulates that Parliament adopts the central budget law for one calendar year, while the government is responsible for submitting the draft budget law to Parliament within the timeframe specified by law. Article 36(2) further requires that the draft budget include government revenues and expenditures in a symmetrical, transparent, and reasonably detailed manner.[188] Dr Zoltán Nagy emphasizes this division of responsibilities: the Fundamental Law assigns planning responsibility to the government, which submits the draft central budget to Parliament, while Parliament decides on public revenues and expenditures. By adopting the budget law, Parliament establishes the financial framework within which the executive branch operates.[189] In practice, the OECD study, Budgeting in Hungary, explains that the preparation process begins with the development of macroeconomic assumptions and revenue estimates, followed by the distribution of budget preparation guidelines to the

[186] Syrian Arab Republic (2006) *Basic Financial Law No. 54 of 2006*, Arts. 12–14.
[187] Syrian Arab Republic (2006) *Basic Financial Law No. 54 of 2006*, Arts. 15–16.
[188] Hungary (2011) *The Fundamental Law of Hungary*, Art. 36(1)–(2).
[189] Nagy, Z. (2022) 'Regulation of public finances in Hungary in light of financial constitutionality,' in *Legal studies on Central Europe*, pp. 93-94. https://doi.org/10.54171/2022.zn.ropfatilofc_5.

ministries. [190]The ministries then prepare their drafts and hold discussions with the Ministry of Finance regarding existing expenditures and new appropriations. Final authority rests with Parliament (the National Assembly). According to Article 36(3) of the Fundamental Law, the adoption of the Budget Law by Parliament simultaneously authorizes the government to collect revenues and execute expenditures as specified therein. This is an important legal point because it clarifies the Budget Law's authorizing nature.

Discussion:

The method for estimating expenditures during general budget preparation represents the initial opportunity to control deficits before they arise. According to an IMF study on budget preparation, this estimation process is among the most complex for several reasons. First:

The central government budget is not fully unified; rather, it operates as a dual budget system consisting of separate current and capital (or "development") budgets. These budgets may rely on inconsistent macroeconomic assumptions, budget classifications, or accounting standards, and their preparation may fall under the responsibility of different ministries. Although the consolidated budget document presented to the legislature may appear unified, the current and capital budgets are frequently developed using distinct procedures. This lack of coordination can hinder the achievement of overall fiscal objectives. In some countries, budget preparation occurs with minimal reference to macroeconomic forecasts. Insufficient macroeconomic analysis can undermine fiscal discipline, making it difficult to establish and maintain a sustainable budget deficit from the outset. As a result, the budgeting process may be disproportionately influenced by ministerial demands for increased expenditures. The study indicates that more accurate expenditure estimation requires establishing a reasonable spending ceiling in advance, prioritizing spending requests, evaluating the actual costs and anticipated outcomes of programs, subjecting ministerial estimates to centralized review by the Ministry of Finance, and implementing medium-term expenditure planning.[191]

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[190] Kraan, D.-J. *et al.* (2007) 'Budgeting in Hungary,' *OECD Journal on Budgeting*, 6(3), pp. 1–61. https://doi.org/10.1787/budget-v6-art14-en.

[191] Potter, B.H. and Diamond, J. (1999) *Guidelines for Public Expenditure Management*. Washington, DC: International Monetary Fund, pp. 19–26.

In Syria and Hungary, the two systems therefore evaluate expenditures comparably yet vary in numerous specifics.

Both rely on estimates from public entities followed by centralized review. In Syria, according to Articles 18 and 11 of the Syrian financial law, appropriations are considered fixed and cannot be exceeded by public entities. These entities first estimate their revenues and expenditures, then the ministries review these estimates. Afterward, the Ministry of Finance can adjust expenditure estimates according to the needs of the entities, available financial resources, and priorities. In Hungary, at the beginning of the year, the Ministry of Finance prepares macroeconomic forecasts and tax revenue estimates for three years, and these estimates are updated quarterly and whenever the underlying assumptions change. Technical assumptions, such as output growth, employment, and inflation, are sent to the ministries, and nominal spending limits are allocated to them. The Ministry of Finance then discusses the expenditures of existing activities and new appropriations with the ministries.[192] Dr. Nagy Zoltán also mentions that the Hungarian legislator, when estimating, took into account that planned revenues must be economically justified and that planned expenditures must be necessary for the proper performance of public duties. He also explains that the scarcity of resources and the multiplicity of public duties necessitate prioritisation and coordination among decisionmakers and that planning should not be limited to the annual level but must take into account economic and demographic conditions, long-term goals, and financial sustainability.[193] In Syria, none of the texts mention anything other than these indicators. In Hungary, however, we observe an overlap with studies that have proposed the idea of budget preparation, which recommends that budget preparation begin by determining the total sustainable expenditure, then prioritizing, separating the cost of new policies from existing ones, subjecting the ministries' estimates to review by the Ministry of Finance, and using medium-term planning.

If we compare this with positive laws in French law, the approach for assessing expenditures relies on direct estimation according to the expected requirements of the

[192] Kraan, D.-J. *et al.* (2007) 'Budgeting in Hungary,' *OECD Journal on Budgeting*, 6(3), pp. 23-24. https://doi.org/10.1787/budget-v6-art14-en.

[193] Nagy, Z. (2022) 'Regulation of public finances in Hungary in light of financial constitutionality,' in *Legal studies on Central Europe*, pp. 92-93. https://doi.org/10.54171/2022.zn.ropfatilofc_5.

public entity, rather than solely on carrying over numbers from prior years. Likewise, direct revenue estimation considers past and current revenues along with anticipated shifts in economic activity, national income, and financial regulations. The LOLF law introduced medium-term projections for income and spending and associated allocations with programs, goals, expenses, and anticipated outcomes.[194]We note that the method of estimating expenditures includes elements of the traditional French approach, particularly regarding direct estimation, but it has not kept pace with the updates adopted by French and Hungarian law. These updates can affect the deficit, which often rises due to a short-term perspective that ignores future costs and the failure to link financial appropriations to precise objectives and measurable performance indicators. This means that public funds are treated as an investment that must yield tangible results.[195]

The literature identifies a fundamental similarity in the distribution of functions: in both systems, the budget preparation stage is primarily the responsibility of the executive branch, which conducts administrative and financial procedures to implement the state's fiscal policy. Final approval, however, is granted by the legislative branch. This arrangement ensures that the executive branch does not exceed allocated appropriations and that sufficient revenues are secured to finance public expenditures, thereby contributing to lower deficits and a more balanced budget.[196] In both systems, the central financial authority compiles the ministries' estimates and consolidates them into a unified draft for government approval and subsequent submission to parliament. According to the literature and empirical studies, this separation of powers is essential, particularly in several contexts, the most significant of which is:

The extent to which the budget process is regulated by the law depends in large part on the degree of separation between the legislative and executive branches. It demonstrates that the stronger the separation, as in presidential systems, the greater the use of legal rules to control the executive branch's power in budgetary matters. When the executive branch

[194] Lienert, I. and Jung, M.-K. (2004) 'The Legal Framework for Budget Systems: An International Comparison', *OECD Journal on Budgeting*, 4(3), p. 90. doi: 10.1787/budget-v4-art10-en.

[195] Fyle (2025) 'Performance Budget: The 2023 Guide', *Fyle*, updated 16 June 2025. Available at: https://www.fylehq.com/blog/performance-based-budgeting (Accessed: 3 August 2026).

[196] Al-Akkam, M.K. (2018) *Public Finance Law (Public Finance 1: Revenues and Expenditures)*. Damascus: Syrian Virtual University, pp. 281.

dominates the legislative branch, the formal powers of parliament in budgetary matters are weaker. [197]Another study notes that the separation of powers does not automatically lead to strong parliamentary oversight of the budget. The legislature's actual power over the budget depends on its prior powers to approve financial aggregates, amend revenues, expenditures, and the general balance, as well as its ability to effectively audit the budget. During implementation, the budget law limits executive spending, while subsequent parliamentary oversight focuses primarily on financial accountability. Therefore, the degree of political separation between the executive and legislative branches alone does not determine the legislature's power over the budget; the specific constitutional, legal, and institutional framework is equally important. [198] **In the Syrian system**, there is a functional separation in the budgeting process: as mentioned, the executive branch prepares the draft budget through public entities, the Ministry of Finance, and the government, while the People's Assembly approves the budget. Consequently, the executive branch cannot, legally, transform its financial draft into an effective budget once prepared.

However, when applying the criteria mentioned in the empirical studies, the parliament's power to amend financial aggregates should be considered, not merely its right to vote. Here, it becomes clear that the separation of powers in the Syrian financial sphere is relatively restricted in favor of the executive branch, because the 2012 Syrian Constitution prohibits the People's Assembly from increasing the total revenues or total expenditures during the budget review process.[199] Consequently, the executive branch retains a strong role in determining the initial overall size of the budget and the financial choices upon which the budget is based. In Hungary, there is also a functional separation: the government prepares the draft budget, while the National Assembly enacts it into law. Parliament does not merely receive the draft; rather, there is a budget committee that can offer recommendations and propose amendments to parts of the budget.[200]

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[197] Lienert, I. and Jung, M.-K. (2004) 'The Legal Framework for Budget Systems: An International Comparison', *OECD Journal on Budgeting*, 4(3), p. 16. doi: 10.1787/budget-v4-art10-en.
[198] Lienert, I. (2005) 'Who Controls the Budget: The Legislature or the Executive?', *IMF Working Papers*, WP/05/115. Washington, DC: International Monetary Fund, p. 7.
[199] Syrian Arab Republic (2012) *Constitution of the Syrian Arab Republic*, Art. 80(4).
[200] Kraan, D.-J. *et al.* (2007) 'Budgeting in Hungary,' *OECD Journal on Budgeting*, 6(3), pp. 33-35. https://doi.org/10.1787/budget-v6-art14-en.

The systems of Syria and Hungary both create a functional division of powers concerning the budget. Nonetheless, a comparison shows that the level of formal separation of powers alone does not dictate the amount of parliamentary influence over the budget. Although Syria exhibits a more defined institutional separation, the parliament's constitutional authority to modify the budget proposals presented by the executive branch is restricted. Hungary, while functioning with a parliamentary system dependent on a parliamentary majority, offers a more advanced legal and institutional structure [201]for parliamentary involvement in the budgeting process.[202] As a result, the parliament's capacity to affect spending and revenue, and consequently the budget deficit, relies not only on the official division of powers but also on the particular authorities given to the legislature through constitutional and financial legislation.

2.2.1.2 Classifying revenues and organizing expenses in Syria and Hungary

Public expenditure encompasses expenses incurred by the state or local budgets through public finance authorities to address societal needs for goods and services. It also refers to the financial and socio-economic relationships established between the state and individuals or legal entities during the allocation and utilisation of state funds to fulfil governmental functions.[203] The classification of public expenditures involves organising similar categories into distinct groups based on legal nature, social function, or economic impact. Public revenues exhibit diversity in both sources and types, with collection methods varying accordingly. The nature of these revenues depends on the type and purpose of the services provided by the state. Despite this diversity, financial scholarship has consistently sought to categorise public revenues by identifying common factors that

[201] The amendment process is divided into two stages. In the first round, Parliament discusses the overall budget, and amendments can address expenditures, revenues, and the deficit. After a vote, the Budget Committee prepares new aggregate figures, including revenues, expenditures, reserves, the deficit, and its financing, which Parliament then votes on. This is explained on page [page number missing.
Second: After these aggregates are finalized, the second round begins, and this is where the most important financial constraint arises. Amendments at this stage cannot change:
the size of the deficit or surplus, nor the total revenues or expenditures for each chapter. Therefore, if a member proposes an increase in a particular appropriation, this must be accompanied by a reduction in another appropriation within the same chapter; that is, the amendments become, in effect, zero-sum amendments.

[202] Kraan, D.-J. *et al.* (2007) 'Budgeting in Hungary,' *OECD Journal on Budgeting*, 6(3), pp. 33. https://doi.org/10.1787/budget-v6-art14-en.

[203] Ciontescu, M. (2022) 'Budget of Revenues and Expenditures in Public Institutions', *Ovidius University Annals, Economic Sciences Series*, 22(1), pp. 827.

enable grouping into similar categories.[204]Revenues may be classified by legal basis, responsible entity, or economic effect. Common classifications distinguish between taxes on income, property, spending, goods and services, international trade, and certain capital receipts. [205]The classification of expenditures extends beyond accounting; it is fundamental to fiscal policy, budget transparency, and effective resource allocation. According to the IMF, UN COFOG, and the World Bank, a robust system for classifying budget expenditures is essential for policy development, performance evaluation, efficient resource distribution across sectors, legislative compliance, and daily budget management.[206]. Dr. Premchand, referencing the British experience, demonstrates that the absence of clear standards and classifications for expenditures obscures the interpretation and magnitude of deficits or surpluses.[207]Understanding the classification process within relevant laws and regulations facilitates accurate deficit measurement and component analysis. The significance of classifying revenues also lies in identifying indicators that optimize the use of available revenue sources, ultimately reducing the financial burden on the state.[208]

How were revenues and public expenditures taxes legally regulated in Syria and Hungary?

Syria

The most important legal basis is Legislative Decree No. 54 of 2006, which includes the Basic Financial Law.

Regarding public expenditures, Article 8 stipulates that general budget expenditures are classified according to several legal classifications: functional classification according to state functions, administrative classification according to the public entity and ministry, qualitative classification according to the nature of the expenditure, regional classification

[204] Al-Akkam, M.K. (2018) *Public Finance Law (Public Finance 1: Revenues and Expenditures)*. Damascus: Syrian Virtual University, pp. 73-114.

[205] Premchand, A. (1983) *Government Budgeting and Expenditure Controls: Theory and Practice*. Washington, DC: International Monetary Fund, pp. 304–305.

[206] Public Administration Institute (n.d.) 'Classification of Public Expenditure: Policy and Governance', *Public Administration Institute*. Available at:https://pubadmin.institute/public-finance-and-administration/classification-public-expenditure-policy-governance (accessed 9 August 2026)

[207] Premchand, A. (1983) *Government Budgeting and Expenditure Controls: Theory and Practice*. Washington, DC: International Monetary Fund, pp. 300–301.

[208] Ciontescu, M. (2022) 'Budget of Revenues and Expenditures in Public Institutions', *Ovidius University Annals, Economic Sciences Series*, 22(1), pp. 872.

to distinguish the expenditures of the central administration and the governorates, in addition to the economic classification, which reflects the economic nature of the expenditure. As for public revenues, the law dedicates Article 9 to them, stipulating that budget revenues are primarily classified qualitatively (taxes, service fees, miscellaneous revenues, available surplus, and exceptional revenue), with the possibility, when necessary, of functional, administrative, regional, and economic classifications, or according to any other classification determined by the Minister of Finance.

Article 10 then grants the Minister of Finance the authority to determine the necessary forms for applying the different types of revenue and expenditure classifications and to specify the details of each classification, as well as to determine which items should be subdivided into paragraphs. This classification acquires legal force during the budget approval process. Article 15 stipulates that the draft budget must be submitted to the legislative authority according to the approved classification, while Article 17 stipulates that appropriations allocated for current and investment operations be distributed into items and paragraphs by a decision of the Minister of Finance. Regarding the relationship between revenues and expenditures, Syrian law goes a step further in Article 7, requiring that the budget be prepared in a way that ensures a balance between public expenditures and public revenues. It also allows the Council of Ministers, upon the proposal of the Minister of Finance, to suspend certain expenditures if maintaining budget balance so requires.

At the constitutional level, the 2012 Constitution adds two important guarantees. First, Article 18 establishes the principle of the legality of tax revenues: taxes, fees, and public charges may only be imposed by law. The 2012 Syrian Constitution, Article 18, p. 6. Secondly, Article 75(4) stipulates that the approval of the budget and final accounts falls under the jurisdiction of the People's Assembly, while Articles 79 and 80 state that there is one budget for each fiscal year, that the method of its preparation is determined by law, and that Parliament votes on it section by section, and it does not become effective until approved. [209]

[209] Syrian Arab Republic (2012) *Constitution of the Syrian Arab Republic*, Art. 75-79-80.

Hungary:

In Hungary, the law explicitly distinguishes between budgetary revenues and expenditures and financing revenues and expenditures. Article 4/A(2) states that the difference between budgetary revenues and expenditures constitutes either a budget surplus or a budget deficit, while paragraph (3) states that the deficit is financed through financing revenues and expenditures. [210]

Article 5(1) stipulates that the estimated amounts of revenues and expenditures for the fiscal year are determined, in the case of a centralized system, by the Central Budget Act, and in the local system, by a budget decree or resolution.[211] Legally, §5(3) distinguishes between the legal nature of revenues and expenditures: a revenue appropriation represents an obligation to collect revenues, while an expenditure appropriation represents the legal authority to use the appropriation. §5(4) then places a direct constraint on spending: as a general rule, expenditures may only be carried out within the limits of the original or amended appropriation, while revenues may exceed the estimated revenue appropriation[212]
Article 6 regulates the classification method. It mandates that, during planning, management, and reporting, revenues and expenditures be classified according to:
economic classification based on their economic nature, administrative classification based on their place of origin, and functional classification based on governmental functions. They are also divided economically into operating and capital/accumulation revenues and expenditures. [213]

As for the structure of the budget law itself, according to the Public Finance Law, the central budget consists of chapters, which are further divided into headings that include budget institutions, sectoral programs, European Union projects, central appropriations, and central tax and non-tax revenues.[214]

[210] Hungary (2011) *Act CXCV of 2011 on Public Finances (Áht.)*, §§ 4/A
[211] Hungary (2011) *Act CXCV of 2011 on Public Finances (Áht.)*, § 5(1))
[212] Hungary (2011) *Act CXCV of 2011 on Public Finances (Áht.)*, § 5(3)– (4))
[213] Hungary (2011) *Act CXCV of 2011 on Public Finances (Áht.)*, §§ § 6/A)
[214] *Budget*Kraan, D.-J. *et al.* (2007) 'Budgeting in Hungary,' *OECD Journal on Budgeting*, 6(3), pp. 27. https://doi.org/10.1787/budget-v6-art14-en.

When we examine Syria, it primarily organizes revenues and expenditures through classification and allocation: Law 54/2006 specifies the types of expenditure classification in detail and makes qualitative classification the basis for revenues, granting the Minister of Finance the authority to determine the details in Article 10. It also links the entire system to the principle of balancing expenditures and revenues. As for Hungary, the organization is more detailed in terms of the legal status of the appropriation itself: Act CXCV/2011 not only classifies revenues and expenditures economically, administratively, and functionally, but also stipulates that a revenue appropriation creates an obligation to collect, and that an expenditure appropriation grants the authority to spend within a specific financial limit, explicitly linking the difference between revenues and expenditures to the concept of a budget deficit.

The primary distinction between the two laws is that the Hungarian legislator redefined the allocation of financial resources, whether expenditure or revenue, from a simple accounting mechanism to a mandatory legal instrument. Under Hungarian law, revenue allocation constitutes a binding obligation for the entity to collect, whereas expenditure allocation serves as a maximum threshold that may only be exceeded through amended parliamentary legislation. This point was underscored by the doctor, who referenced Zoltán Nagy's study on Hungarian public finance, noting that the study prioritises the broader financial function over technical classification.[215]Syrian legislation also recognizes the binding nature of allocations, stipulating that expenditures must be within the limits of the appropriations allocated in the state's general budget.[216] However, this restriction is coupled with broad flexibility granted to the executive branch in managing these appropriations and transferring funds between them during implementation. [217]To understand this further in the Syrian model: the deficit is treated as a "result" that is accounted for at the end of the budget under the "Loans and Other Financing Means" section, without a corresponding numerical ceiling for the deficit acting as a prior constraint when classifying expenditure and revenue.

[215] Nagy, Z. (2022) 'Regulation of public finances in Hungary in light of financial constitutionality,' in *Legal studies on Central Europe*, pp. 92-93. https://doi.org/10.54171/2022.zn.ropfatilofc_5.
[216] Syrian Arab Republic (2006) *Basic Financial Law No. 54 of 2006*, Art. 20.
[217] Al-Akkam, M.K. (2018) *Public Finance Law (Public Finance 1: Revenues and Expenditures)*. Damascus: Syrian Virtual University, pp. 348.

In Hungary, due to adherence to EU standards and the Hungarian Economic Stability Act, the deficit is the starting point for budget preparation. Expenditures are then adjusted to the legally permissible deficit (often less than 3%).[218]This is confirmed by the empirical study: Empirical evidence indicates that when policymakers possess broad discretion in spending and revenue decisions without institutional constraints, short-term policies may arise that result in deficits and debt accumulation. The study recommends limiting policymakers' discretion and promoting long-term fiscal planning. The objective is not to remove governmental authority over fiscal policy, but to establish pre-defined rules and procedures that safeguard fiscal sustainability against the risks of short-term decision-making.[219] Overall, the study presents a very strong idea that intersects with the topic of this paragraph: how sound fiscal governance should be activated through the regulation of legal instruments to improve fiscal discipline and public finance stability in EU countries, including public debt, public deficit ratios, and fiscal responsibility laws. The study argued that it is not enough for EU countries to simply impose institutional restrictions or predetermined deficit limits; indirect deficit management is also crucial. This involves intervening in the elements that originally generate the fiscal balance, most importantly revenues and expenditures. This highlights the importance of categorizing, classifying, and fully implementing the regulatory process of Expenditure Rules and Revenue Rules, which we discussed earlier.[220]

As mentioned earlier, the classification of public expenditures is a crucial element in budget organization and public spending management. **Potter and Diamond** argue that the appropriate classification of expenditures should be based on three fundamental dimensions: **administrative** classification, which identifies the entity responsible for the expenditure; **functional** classification, which clarifies the purpose for which the expenditure is directed; and **economic** classification, which determines the economic

[218] Benczes, I. (2025) 'Defining Economic Governance Through Critical Junctures and Learning by Doing', in Bíró-Nagy, A. and Medve-Bálint, G. (eds.) *The Path of Hungary's EU Membership*. Cham: Palgrave Macmillan, p. 78. doi: 10.1007/978-3-031-94009-5_4.

[219] Dziemianowicz, R.I. and Kargol-Wasiluk, A. (2015) 'Fiscal Responsibility Laws in EU Member States and Their Influence on the Stability of Public Finance', *International Journal of Business and Information*, 10(2), pp. 155–156.

[220] Dziemianowicz, R.I. and Kargol-Wasiluk, A. (2015) 'Fiscal Responsibility Laws in EU Member States and Their Influence on the Stability of Public Finance', *International Journal of Business and Information*, 10(2), pp. 167.

nature of the expenditure. Economic classification is particularly important in fiscal adjustment programs because it allows for the identification of specific types of expenditures that need adjustment, rather than simply implementing reductions distributed across institutions. It also helps prioritize spending and deficit targets.[221]Applying this standard to Syria and Hungary reveals that both legislations adopt these three fundamental dimensions of classification. In Hungary, Act CXCV of 2011 stipulates the classification of revenues and expenditures according to economic, administrative, and functional classifications, and it distinguishes between operating and cumulative revenues and expenditures.[222] In Syria, the Basic Financial Law No. 54 of 2006 stipulates the classification of expenditures according to functional, administrative, qualitative, regional, and economic classifications. Thus, the Syrian system adds two more classifications—qualification and regional to the three classifications identified by Potter and Diamond.[223] Therefore, both systems, in terms of the legal structure for classifying expenditures, align with the basic classifications defined by Potter and Diamond. However, the process of classifying expenditures and allocating appropriations is not sufficient in itself to guarantee fiscal discipline; its effectiveness depends on how these appropriations are managed and implemented. Regarding revenues, the IMF's budget classification framework emphasizes that revenues should not be treated as a homogeneous financial mass, but rather classified according to their nature. The GFSM divides revenues into taxes, social contributions, grants, and other income. The detailed classification of taxes is based primarily on the tax base.[224] Applying this criterion to the two systems under comparison reveals that both adopt a legal classification of revenues, albeit with different approaches. In Hungary, revenues are subject to economic, administrative, and functional classifications under Article 6 of Act CXCV of 2011, further divided according to their economic nature into operating and cumulative revenues. In Syria, Article 9 of Basic Financial Law No. 54 of 2006 makes qualitative classification the basis for revenue classification. Thus, both systems allow for

[221] Potter, B.H. and Diamond, J. (1999) *Guidelines for Public Expenditure Management*. Washington, DC: International Monetary Fund, pp. 25.
[222] Hungary (2011) *Act CXCV of 2011 on Public Finances (Áht.)*, § 6.
[223] Syrian Arab Republic (2006) *Basic Financial Law No. 54 of 2006*, Art. 8.
[224] acobs, D., Hélis, J.-L. and Bouley, D. (2009) *Budget Classification*. Technical Notes and Manuals 09/06. Washington, DC: International Monetary Fund, pp. 4.

differentiation between sources of revenue, but Hungarian law integrates revenue classification more directly within a multidimensional classification system.

With the basic classifications identified by Potter and Diamond, the process of classifying expenditures and allocating appropriations is not sufficient in itself to guarantee fiscal discipline. Its effectiveness depends on how these appropriations are managed and implemented. In this context, Potter and Diamond emphasize the necessity of understanding potential weaknesses in the budget implementation process by assessing its transparency, the clarity of accountability mechanisms, the availability of reliable, accurate, and timely information on implementation, and the process's consistency with the principles of good governance. This allows for the identification of potential problems and the implementation of necessary measures to prevent or address them. [225]Thus, the legal classification of expenditures defines where spending is allocated and the entities and purposes for which appropriations are directed, while the rules of implementation and accountability ensure that these appropriations are used within the framework established by the budget.

In conclusion, the effective classification of public revenues and expenditures is not an end in itself; rather, it provides the informational basis necessary for understanding the structure of the budget, identifying spending priorities and revenue sources, and assessing the balance between public resources and expenditures. A comprehensive classification system therefore enhances the ability to identify the components that generate fiscal pressures and may contribute to budget deficits. However, the effectiveness of such classification depends on the existence of adequate mechanisms of budget transparency and financial control, through which budgetary information can be disclosed, monitored, and compared with the appropriations and objectives approved by law. Accordingly, the analysis of the legal regulation of revenues and expenditures should be followed by an examination of the rules governing budget transparency and financial control.

[225] Potter, B.H. and Diamond, J. (1999) *Guidelines for Public Expenditure Management*. Washington, DC: International Monetary Fund, pp. 35.

2.2.1.3 Budget Transparency and Financial Control as Legal Mechanisms of Fiscal Discipline in Syria and Hungary

Dziemianowicz and Kargol-Wasiluk highlight the significance of national fiscal governance. Achieving public financial stability extends beyond the regulation of budget items and necessitates an institutional framework incorporating fiscal rules. The effectiveness of these rules is determined by the transparency of the public finance sector, the design and legitimacy of the rules, the monitoring of compliance, and the presence of legal consequences for violations. [226]

What does public finance transparency or, more precisely, budget transparency mean?

Budget transparency is the provision of information on budget preparation, revenues, expenditures, implementation, and financial results in a manner that enables the public and oversight institutions to assess how the government manages public funds and hold it accountable. Transparency in government operations is a prerequisite for a sustainable economy, good governance, and overall budget integrity. For example, if available economic information indicates that the government's performance is unsatisfactory, the government may be reluctant to disclose it (Budgetary Transparency – an Improving Factor for Corruption Control and Economic Performance).[227] A transparent budget cannot exist without robust financial oversight within the state. Financial oversight comprises essential institutional mechanisms and procedures that ensure public authorities adhere strictly to the rules and appropriations set forth in the budget. This oversight is categorized into two key types: 1. Preventive Oversight: This oversight is conducted before any activities begin or before public spending occurs. Its critical goal is to prevent deviations and violations from taking place. 2. Functional/Institutional Oversight: This form of oversight is executed by designated institutions or competent bodies. It involves rigorous inspection, testing, investigation, evaluation, and follow-up to guarantee compliance. By enforcing these

[226] Dziemianowicz, R.I. and Kargol-Wasiluk, A. (2015) 'Fiscal Responsibility Laws in EU Member States and Their Influence on the Stability of Public Finance', *International Journal of Business and Information*, 10(2), pp. 161-162.

[227] Cuadrado-Ballesteros, B. and Bisogno, M. (2022) 'Budget Transparency and Financial Sustainability', *Journal of Public Budgeting, Accounting & Financial Management*, 34(6), pp. Cuadrado-Ballesteros, B. and Bisogno, M. (2022) 'Budget Transparency and Financial Sustainability', *Journal of Public Budgeting, Accounting & Financial Management*, 34(6), pp. 540. doi: 10.1108/JPBAFM-02-2022-0025

oversight mechanisms decisively, we will achieve the transparency necessary for effective budget management and responsible public spending.[228] Budget transparency is closely linked to the financial sustainability of the policies outlined in the budget. By managing public revenues, expenditures, and financial obligations, and by making information available to the public regarding government decision-making processes, citizens can accurately evaluate the financial performance of their governments. This enables them to monitor the strategies and outcomes of government decisions and hold financial management accountable. As a result, budget transparency helps reduce financial imbalances, supports the state's ability to meet its obligations, and ensures the sustainability of public finances.[229]

A comparison between **the Syrian and Hungarian systems** reveals that both establish a legal framework for oversight of the public budget. However, the nature of this oversight and the degree of its institutionalization differ significantly.

The legal regulation in Syria starts at the stage of the budget preparation. Basic Financial Law No. 54 of 2006 Article 11 - Public entities shall prepare preliminary estimates of their current and investment expenditures and revenues. The relevant ministries review such estimates before submission to the Ministry of Finance. The Ministry of Finance has the right to discuss and amend these estimates so that they conform to the actual situation of the public entities. Syrian law also provides for some degree of transparency during the budget preparation phase. Article 12 of the Law No. 54 of 2006 states that the Minister of Finance submits to the Council of Ministers the draft budget along with a report that clearly outlines the economic and financial situation and its relationship with the budget.[230]In Hungary, however, transparency requirements have been elevated to the constitutional level. Article 36(2) of the Hungarian Fundamental Law requires that the draft budget law and its implementation plan include all state revenues and expenditures in a consistent,

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[228] Sari, K.R., Putri, D.K.O., Martini, R., Ibrahim, K.B.C., Yanto, D. and Wasiran, Y. (2023) 'Role of Preventive and Functional Control in Budget Control Effectiveness', in *Proceedings of the 6th FIRST T3 2022 International Conference (FIRST-SS 2022)*, pp. 163–168. Atlantis Press, p. 164. doi: 10.2991/978-2-38476-026-8_19.

[229] Cuadrado-Ballesteros, B. and Bisogno, M. (2022) 'Budget Transparency and Financial Sustainability', *Journal of Public Budgeting, Accounting & Financial Management*, 34(6), cited at pp. 213–214. doi: 10.1108/JPBAFM-02-2022-0025.

[230] Syrian Arab Republic (2006) *Basic Financial Law No. 54 of 2006*, Arts. 11–12.

transparent, and reasonably detailed manner.[231] Furthermore, Article 22 of the Act CXCV of 2011 on Public Finances requires the government, when submitting the draft budget, to state the financial implications of multi-year programmes and investments; provide the planned frameworks for revenues and expenditures for the following four years; state the budget balances and indicators of the government deficit; and classify revenues and expenditures according to economic and functional categories.[232] Regarding overall transparency, the Hungarian fundamental law provides an even clearer guarantee. Article 39(2) stipulates that every organization managing public funds must provide a public account of its management of these funds. It also mandates that public funds and national assets be managed in accordance with the principle of transparency and that data relating to them be considered to be in the public interest.[233] The Syrian texts examined do not contain a similar constitutional or general legal provision that, in this formulation, designates public finance data as data of public interest and establishes a general obligation to publish it. Therefore, Syrian transparency in this area appears closer to institutional transparency.

As mentioned earlier, parliamentary oversight in both systems is, in principle, based on the idea that the executive prepares and implements the budget, while parliament grants the necessary legislative authorization for its implementation. The difference, however, is that the Hungarian system has an independent specialised oversight before adoption. The most important of these protections is the Fiscal Council. According to Article 43(1) of the Hungarian Basic Law, the Fiscal Council shall assist parliament in its legislative activity by examining the soundness of the foundations of the central budget. Article 43(2) stipulates that the Fiscal Council shall participate in the drafting of the budget law, and Article 43(3) requires the prior approval of the Fiscal Council for the adoption of the budget law regarding the application of the rules of Articles 36(4) and (5).[234] During the budget implementation phase, the Syrian system establishes clear prior oversight of expenditure contracts. Article 20 of Law No. 54 of 2006 stipulates that public expenditures are contracted by the legally competent authority and within the limits of laws, regulations,

[231] Hungary (2011) *The Fundamental Law of Hungary*, Art. 36(2), (4).
[232] Hungary (2011) *Act CXCV of 2011 on Public Finances (Áht.)*, § 22.
[233] Hungary (2011) *The Fundamental Law of Hungary*, Art. 39(2).
[234] Hungary (2011) *The Fundamental Law of Hungary*, Art. 43(1-2-3-4).

and appropriations allocated in the general budget. This oversight is reinforced by Article 28 of the same law, which grants the Ministry of Finance the authority to monitor the implementation of expenditures and revenues through the accountants of the departments.[235] In Hungary, Article 37(1) of Act CXCV of 2011 on Public Finances stipulates that, as a general rule, no financial commitment may be entered into without obtaining the necessary written financial authorization and before the financial performance is due.[236] Article 37(1) of the Fundamental Law also stipulates that the government must implement the budget legally and appropriately, with effective management of public funds and guaranteed transparency.

Regarding external oversight, Article 29 of Syrian Law No. 54 of 2006 stipulates that the Central Financial Control Authority monitors the implementation of the state's general budget and state funds in accordance with the law regulating it. In contrast, the Hungarian Basic Law provides the State Audit Office with a direct constitutional basis. Article 42(1) stipulates that the Fiscal Council is the parliamentary body responsible for financial and economic oversight.[237]

The Hungarian system is also characterized by regular monitoring of fiscal compliance. Article 23(1)(c) of the Economic Stability Act requires the Fiscal Council to issue its opinion every six months on the implementation of the budget law and the projected development of public debt.[238] In Syria, Article 28 of Law No. 54 of 2006 mandates that the Ministry of Finance be provided with the necessary data and statistics to monitor the implementation of expenditures and revenues.[239] The difference becomes even more pronounced regarding the legal consequences of non-compliance. In the Hungarian system, if the Fiscal Council concludes that the draft budget violates the debt rule, Article 25(4)-(6) of the Economic Stability Act requires the government to submit the necessary amendments, and the process continues until the Council grants its prior approval. No such council or its powers exist in Syria.

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[235] Syrian Arab Republic (2006) *Basic Financial Law No. 54 of 2006*, Arts. 20–28.
[236] Hungary (2011) *Act CXCV of 2011 on Public Finances (Áht.)*, § 37(1).
[237] Syrian Arab Republic (2006) *Basic Financial Law No. 54 of 2006*, Art. 29.
[238] Hungary (2011) *Act CXCIV of 2011 on the Economic Stability of Hungary.*
[239] Syrian Arab Republic (2006) *Basic Financial Law No. 54 of 2006*, Art. 28.

Discussion

Bilan's study, "Budgetary Policy Rules and Their Efficiency in Limiting Public Debt's Proportions in EU Member States" (2011), asserts that the primary objective of fiscal rules is to maintain fiscal discipline and prevent unsustainable budget deficits and excessive debt. While these rules may target various aspects such as debt, the budget balance, revenues, or expenditures, the study emphasizes that the mere existence of a legal rule is insufficient. Positive outcomes depend on the rule's design, its scope of application, the presence of appropriate institutions to monitor compliance, and the availability of enforcement mechanisms in cases of non-compliance.

The comparison presents an important finding in the literature on fiscal rules: merely having a formal fiscal rule does not guarantee fiscal discipline. Its effectiveness relies on independent monitoring and reliable enforcement. [240]This is particularly relevant in the context of the Syrian - Hungarian comparison. Syria enshrines the principle of formal fiscal balance, as stated in the Basic Finance Law of 2011. During the budget preparation phase, ministries oversee expenditures and revenues, imposing legal constraints on budget implementation within the limits of the law.

Hungary, on the other hand, combines fiscal constraints with an independent fiscal board that monitors compliance and requires prior approval according to established budget procedures. However, studies indicate that merely having fiscal rules and a fiscal council does not ensure fiscal balance; several EU countries with such rules and institutions have continued to record significant deficits.[241] As we have noted, the role of the fiscal council is not merely advisory; it also involves examining deficits and the debt base. Despite this, in Syria, Law 54/2006 establishes strong oversight of appropriations and expenditure execution but does not create an independent body. Thus, from the perspective of comprehensive fiscal oversight, and according to Bilan's study, the best results occur when balance and debt rules are combined with appropriate monitoring and enforcement institutions, as exemplified by Hungary. Specifically, the Hungarian system aligns with a

[240] Bilan, I. (2011) 'Budgetary Policy Rules and Their Efficiency in Limiting Public Debt's Proportions in EU Member States', *Ovidius University Annals, Economic Sciences Series*, 11(1), pp. 185.

[241] Dziemianowicz, R.I. and Kargol-Wasiluk, A. (2015) 'Fiscal Responsibility Laws in EU Member States and Their Influence on the Stability of Public Finance', *International Journal of Business and Information*, 10(2), pp. 172.

broader understanding of fiscal discipline that connects the deficit to the debt trajectory and ensures medium- and long-term sustainability.

Budget transparency is not simply about the government preparing financial statements or submitting these documents to another governmental entity. Instead, it requires that budget-related information is made accessible to the public in a manner that allows for comprehension and effective oversight. For instance, some governments do create budget documents for internal use but fail to publish them. In the case of Sudan, the government produced seven out of the eight key budget documents assessed in the survey but did not make them publicly available. As a result, Sudan received a score of zero on the 2008 Open Budget Index.[242] Articles 12, 13, 28, and 31 of Basic Financial Law No. 54 of 2006 establish an important flow of financial information between the Minister of Finance, the Cabinet, the Legislative Authority, and the Central Financial Control Authority. However, this institutional flow alone is insufficient, as these provisions do not make the information accessible to the public. In contrast, Hungarian law explicitly recognizes the public dimension of financial disclosure by designating information related to the use of public funds as data of public interest. It also includes detailed requirements regarding the content of the draft budget, the balance, the deficit, and multi-year forecasts. This approach aligns with the definitions of transparency discussed earlier. This aligns with the definitions of transparency we mentioned earlier. Public access to the budget opens it up to public scrutiny.[243] While the Hungarian framework provides a clearer legal basis for the right to access public finance information, the Syrian law under study focuses more on institutional reporting between the executive branch, the legislature, and oversight bodies.

During the budget implementation phase, Syrian law imposes a significant restriction: expenditures may be settled only within the limits of available appropriations and provided that the expenditure is legally due under applicable laws and regulations. Furthermore, departmental accountants verify the legality of the expenditure and the availability of the appropriation before payment. This mechanism is a clear example of preventive

[242] Carlitz, R., de Renzio, P., Krafchik, W. and Ramkumar, V. (2009) 'Budget Transparency around the World: Results from the 2008 Open Budget Survey', *OECD Journal on Budgeting*, 9(2), pp. 12. doi: 10.1787/budget-v9-art19-en.

[243] Carlitz, R., de Renzio, P., Krafchik, W. and Ramkumar, V. (2009) 'Budget Transparency around the World: Results from the 2008 Open Budget Survey', *OECD Journal on Budgeting*, 9(2), pp. 10. doi: 10.1787/budget-v9-art19-en.

expenditure control, as it aims to prevent exceeding appropriations before spending occurs. This is a type of preventive expenditure control, defined as control that takes place before the activity is carried out or before public expenditure occurs, to prevent deviations before they happen. Studies have also demonstrated a positive correlation between preventive control and the effectiveness of budget control.[244] Hungarian law also recognizes prior control of financial commitments by requiring a financial countersignature before the obligation arises. Still, it adds a constitutional dimension by establishing a State Audit Office and a Fiscal Council to oversee budgetary results.[245]

In conclusion, this relation has been confirmed empirically. In the study by Cuadrado-Ballesteros & Bisogno (2022), a sample of 110 countries was used, and the measure of budget transparency was the Open Budget Index. The researchers found a statistically significant positive correlation between transparency and fiscal balance. It implies that there is a correlation between greater budget transparency and lower fiscal deficits. They also found a negative correlation with public debt and a positive correlation with public revenues. The researchers explicitly caution against reading too much into these results as a clear causal link, but they do support the idea that stronger transparency mechanisms can help fiscal discipline and financial sustainability. [246]

It is thus clear the difference between the financial oversight in the Syrian system and that of the Hungarian system, although both systems are strong and institutional, differs in their institutional scope and levels. In Syrian law, there is clarity in the prevention and administrative supervision of the expenditure estimation and appropriation. In the Hungarian system, there are additional requirements of transparency and disclosure of the financial results, as well as independent and multi-level institutional supervision. The previous empirical study can be an example for the breadth of transparency, the multi-tiered nature of oversight and its independence in the Hungarian model to consider them as institutional factors that can be more conducive to supporting fiscal discipline and limit the

[244] Sari, K.R., Putri, D.K.O., Martini, R., Ibrahim, K.B.C., Yanto, D. and Wasiran, Y. (2023) 'Role of Preventive and Functional Control in Budget Control Effectiveness', in *Proceedings of the 6th FIRST T3 2022 International Conference (FIRST-SS 2022)*. Atlantis Press, pp. 167. doi: 10.2991/978-2-38476-026-8_19.

[245] Hungary (2011) *The Fundamental Law of Hungary*, Art. 42.

[246] Cuadrado-Ballesteros, B. and Bisogno, M. (2022) 'Budget Transparency and Financial Sustainability', *Journal of Public Budgeting, Accounting & Financial Management*, 34(6), pp. 214–225. doi: 10.1108/JPBAFM-02-2022-0025.

exacerbation of the deficit without being considered an independent cause. This can be determined only by examining the ratios of deficits, their main causes and strategies to deal with them in both countries.

2.3. Causes of the General Budget Deficit and Legal Mechanisms for Its Reduction: A Comparative Study of Hungary and Syria

2.3.1 Causes of the General Budget Deficit

The historical development of public finances in Syria and Hungary, discussed in Chapter 1, reveals that the emergence and increase of deficits were not linked to a single factor, but rather resulted from the interaction of a range of economic, financial, legal, and institutional factors that differed in nature and intensity between the two countries and across different time periods. In Hungary, budgetary pressures were particularly pronounced during the transition from a socialist to a market economy. Systemic changes, tax reforms, and external trade shocks coincided with rising deficits and public debt, which subsequently led to the adoption of fiscal adjustment policies that included spending cuts and increases in certain taxes. These policies then evolved into structural reforms and the establishment of new rules and institutions aimed at strengthening fiscal discipline and sustainability. In Syria, the historical development revealed structural problems, including centralized planning, weak public sector efficiency, heavy reliance on oil revenues, and a complex tax system with problems in tax administration.[247] The difference between the two experiences indicates that interpreting a deficit and its size in a country involves two factors: first, direct economic conditions, such as declining revenues or rising expenditures; and second, the legal and institutional framework governing the fiscal law mentioned in the previous paragraph, and its ability to control spending and revenues, limit discretionary power, and respond to fiscal imbalances. Accordingly, this section analyzes the causes of the public deficit in Syria and Hungary from a comparative perspective, distinguishing between the economic factors that generate direct pressures on both sides of the budget, and the legal and institutional factors that may mitigate these pressures or contribute to their persistence and transformation into recurring deficits, before evaluating the mechanisms adopted by each system to address them.

[247] See Chapter 1, pp. 17–26.

Throughout the 20th century, public perceptions regarding the economic responsibilities of the state evolved significantly. Democratic governments with universal suffrage faced increasing demands from citizens to broaden their economic functions, incorporating social welfare and wealth redistribution. This societal pressure resulted in a substantial rise in public expenditure, particularly during the latter half of the century. Although public spending began to increase during World War I, its growth remained modest until approximately 1960. Between 1960 and 1990, many countries, especially in Europe, implemented comprehensive public programs designed to provide economic security for individuals throughout their lives. These initiatives encompassed public pensions, healthcare, education, subsidies for large families, unemployment benefits, support for individuals with disabilities, and public housing. Consequently, public spending in numerous European nations approached or surpassed 50% of GDP by the century's end.[248] This phenomenon is referred to as the "financing problem," which has persistently challenged governments in balancing public expenditure with revenue, a central concern in state budget management. The financing problem is associated with several related issues, including elevated public spending, the development of modern tax systems to address budget deficits, management of public debt, and the adequate funding of public employment and services. Additionally, the application of fiscal federalism in certain countries has influenced these dynamics.[249] Excessive spending is widely recognized as the primary cause of deficits and public debt. A lack of economic analysis and efficiency often results in wasteful allocation of public resources and perpetuates deficits, particularly when accompanied by significant reductions in taxes and other public revenues. Contributing factors include low effective tax rates, inefficient tax collection systems, and a shrinking tax base due to declining GDP levels (Causes of Public Debt and Budget Deficit). [250]

[248] D'Alterio, E. (2026) *Public Finance Law and Public Administrations: The Shaping Power of Public Finance in the European Union*, p.1. doi: 10.4324/9781003479765.
[249] Tanzi, V. (2008) 'The role of the state and public finance in the next generation,' *OECD Journal on Budgeting*, 8(2), p.9. https://doi.org/10.1787/budget-v8-art6-en.
[250] Szybowski, D. (2018) 'CAUSES OF a PUBLIC DEBT AND BUDGET DEFICIT,' *International Journal of New Economics and Social Sciences*, 8(2), pp.63. https://doi.org/10.5604/01.3001.0012.8648.

Therefore, the principal cause of persistent deficits is the imbalance between public expenditure and the economy's capacity to generate revenue, shaped by various economic, legal, and institutional factors, which will be examined further.

2.3.1.1 Increased Growth in Public Spending

Historical research has advanced the understanding of factors influencing public spending. A notable contribution is the study by German economist Adolf Wagner in 1982, which identified a direct relationship between economic development and the magnitude of public spending. He also concluded that government activities tend to grow as the wealth of the state increases. This law has been tested many times. [251]The underlying causes of this increase, however, remain subject to further investigation.

But what is the reason for this increase?

A review of the literature on the increasing factors determining the growth of public spending reveals a wide range of explanations.

Growth in national income leads to an increase in government revenues. As individual incomes increase, government revenues expand, and individuals become less resistant to taxes and fees imposed by the state. Studies have shown that prosperity and income distribution have led to the assumption that individuals spend a greater proportion on services as incomes rise, making per capita income the preferred explanation for the growth of public spending. Income distribution is also likely to influence spending growth, all of which is accompanied by rapid demographic growth, age structure, and geographic concentration of the population as potential drivers of public sector expansion. This leads to an expansion of the diverse social needs of society, such as the rapid increase in spending on education. Some authors explain this by pointing to the increasing technological demands placed on the workforce.[252] International economic competition also leads to increased public spending, either in the form of economic subsidies to domestic enterprises to encourage them to export and compete with foreign enterprises in international markets, or in the form of production subsidies to enable domestic enterprises to withstand foreign

[251] Henrekson, M. (1993) 'Wagner's Law—A Spurious Relationship?', *Public Finance = Finances Publiques*, 48(3), pp. 406–47.

[252] Diamond, J. (1989) *Government Expenditure and Economic Growth: An Empirical Investigation*. IMF Working Paper WP/89/45. Washington, DC: International Monetary Fund, pp.11.

competition in domestic markets.[253] Several factors have driven the increase in spending, most notably the significant rise in defense and military budgets in many countries since 2022. Military spending encompasses more than just salaries; it also includes the purchase of weapons and equipment, the development of military infrastructure, innovation, transportation, communication, energy, maintenance, and technical services.

As of 2024, fixed investments accounted for, on average, about a quarter of defense budgets in OECD countries, compared to approximately 20% in the latter half of the previous decade. Research indicates that if additional military spending is financed by deficits, the need for borrowing increases. Moreover, the OECD highlights that higher debt burdens can lead to elevated borrowing costs. There are many other reasons for increased spending as well, most notably the significant rise in defense and military spending in many countries since 2022. Military spending is not limited to military salaries. The report indicates that the increase includes the purchase of weapons and equipment, military infrastructure, innovation, transportation, communications, energy, maintenance, and technical services. [254]

But what meaning can we give this in the Syrian and Hungarian contexts?

The historical development in Hungary and Syria shows that the increase in public spending cannot be explained by one economic factor. Rather, it is closely linked to the changing role and functions of the state at various stages.

In Hungary during the socialist system, public finance was not only a means of financing public services but a part of the central planning system. State ownership and control over the means of production were extended, and taxes and fiscal policy were used to change the economic and social structure. Now, with the gradual move to a market economy, and especially after the reforms of 1988, this function changed fundamentally. [255]The limits of this transformation were revealed in the 1990s, when Hungary had a high fiscal deficit and public debt, at a time when there was a real decline in income and spending because of

[253] Al-Akkam, M.K. (2018) *Public Finance Law (Public Finance 1: Revenues and Expenditures)*. Damascus: Syrian Virtual University, pp. 33.
[254] OECD (2026) *OECD Economic Outlook, Volume 2026 Issue 1. OECD Economic Outlook*. Paris: OECD Publishing, pp.100. doi: 10.1787/2d1956f0-en.
[255] Kopits, G. (1993) *Hungary: A Case of Gradual Fiscal Reform* , in Tanzi, V. (ed.) *Transition to Market: Studies in Fiscal Reform*. Washington, DC: International Monetary Fund, p. 65. doi:10.5089/9781557752758.071.

systemic transformation and tax reform. So, the government adopted the Bokros package.[256] Then accession to the European Union in 2004 brought a new dimension, as Hungarian public finances were tied to the requirements of European economic integration, competition within the single market and the harmonization of legislation and fiscal policies with European rules.[257] After 2010, the intervention of the government changed in a different direction through reforming the tax system, expanding benefits directed to households, restructuring public finances, and reforms in the labour market, higher education and healthcare. [258]

The historical evolution of Syrian public finances indicates that the expansion of public expenditure was more closely associated with a transition in the state and its economic and social functions than with a steady trend of rising national income. But the most important change was when the Ba'ath Party came to power in 1963 and began to adopt a socialist approach. Nationalization, the control of companies and banks, and the tightening of restrictions on private capital brought economic activity increasingly under state ownership. [259] The state's role also expanded in the legal development of public finance.

The historical development of factors influencing Syrian public spending can be categorized into three interconnected phases. The first phase involved the expansion of the state's role and the public sector under the socialist system beginning in the 1960s. During this period, state ownership of economic activity increased through nationalization, control of companies and banks, and stricter restrictions on private capital. [260]This transformation resulted in a broader scope of economic and social responsibilities directly assumed by the state.

The second phase, characterized by liberalization and partial reform, spanned from the late 1960s through the 1980s and 1990s. During this period, a significant portion of the historical growth in Syrian public expenditures can be attributed to the expansion of the

[256] Magyar Nemzeti Bank (2018) *Growth Report 2018*. Budapest: Magyar Nemzeti Bank, pp.12.

[257] Ziegler, D.T. and Horváthy, B. (2017) 'Europeanization of the Hungarian Legal Order: From Convergence to Cancellation?', in Hashimoto, T. and Rhimes, M. (eds.) *Reviewing European Union Accession: Unexpected Results, Spillover Effects, and Externalities*. Leiden: Brill, pp. 5 . doi: 10.1163/9789004352070_004.

[258] Ministry for National Economy (2011) Hungary's Structural Reform Programme 2011–2014: Based on the Political Thesis of the Széll Kálmán Plan. Budapest: Ministry for National Economy, pp. 201.

[260] Sorby, K.R. (2010) 'The Ascendancy of the Baath in Syria (1963–1966)', *Asian and African Studies*, 19(1), pp. 57.

public sector and the state's increasing responsibility for production, investment, and social services, rather than solely to the natural rise in demand for public services due to economic growth.[261] This phase continued until 2010, during which efforts were made to enhance the role of the private sector and modernize financial management without fully dismantling the existing structure. The third phase, beginning after 2011, has been marked by a decline in output, income, and revenue-generating capacity.[262]

International reports indicate that international competition has historically been a significant driver of increased public spending in Hungary. The IMF's 2025 report notes that primary expenditures in Hungary have averaged around 45% of GDP since 2020, a high share. A substantial share of this public spending is allocated to subsidies, administration, and state-owned enterprises. European Commission data further underscores the importance of this factor, indicating that Hungarian spending on economic affairs exceeds the EU average due to increased state intervention in the economy, particularly through subsidies to institutions. Public spending rose from about 47.2% of GDP in 2001 to 51.0% in 2002, then declined to 49.2% in 2003 and 48.8% in 2004, before rising again to 49.4% in 2005 and 51.4% in 2006. The problem continued after joining and reached its financial peak in 2006; government spending reached approximately 51.4% of GDP, while the budget deficit reached about 9.3% of GDP, according to the table in the source.[263] In Syria, however, we do not observe a significant role for economic competition in increasing public spending during most periods, even during the liberalization phase when an economic reform program began in 2003. This was followed by a series of tax, financial, and banking changes, but these were not similar in nature to Hungarian spending. Rather, they took the form of simple incentives and tax exemptions. [264] After 2011, the environment in which economic competition operates changed radically. The Syrian

[261] Syrian Arab Republic (1967*) Basic Financial Law, Legislative Decree No. 92 of 1967*, Arts. 1–3 and 11–14.

[262] International Monetary Fund (2025) *Hungary: 2025 Article IV Consultation—Press Release; Staff Report; and Statement by the Executive Director for Hungary*. IMF Staff Country Report No. 2025/250. Washington, DC: International Monetary Fund, pp, 58.

[263] Bíró-Nagy, A. and Medve-Bálint, G. (2025) 'Conclusions: The Path of Hungary's EU Membership', in Bíró-Nagy, A. and Medve-Bálint, G. (eds.) *The Path of Hungary's EU Membership: Navigating Sovereignty, Dependence, and Economic Development*. Cham: Palgrave Macmillan, pp. 81. doi: 10.1007/978-3-031-94009-5_15.

[264] Seifan, S. (2024) 'Economic Reform in Syria during the First Decade of Bashar al-Assad's Presidency', *Harmoon Center for Contemporary Studies*, pp .20.

economy entered a war economy, coinciding with a decline in output, real income, and the state's financial capacity, particularly during the period 2013–2015. [265] We also observe during this period an increase in military spending, and that the constrained financial resources and the rise in military priorities due to the conflict put pressure on the structure of government spending, especially capital spending. Meanwhile, total public spending fell from about 26.6% of GDP in 2010 to an average of 14% during the period 2021–2024, and real spending in 2024 represented only about 19% of its real level in 2010.[266]

Based on the studies we used, the most important ones include the following: Potter and Diamond, Guidelines for Public Expenditure Management (IMF, 1999); Jacobs, Hélis and Bouley, Budget Classification (IMF, 2009); IMF, Government Finance Statistics Manual (GFSM); Dziemianowicz and Kargol-Wasiluk, "Fiscal Responsibility Laws in EU Member States and Their Influence on the Stability of Public Finance" (2015); Cuadrado-Ballesteros and Bisogno (2022) on budget transparency and fiscal sustainability; D'Alterio, Public Finance Law and Public Administrations; Laurent Moulin, "Expenditure Rules à la française"; Apergis and Dănuleţiu, "Public Deficit, Public Debt, Corruption and Economic Freedom: Some Empirical Evidence from Romania"; and Alhusseinawi, "Preparing the General Budget is based on the Principles of Governance.

The direct causes of increased public spending leading to a widening public deficit are mostly economic, social, and political. The emergence of certain legal and institutional constraints, such as the budget preparation method, incremental budgeting, and weak control over spending decisions, can generate upward bias in expenditure decisions.[267] We encourage economic and legal scholars to explore these factors more deeply and not overlook their impact on expenditures.

It should be noted that the factors driving increased public spending and deficits in Syria and Hungary differ. In Hungary, these factors were closely tied to the evolving economic and social functions of the state, economic competition, and demographic shifts (traditional factors studied in empirical research). In Syria, however, they were closely tied to the

[265] Mugarbal, A., Al-Terkawi, K. and Masry, M.S. (2024). *The Economy of the Syrian Regime: Approaches and Policies (1970–2024)*. Analytical Report. Istanbul: Jusoor for Studies, pp.14.

[266] World Bank (2025) *Syria Macro-Fiscal Assessment*. Washington, DC: World Bank Group, pp .18.

[267] Krause, P. (2013) *The Origins of Modern Finance Ministries: An Evolutionary Account Based on the History of Britain and Germany*. Working Paper. London: Overseas Development Institute (ODI), pp.14-15. doi: 10.2139/ssrn.2709241.

historically expanded role of the state and the public sector, followed by war, declining resources, and the need to finance exceptional needs. Therefore, the increased spending that led to deficits does not have a single, fundamental origin; rather, it is more closely linked to diverse and multifaceted factors, and this is also reflected in the different responses of the two countries to these factors.

2.3.1.2. The failure of the growth of public revenues to balance with public expenditures

To acquire the goods and services necessary for fulfilling its functions and providing essential public services, a state requires adequate funding. Historically, the methods for collecting these funds have included taxes, fees, and revenues from state-owned property, among other approaches tailored to the state's specific circumstances and economic context. In the modern era, the expansion of the state's role has increased its functions and responsibilities, resulting in insufficient public revenues, widening deficits, and growing public debt. [268] Consequently, states have adopted various strategies and experimented with different approaches to address these fiscal challenges. Public revenues encompass income from state property, fees for public services, fines and penalties for legal violations, internal and external donations and grants, and, most significantly, taxes. Taxes are now among the most important sources of public revenue and are used by states to influence political and economic conditions.[269] Contemporary research highlights a persistent issue: many countries experience insufficient revenues to cover public expenditures, though the extent of this problem varies between developed and developing nations. In developed economies, the ratio of public revenues to GDP ranges from 25% to 40%, whereas this ratio is considerably lower in developing countries. Economic growth is generally associated with an increase in this ratio; for instance, in countries with low GDP growth, public revenues accounted for only 15.4% of GDP in 2016.[270] A study of the Balkans revealed that, between 2008 and 2019, average public spending exceeded average public revenue in all countries examined. The negative gap surpassed 4% of GDP in Montenegro, more than 3% in

[268] Talab, M. (2025) 'Organizing Public Revenues According to Legal Implications - an Analytical Study,' *Journal of Anbar University for Law and Political Sciences*, 15(1 part 2), pp. 1038. https://doi.org/10.37651/aujlps.2025.157298.1464.
[269] Al-Akkam, M.K. (2018) *Public Finance Law (Public Finance 1: Revenues and Expenditures)*. Damascus: Syrian Virtual University, pp. 11-106.
[270] Nikoloski, A. (2020) 'Influence of public revenues on economic growth The case of the Republic of North Macedonia,' *Konfrontasi*, 7(3), pp. 48. https://doi.org/10.33258/konfrontasi2.v7i3.115.

Albania and Croatia, 2.97% in Serbia, and 2.94% in Macedonia, compared to 1.64% in Bosnia and Herzegovina and 1.15% in Bulgaria.[271] These disparities arise because methods of financing public spending differ according to each country's economic, security, and legal context. In most cases, tax revenues constitute the majority of budget funds. Thus, a country's tax policy and structure significantly affect investment and human capital. For example, shifting from income taxes to consumption taxes can yield positive outcomes and foster economic growth. Studies further indicate that low tax revenues in the least developed countries are primarily due to a narrow tax base, currency devaluation, low literacy rates, and other factors. These findings suggest that governments should prioritize broadening the tax base rather than merely increasing tax rates to stimulate economic growth. Least developed countries face particular challenges in designing and implementing effective tax systems, given their large traditional agricultural sectors, diverse small businesses, and substantial informal economies.[272] Nigeria, for instance, government spending is primarily financed through oil export revenues, which account for approximately 80% of total government revenue, while non-oil revenues make up 20%. [273] Most of these studies have confirmed that spending without a corresponding increase in revenue leads to widening deficits, resorting to borrowing, and increasing debt.

Based on this, it is necessary to examine the revenue levels in Syria and Hungary, how public revenues in each country were able to meet spending obligations, and how the financial laws in each country addressed these challenges.

- Comparison of revenue capacity development and revenue structure in Syria and Hungary

In Syria, data reveals a clear relative weakness in the contribution of taxes to financing public revenues, a trend that intensified sharply after the outbreak of war. Public revenues reached approximately 449.5 billion Syrian pounds in 2004, of which 161.0 billion pounds

[271] Vucic, V., Marinović Matović, I. and Kostić, Z. (2020) 'Public Revenues and Public Expenditures Analysis in Southeast European Countries', *Knowledge International Journal*, 38(1), pp. 48 .
[272] *Nikoloski, A. (2020b) 'Influence of public revenues on economic growth The case of the Republic of North Macedonia,' Konfrontasi, 7(3), pp. 193–202. https://doi.org/10.33258/konfrontasi2.v7i3.115.*
[273] Abdulrasheed, B. (2017) 'Causality between Government Expenditure and Government Revenue in Nigeria,' *Asian Journal of Economics and Empirical Research*, 4(1), pp. 93 . https://doi.org/10.20448/journal.501.2017.42.91.98.

were tax revenues, representing about 36% of total public revenues. Tax revenues gradually increased to 176.9 billion pounds in 2005, 191.3 billion in 2006, 202.6 billion in 2007, 219.3 billion in 2008, 240.6 billion in 2009, and then 278.4 billion pounds in 2010, while total public revenues in 2010 reached approximately 754 billion pounds. Therefore, taxes continued to represent only about 37% of total public revenues. In 2011, tax revenues rose to 325.0 billion pounds out of total public revenues of 835 billion pounds, representing about 39%. However, the trend reversed sharply afterward; tax revenues fell to 242.9 billion in 2012, 165.2 billion in 2013, and 117.3 billion in 2014, representing only 18%, 12%, and 8% of total public revenues in those years, respectively. Although they nominally rebounded to 172 billion in 2015, 253.5 billion in 2016, 322.5 billion in 2017, and 409.5 billion in 2018, their share of total public revenues remained low at 11%, 13%, 12%, and 13%, respectively. The study confirms this shift, noting that the average contribution of tax revenues to total public revenues was 35% during 1990–2010, compared to only 16% during 2011–2018. The researcher explains that the figures for 1990–2010 are taken from statistical datasets, while the figures for 2011–2018 are based on the general budgets and the Ministry of Finance. The internal composition of tax revenues has also changed significantly. In 2004, income tax from industrial, commercial, and non-commercial professions and trades represented about 70% of tax revenues, compared to 3% for salaries and wages, 12% for customs duties, 2% for the consumption expenditure tax, and 3% for stamp duty. By 2018, the share of income tax from professions and trades had decreased to 18%, compared to 8% for salaries and wages, 20% for customs duties, 11% for the consumption expenditure tax, and 7% for stamp duty, while other taxes and fees increased to 36%.[274]

In Hungary during the period 2004–2008, the structure of tax revenues and social contributions in Hungary was characterized by a clear dominance of social contributions, which amounted to about 2.559 trillion forints in 2004, or 32.9% of the total taxes and social contributions of 7.770 trillion forints, and then rose to 3.668 trillion forints in 2008, or 34.4% of a total of 10.671 trillion forints. During the same period, the Personal Income Tax (PIT) revenue increased from about 1.363 trillion forints, or 17.5% of the total, in 2004

[274] Author's calculations based on the general budgets for the aforementioned years and data from the Syrian Ministry of Finance.

to 2.034 trillion forints, or 19.1%, in 2008. Conversely, although the VAT revenue increased in nominal value from 1.832 trillion forints in 2004 to 2.068 trillion forints in 2008, its relative weight decreased from 23.6% to 19.4% as a result of the faster growth of the rest of the revenue sources. Corporate income tax (CIT) remained the smallest contributor, amounting to 438 billion forints or 5.6% in 2004, rising to around 700 billion forints or 7.0% in 2007, before declining slightly to 695 billion forints or 6.5% in 2008.

During the period 2009–2016, a more pronounced change occurred in the relative composition of revenues. In the aftermath of the financial crisis, PIT revenue fell from 1.897 trillion forints in 2009, equivalent to 18.5% of total taxes and social contributions, to 1.735 trillion forints or 17.2% in 2010, and then to 1.368 trillion forints or 13.2% in 2011. Its weight thereafter remained relatively low, reaching 1.513 trillion forints or 13.4% in 2012, 1.501 trillion or 12.9% in 2013, 1.598 trillion or 12.7% in 2014, 1.698 trillion or 12.6% in 2015, and then 1.721 trillion forints or 12.2% in 2016. In the opposite direction, the importance of VAT increased; Its total increased from 2.192 trillion forints, or 21.4%, in 2009 to 2.326 trillion forints, or 23.1%, in 2010; 2.379 trillion forints, or 23.0%, in 2011; 2.628 trillion forints, or 23.3%, in 2012; 3.011 trillion forints, or 24.0%, in 2014; and reached 3.310 trillion forints, or 24.5%, in 2015. Social contributions remained almost the largest single item throughout this period, amounting to 3.412 trillion forints, or 33.3%, in 2009; 3.247 trillion forints, or 32.2%, in 2010; then rising to 3.686 trillion forints, or 35.6%, in 2011; and reaching 4.974 trillion forints, or 35.2%, in 2016. In contrast, CIT remained less significant, declining from 555 billion forints or 5.4% in 2009 to 313 billion forints or 3.1% in 2010, then fluctuating between approximately 3% and 5.5% until 2016, when it reached approximately 771 billion forints or 5.5%.

During the period 2017–2024, the revenue structure entered a new phase characterized first by the increasing importance of VAT, and then by PIT regaining some of its weight in recent years. VAT revenue reached approximately 3.627 trillion forints in 2017, representing 24.4% of total taxes and social contributions of 14.834 trillion forints. It then rose to 4.130 trillion or 25.9% in 2018, 4.527 trillion or 26.3% in 2019, and 4.717 trillion or 27.2% in 2020. It reached 5.460 trillion forints in 2021, representing 29.4% of the total of 18.587 trillion forints, and then 6.691 trillion or 29.1% in 2022. Its nominal revenue then continued to rise to 7.054 trillion forints in 2023 and 7.506 trillion in 2024, but its relative weight

declined to 26.9% and 26.2% respectively due to the faster growth of some other sources. Meanwhile, PIT (Public Income Tax) increased from 1.952 trillion forints, or 13.2%, in 2017 to 2.202 trillion forints, or 13.8%, in 2018, 2.446 trillion forints, or 14.2%, in 2019, and 2.543 trillion forints, or 14.7%, in 2020. After a relative decrease to 2.255 trillion forints, or 12.1%, in 2021, it rose sharply to 3.524 trillion forints, or 15.3%, in 2022, 4.055 trillion forints, or 15.5%, in 2023, and then to 4.563 trillion forints, or 16.0%, in 2024. Social contributions increased in nominal value from 5.018 trillion forints in 2017 to 8.515 trillion forints in 2024, but their relative weight decreased. From 33.8% in 2017 to 28.3% in 2022, before rising slightly to 28.7% in 2023 and 29.8% in 2024. CIT remained relatively less significant, although it increased nominally from 721 billion forints or 4.9% in 2017 to approximately 1.296 trillion forints or 4.5% in 2024, reaching 1.266 trillion forints or 4.8% in 2023. Thus, total taxes and social contributions increased from 14.834 trillion forints in 2017 to 28.601 trillion in 2024.[275]

When examining the overall capacity of public revenues to finance public spending, rather than focusing solely on tax revenues, a comparison between Syria and Hungary reveals a very different pattern before and after 2011. In Syria, the revenue coverage ratio, calculated by dividing total actual public revenues by total actual public spending, was approximately 82.6% in 2005, 88.1% in 2006, 88.1% in 2007, 89.6% in 2008, 91.8% in 2009, and 91.2% in 2010. These figures indicate that, despite the relatively limited contribution of taxes to total public revenues, other revenue sources enabled the Syrian government to finance a significant proportion of its expenditures before the conflict. However, this capacity deteriorated sharply after 2010, with the coverage ratio declining to approximately 73.0% in 2011 and only 36.7% in 2012. Actual public revenues fell from 634 billion Syrian pounds in 2010 to 471 billion Syrian pounds in 2011 and 232 billion Syrian pounds in 2012, while expenditures remained at 645 billion Syrian pounds and 632 billion Syrian pounds, respectively. Consequently, the deficit increased from 9% of spending in 2010 to 27% in 2011 and 63% in 2012. The Syrian study itself confirms the exceptional deterioration during the crisis, particularly the rise in the deficit-to-spending

[275] The percentages were calculated by the researcher based on data from the Hungarian Centre for Statistics Office for these years.
For more information visit: https://www.ksh.hu/stadat_files/gdp/en/gdp0020.html?

ratio to 27% and 63% in 2011 and 2012, respectively.[276] In Hungary, calculations based on official public accounts issued by the Hungarian Central Statistical Office (KSH) – using total public revenue (OTR) divided by total public expenditure (OTE) – show coverage ratios of approximately 86.5% in 2004, 84.2% in 2005, 82.0% in 2006, 89.8% in 2007, 92.2% in 2008, 90.6% in 2009, 90.9% in 2010, and 89.4% in 2019. The ratio was 95.3% in 2011, 95.3% in 2012, 94.8% in 2013, 94.5% in 2014, 96.0% in 2015, and 96.2% in 2016. In 2016, the percentage was 94.7%, in 2017, 95.5% in 2018, and 95.6% in 2019. It then declined during the exceptional financial pressures of the second decade of the 21st century to 85.3% in 2020, 85.2% in 2021, 87.4% in 2022, and 86.0% in 2023, before recovering to approximately 89.1% in 2024.[277]

Discussion:

The literature confirms the relationship between revenue growth and expenditure growth. Studies indicate that deficits widen and persist when public revenues cannot keep pace with the expansion of public spending. In other words, the problem is not a decrease in revenues per se, but rather the widening gap between their financing capacity and the level of expenditure. In Syria, we observe that actual public revenues covered approximately 82.6% of expenditures in 2005, 88.1% in 2006 and 2007, 89.6% in 2008, 91.8% in 2009, and 91.2% in 2010. Therefore, the financing gap was relatively limited, even though the Syrian regime already suffered from weak tax collection capacity. Studies indicate that actual tax revenue was lower than the level of economic activity would allow.

This is due to the fact that it is funded by public economic sector investment revenues. These revenues are included in the budget on a net basis, which means that profits are considered revenues, and losses are covered by an amount allocated in the budget. The Syrian Petroleum Company accounted for the majority of total investment revenues from 2004 to 2011, reaching 32%, before dropping to zero in 2012 due to economic sanctions

[276] Kiki, M.H. (2014) 'The Budget Deficit in Syria during the Period 2005–2012: Causes and Methods of Financing and Ways to Reduce It', research paper, pp. 14.

[277] Author's calculations based on the official Hungarian Central Statistical Office (KSH) general government accounts, calculated as total general government revenue (OTR) divided by total general government expenditure (OTE).

and the withdrawal of foreign companies from Syria.[278]This explains the significant decline in the value of current revenues observed since 2011.

This indicates that the tax system suffers from a flaw, which explains its inability to finance public expenditures and the widening deficit:

- The structure of the current tax system is somewhat weak. One of the most prominent structural features that has persisted in the Syrian system is the qualitative or fragmented nature of income taxes, instead of subjecting the total income of the taxpayer to a single general income tax. Law No. 24 of 2003 does not operate on a unified concept of gross personal income. Instead, it differentiates between profits generated from commercial, industrial, and non-commercial activities, salaries and wages, and other sources of income, with varying taxation rules depending on the nature of the activity and the source of income.[279] This system is outdated and faces numerous problems in terms of tax evasion and investment incentives, which we will discuss in detail in Chapter Three. [280]
- Weak corporate tax revenues, particularly from joint-stock companies, are due to their low rates. Income tax is levied on the net profits of joint-stock companies that offer at least 50% of their shares to the public, in both the private and mixed sectors, and whose headquarters are in Syria, at a uniform rate of 14%.[281] Dr. Muhammad Kiki argues that this represents a significant loss to the budget, especially since most countries in the world collect substantial sums from this tax.[282]
- The Syrian tax system is characterized by numerous, poorly considered tax exemptions. Investment Law No. 10 of 1991 granted investors tax exemptions for five years and a full exemption from customs duties upon project establishment. This was later amended in 2000 by Law No. 7, increasing tax exemptions for investment

[278] Kiki, M.H. (2014) 'The Budget Deficit in Syria during the Period 2005–2012: Causes and Methods of Financing and Ways to Reduce It', research paper, pp. 18.

[279] Syrian Arab Republic (2003) *Law No. 24 of 2003 on Income Tax*. Damascus: Syrian Arab Republic.

[280] (The Investopedia Team (n.d.) *Is a Progressive Tax More Fair Than a Flat Tax?*, *Investopedia*. Available at: https://www.investopedia.com/ask/answers/042815/progressive-tax-more-fair- . (Accessed: 09 august 2026).

[281] Shihabi, I. (2022) *Taxes on Companies and Their Systems*. Available at: https://arab-ency.com.sy/law/details/164553 (Accessed: 10 august 2026).

[282] Kiki, M.H. (2014) 'The Budget Deficit in Syria during the Period 2005–2012: Causes and Methods of Financing and Ways to Reduce It', research paper, pp. 21.

projects and reducing the income tax rate for joint-stock companies from 32% to 25%. Tax Holiday: Major investment projects were granted full exemptions from profit tax for a period ranging from five to seven years, starting from the date of actual operation. [283]

- The high tax burden is a major problem in Syria. For example, the law imposed a real estate sales tax based on the market value of the property, at rates ranging from 1% for residential properties to 3% for vacant land and commercial shops, instead of the old, almost symbolic valuations. [284]

In Hungary, the development of revenue coverage of expenditure can be divided into several stages based on statistical data and empirical studies:

The first stage, between 2004 and 2006, was characterised by a widening gap between revenue and expenditure at the beginning of the millennium. Government spending rose from 48.8% of GDP in 2000 to 51.2% in 2005, while revenue fell from 46.0% to 44.4%. During this period, Hungary was preparing to join the European Union, but overall economic conditions did not support the export and import growth that Hungary was then promoting, particularly regarding the comprehensive declaration system related to value-added tax (VAT). [285]

Between 2006 and 2010, Hungary pursued an expansionary fiscal policy, resulting in an increased public debt ratio. Consequently, in 2008, Hungary entered into a €20 billion aid agreement with the International Monetary Fund (IMF). A key condition of this agreement was the implementation of comprehensive tax reforms , [286]particularly following the global financial crisis, which caused a 15% devaluation of the Hungarian ruble against the Swiss franc and a 17% devaluation against the euro. The rising debt levels and currency devaluation led to widespread bankruptcies and a credit crunch. The primary factor contributing to this collapse was Hungary's open economy, with 40% of companies involved in international production systems and accounting for 75% of exports. Foreign

[283] Syrian Arab Republic (2007) *Law No. 8 of 2007 on Investment, Replacing Legislative Decree No. 10 of 1991*. Damascus: Syrian Arab Republic.
[284] Syrian Arab Republic (2021) *Law No. 15 of 2021 on Investment*. Damascus: Syrian Arab Republic.
[285] Kraan, D.-J. *et al.* (2007) 'Budgeting in Hungary,' *OECD Journal on Budgeting*, 6(3), pp.11. https://doi.org/10.1787/budget-v6-art14-en.
[286] Varga, J. (2017) 'Reducing the Tax Burden and Whitening the Economy in Hungary after 2010', *Public Finance Quarterly*, 62(1), pp. 13.

investors controlled approximately 45% of Hungarian company assets. Additionally, significant losses were observed in the manufacturing sector, real estate companies, and private education firms.[287]Reducing the Tax Burden and Whitening the Economy. After 2010, the pace of reforms increased considerably. Reforms were implemented in personal income tax, corporate tax, and value-added tax.[288]

Between 2013 and 2016, tax revenues increased by approximately 1.5% of GDP.

The radical reform of the tax system between 2010 and 2013 not only supported economic growth and fiscal balance but also relied on cooperation. The focus shifted from taxes on labor to taxes on consumption, which stimulated employment and reduced the distorting effect of the tax system on economic decisions. By imposing crisis taxes, the system promoted burden-sharing, while targeted measures helped combat the informal economy, thus ensuring fair competition. These measures effectively contributed to increased employment and economic performance, paving the way for further tax cuts. [289] Between 2013 and 2019, these reforms continued, particularly those targeting tax administration. Significant efforts were also made to reduce the informal economy and curb tax evasion, as excessive informality creates competitive barriers for legally operating companies, reduces budget revenues, concentrates the tax burden more heavily on those engaged in registered activities, distorts economic statistics, and thus complicates decision-making through various measures.[290]

Since 2020, the decline in coverage due to the pandemic has led to a significant deterioration in Hungary's fiscal position. In 2020, the government implemented COVID-related fiscal measures amounting to approximately 5% of GDP, and the deficit widened by about 6 percentage points to 8.1% of GDP. In the following years, 2022 and 2023, coverage improved slightly but remained relatively low. This does not indicate that the state's measures to increase coverage failed; on the contrary, reports indicate that profit taxes in specific economic sectors enhanced revenues by 1.3% of GDP. However, the main

[287] Egedy, T. (2012) 'The Effects of Global Economic Crisis in Hungary', *Hungarian Geographical Bulletin*, 61(2), pp. 162-165 .

[288] Varga, J. (2017) 'Reducing the Tax Burden and Whitening the Economy in Hungary after 2010', *Public Finance Quarterly*, 62(1), pp. 14-15.

[289] Parragh, B. and Palotai, D. (2018) 'Towards an Incentive Tax System – Reform of the Tax System and Tax Administration in Hungary', *Public Finance Quarterly*, 63(2), pp. 197.

[290] Magyar Nemzeti Bank (2018) *Growth Report 2018*. Budapest: Magyar Nemzeti Bank, pp. 145.

reason for the decline was, in addition to war-related measures and rising energy prices, additional energy subsidies for households and small businesses amounting to about 1% of GDP, and the purchase of gas reserves amounting to about 1.2% of GDP. The decline in private consumption led to a decrease in VAT revenue by about 1.2 percentage points of GDP, which was one of the state's most important tax revenues during that period.[291] Hungary was able to regain its capacity to cover its debt, particularly in 2024, attributing this to the recovery of private consumption. Consequently, VAT receipts improved, and at the same time, energy subsidy expenditures decreased as energy prices fell, along with some reductions in investment and public consumption.[292]

We note that despite Hungary's struggles with revenue coverage ratios, these ratios have remained relatively stable over time. Even amid financial and economic crises, Hungary's system for financing expenditures has remained resilient and has not suffered a major setback like that in Syria after 2011. This is what the literature calls "fiscal resilience." This fiscal flexibility is crucial for managing the public budget and deficits. If the tools used to address short-term crises fail, the country may resort to unsustainable practices, such as excessive borrowing or harsh austerity measures,[293] which could undermine long-term fiscal sustainability and worsen the public budget deficit.

In my opinion, based on comparative studies, literature, and statistical data, the resilience of Hungary's resources in covering state expenditures rests on several pillars:

- Unlike Syria, Hungary employs a flat 15% income tax system, [294] which is characterized by its simplicity and uniformity. Progressive taxation has been abolished, but the legislature did not adopt the uniform rate alone. Rather, it shifted part of the social function of the tax from the rate structure to tax-base allowances and exemptions, particularly the family allowance in §29/A, the first-marriage allowance in §29/C, and the exemption for mothers with four or more children in §29/D. The

[291] OECD (2024), *OECD Economic Surveys: Hungary 2024*, OECD Publishing, Paris, pp. 40. https://doi.org/10.1787/795451e5-en.

[292] OECD (2024), *OECD Economic Surveys: Hungary 2024*, OECD Publishing, Paris, https://doi.org/10.1787/795451e5-en.p p51

[293] Neuhuber, T., Getzner, M. and Bröthaler, J. (2025) 'Fiscal resilience, fiscal sustainability and social infrastructure expenditure: the impact of social spending on fiscal health in Austrian local governments,' *Journal of Public Budgeting Accounting & Financial Management*, 37(6), pp. 264. https://doi.org/10.1108/jpbafm-10-2024-0202.

[294] Bartha, Z. (2014) 'MID-TERM EFFECTS OF THE FLAT RATE PERSONAL INCOME TAX IN HUNGARY,' *Humanities and Social Sciences Quarterly*, pp. 26. https://doi.org/10.7862/rz.2014.hss.34.

study you have shows that the family allowance has been significantly expanded, especially for families with two children, and that the system has also introduced a full exemption for certain categories.[295]

Many updates have been made to the Value Added Tax (VAT) system, and the modern legal basis for this tax is Act CXXVII of 2007 on Value Added Tax, particularly Article 8 concerning the 27% rate it imposes.[296]

- In Hungary, the focus has been on the efficiency of tax collection. Tools such as online cash registers linked to the tax administration, EKÁER for monitoring the movement of goods, and electronic invoicing systems have been introduced. Also, the administration has shifted towards a more service-oriented model, including the preparation of draft tax returns for taxpayers.[297] The impact is measurable: the VAT gap decreased by more than 8 percentage points between 2012 and 2016 to 13%, and by 2015 this resulted in an increase in VAT revenues of approximately 280 billion HUF annually without a rate increase.[298]

The most important feature of the Hungarian VAT system is that it has been used to redistribute the tax burden. The tax law no longer simply aims to collect the largest possible amount from each tax, but rather allows for a rebalancing of the tax mix. That is, reducing the burden in one category, such as labor income, can be combined with maintaining revenue capacity through other categories, especially consumption, by reducing the tax burden. The direct tax rate on labor income and redistributing part of the burden towards consumption and economic transactions by raising the value-added tax (VAT) rate.[299]

- Hungary's corporate tax rate is very competitive within the European Union, as mentioned in Chapter 1. It has been 9% since 2017. This high competitiveness is based on two features: first, the elimination of the maximum limit on the tax base for small and medium-sized enterprises (SMEs), and second, the increase and

[295] Fülöp, K. (2024) 'A magyar út a versenyképes adórendszer irányába 1988–2024,' *Pro Publico Bono - Magyar Közigazgatás*, 12(3), pp. 66. https://doi.org/10.32575/ppb.2024.3.3.
[296] PwC (2026) *Hungary: Corporate – Other Taxes*. Available at: PwC Tax Summaries (Accessed: 20 august 2026).
[297] Fülöp, K. (2024) 'A magyar út a versenyképes adórendszer irányába 1988–2024,' *Pro Publico Bono - Magyar Közigazgatás*, 12(3), pp. 66. https://doi.org/10.32575/ppb.2024.3.3.
[298] Magyar Nemzeti Bank (2018) *Growth Report 2018*. Budapest: Magyar Nemzeti Bank, pp. 134.
[299] Fülöp, K. (2024) 'A magyar út a versenyképes adórendszer irányába 1988–2024,' *Pro Publico Bono - Magyar Közigazgatás*, 12(3), pp. 52. https://doi.org/10.32575/ppb.2024.3.3.

subsequent elimination of the maximum limit on tax exemption for SMEs.[300]

A key conclusion emerges from this comparison: a state's capacity to generate revenue depends not solely on the magnitude of the tax burden or high tax rates, but on the legal and tax system's ability to establish a diversified revenue base that can adapt to economic fluctuations and crises. Empirical studies corroborate this finding, demonstrating that increasing expenditure without corresponding revenue growth results in larger deficits and greater reliance on borrowing. In contrast, sustainable public financing is achieved by broadening the tax base and enhancing collection efficiency, rather than merely increasing tax rates.[301] The comparison between Syria and Hungary exemplifies this dynamic. In Syria, the revenue-to-expenditure ratio was relatively high prior to 2011; however, this did not indicate the robustness of the tax system, as a substantial share of fiscal capacity depended on public sector revenues, particularly from oil. When these resources diminished due to war, sanctions, and reduced economic activity, the tax system was unable to compensate for the loss promptly or sufficiently, resulting in a significant decline in the ability of revenues to meet expenditures. This observation is consistent with literature that underscores the vulnerability of systems reliant on a narrow revenue base or a single primary source.[302] In contrast, Hungary's experience illustrates greater revenue resilience. Tax reforms since 2010 prioritized restructuring the tax mix rather than maximizing revenue from a single tax. Hegedűs and Lentner describe this shift as a move toward consumption and sales taxes and away from taxes on labour and corporate income.[303]

It should be noted that this study only addresses the legal framework of the tax system to the extent required to investigate its relationship with the state's revenue-generating capacity and the overall budget deficit. Given the subject's broad scope and complexity,

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[300] Hegedűs, S. and Lentner, C. (2023) ‘A Magyar adórendszer versenyképességének elemzése nemzetközi környezetben’, *Pro Publico Bono – Magyar Közigazgatás*, 10(4), pp. 68. doi: 10.32575/ppb.2022.4.4.

[301] Based on the empirical study’s findings:
Nikoloski, A. (2020) ‘Influence of Public Revenues on Economic Growth: The Case of the Republic of North Macedonia’, *Konfrontasi Journal*, pp. 48.
Vucic, V., Marinović Matović, I. and Kostić, Z. (2020) ‘Public Revenues and Public Expenditures Analysis in Southeast European Countries’, *Knowledge International Journal*, 38(1), pp. 93.

[302] Based on the empirical study’s findings:
Abdulrasheed, B. (2017) 'Causality between Government Expenditure and Government Revenue in Nigeria,' *Asian Journal of Economics and Empirical Research*, 4(1).

[303] Hegedűs, S. and Lentner, C. (2023) ‘A Magyar adórendszer versenyképességének elemzése nemzetközi környezetben’, *Pro Publico Bono – Magyar Közigazgatás*, 10(4), pp. 64. doi: 10.32575/ppb.2022.4.4.

several issues, particularly the legal structure and administration of Value Added Tax (VAT) and corporate taxes, have been discussed in general rather than comprehensively; each of these areas could be a separate field of research. As a result, additional research is encouraged to investigate in greater depth the relationship between the legal design and administration of specific taxes and the evolution, persistence, and reduction of the overall budget deficit. Such research would help to provide a more precise understanding of how tax legislation can improve the state's revenue-generating capacity and fiscal resilience.

2.3.2. Legal Mechanisms Adopted to Reduce Budget Deficits

From an economic perspective, several methods may be employed to address a general budget deficit. These methods generally operate on either side of the budget: expenditure may be reduced or rationalized, while public revenues may be increased, particularly through taxation and improved revenue mobilization. Seidman accordingly explains that reducing prospective fiscal imbalance requires either a significant reduction in projected expenditure growth or a significant increase in tax revenue relative to GDP.[304] The economic literature also considers structural fiscal adjustment, including the restructuring of public expenditure, transfers, and subsidies, and adjustments to taxation. IMF analysis emphasizes that the composition of such adjustment matters and distinguishes durable expenditure restructuring from temporary measures and distortionary taxation.[305] Where these measures do not eliminate the fiscal gap, the economic literature further discusses methods of financing the remaining deficit, principally domestic borrowing, external borrowing, monetary financing, and the use of foreign-exchange reserves. Asset sales and privatization may also temporarily reduce the government's financing requirement, although they do not necessarily provide a permanent improvement in the fiscal position.[306]

Economic measures are insufficient to address the deficit; fiscal policy plays a crucial role in achieving economic stability by mitigating the effects of external shocks. Fiscal policy, when meticulously crafted, can promote stable economic growth by managing public

[304] Seidman, L.S. (2009) *Public Finance*. New York: McGraw-Hill/Irwin, pp. 332.
[305] Magyar Nemzeti Bank (2018) *Growth Report 2018*. Budapest: Magyar Nemzeti Bank, pp. 70.
[306] Diokno, B.E. (2007) 'Economic and Fiscal Policy Determinants of Public Deficits: The Philippine Case'. UP School of Economics Discussion Paper No. 2007-02. Quezon City: *University of the Philippines School of Economics*, pp. 8.

expenditure and national revenues. Fiscal policy encompasses a range of measures whose success depends on fiscal discipline, institutional accountability, targeted public spending, and a strong legal and institutional framework. These elements ensure that public expenditure is aligned with long-term economic development objectives. This holistic approach maintains the efficacy of fiscal policies even amidst global economic fluctuations. For example, during economic downturns, the adoption of progressive taxation systems can automatically alleviate the tax burden on low-income earners, while unemployment benefits offer direct financial support to sustain household consumption levels. This research primarily focuses on the legal mechanisms for deficit control rather than purely economic measures.[307] A prime example of such mechanisms and one of the earliest legal tools for deficit control is the Gramm-Rudman-Hollings (GRH) Act in the United States. Following years of sluggish deficit reduction, Congress enacted GRH in 1985 with the aim of compelling the President and Congress to make difficult decisions including tax increases to achieve a balanced budget. The primary instrument employed was the threat of "sequestration" (automatic spending cuts) should the deficit targets not be met.[308] The law established maximum deficit limits: $100 billion for 1990, $64 billion for 1991, $28 billion for 1992, and zero for 1993. If the executive branch estimated that the deficit would exceed the prescribed limit, "automatic sequestration" would be triggered—meaning an automatic reduction in spending by the amount necessary to reach the specified limit. Although this measure did not succeed at the time, it represents one of the earliest legal attempts to address the deficit.[309] Several nations have implemented various measures, including Germany's "Debt Brake" rule, which functions as a constitutional limitation on borrowing and deficits. This rule principally requires that both federal and state budgets be balanced without relying on borrowed revenue. However, it permits

[307] Muslim, M., Ilyas, M.F.G.B. and Sani, A. (2024) 'Linking Fiscal Policy to Economic Stability through Financial Sustainability', *Vifada Management and Social Sciences*, 2(2), pp. 42–43. doi: 10.70184/yessman2024.
[308] Davis, A.J. (1989) 'Gramm-Rudman-Hollings' Effect on Tax Policy: A View from the Budget Side', *Proceedings of the Annual Conference on Taxation Held under the Auspices of the National Tax Association-Tax Institute of America*, 82, pp. 45.
[309] Davis, A.J. (1989) 'Gramm-Rudman-Hollings' Effect on Tax Policy: A View from the Budget Side', *Proceedings of the Annual Conference on Taxation Held under the Auspices of the National Tax Association-Tax Institute of America*, 82, pp. 47–48.

adjustments in accordance with the economic cycle and allows exceptions for disasters and emergencies, provided there is a corresponding repayment obligation.[310]

Consequently, empirical studies on addressing fiscal deficits advocate for a more prudent and proactive approach to the legal management of deficits, ensuring that the budget responds in a timely and appropriately to changing economic conditions. Fiscal discipline, effective tax systems, and responsible debt management constitute the three fundamental pillars of fiscal sustainability.[311]

Regarding the countries under discussion, Hungary and Syria, it is pertinent to examine the legal mechanisms each employed. Specifically, were these mechanisms constitutional reforms, tax-related measures, or other types of interventions? Furthermore, did these measures effectively reduce the deficit? To address these inquiries, it is essential to first analyze the trajectory and levels of the deficit in both countries.

2.3.2.1 The Evolution of the Budget Deficit and the Legal Mechanisms to Address It in Syria and Hungary

In Syria, the general budget deficit as a percentage of GDP stood at approximately 2.1% in 2000, followed by a surplus of 1.8% in 2001. The deficit subsequently returned, reaching 1.2% in 2002, 3.1% in 2003, 5% in 2004, and 5% in 2005, before declining to 3.4% in 2006, 3.1% in 2007, 2.3% in 2008, 2.2% in 2009, and 2.2% in 2010.[312]

With the onset of the crisis, the trend shifted sharply; the deficit reached approximately 6% of GDP in 2011 and rose to 15% in 2012. [313] The source explicitly confirms this increase from 6% to 15% between those two years. According to World Bank estimates for the more recent period, Syria's fiscal balance stood at approximately 8.9% in 2017, 8.3% in 2018, 8.1% in 2019, 8.4% in 2020, 8.6% in 2021, 8.4% in 2022, and 8.2% in 2023, with an estimated figure of around 8% for 2024.[314]

Hungary's general government deficit stood at approximately 6.60% of GDP in 2004, 7.79% in 2005, and 9.27% in 2006; it then fell to 5.09 % in 2007 and 3.78% in 2008, before

[310] Federal Republic of Germany (1949) *Basic Law for the Federal Republic of Germany*, Art. 109(3).
[311] Muslim, M., Ilyas, M.F.G.B. and Sani, A. (2024) 'Linking Fiscal Policy to Economic Stability through Financial Sustainability', *Vifada Management and Social Sciences*, 2(2), pp. 48. doi: 10.70184/vv5fsw77.
[312] Figures Based on Shahrour (2013), pp. 63-64-95-113.
[313] Percentages based on the findings reported by Kiki (2014).
[314] World Bank (2023) *Syria Economic Monitor: Syria's Economy in Ruins after a Decade-long War*. Winter 2022/23. Washington, DC: World Bank, pp. 26.

rising to 4.76% in 2009, 4.44% in 2010, and 5.22% in 2011. Subsequently, it declined to 2.33% in 2012, and stood at 2.60% in 2013, 2.77% in 2014, 2.00% in 2015, 1.79% in 2016, 2.45% in 2017, 2.05% in 2018, and 2.02% in 2019. With the COVID-19 pandemic crisis, the deficit rose sharply to 7.49% in 2020 and remained high at 7.11% in 2021, 6.21% in 2022, and 6.98% in 2023, before dropping to approximately 5.14% of GDP in 2024.[315]

A literature review on the strategies for managing Syria's general budget highlights several important aspects:

Syria primarily uses domestic financing to tackle its budget deficit.[316] This financing is categorized into two types: banking-sector funding, which comes from the Central Bank and the broader banking system, and non-banking funding, which is derived from actual societal savings, including investment certificates, treasury bills, and treasury bonds. The proportion of the deficit covered by domestic financing increased significantly, from around 8.9% of the total deficit in 2002 to approximately 82.6% in 2010.Despite this, the domestic sources and applications of funds for the budget deficit are not explicitly detailed in the general budget. Instead, they are included under the "drawdown from reserves" category. This is manifested as either domestic loans from the banking system or loans from economic institutions, particularly through these institutions' subscription to public debt securities.[317]

- The issuance of treasury bills and bonds, within limits deemed economically viable, is crucial for addressing the general budget deficit. As a result, Syrian lawmakers initiated the regulation of these financial tools through various legislative measures, with Legislative Decree No. 60 of 2007 (the Government Securities Law) being the most significant. This decree categorized government-issued "public debt instruments" as legally tradable securities. It empowered the Syrian Ministry of Finance, in collaboration with the Central Bank of Syria (serving as the issuing agent), to issue public debt instruments. These instruments were specifically identified as treasury bills and treasury bonds, which are the

[315] The percentages were calculated by artificial intelligence based on data from the Hungarian Central Statistical Office, which was verified by the researcher.
For more information: https://www.ksh.hu/stadat_files/gdp/en/gdp0017.html?utm_source\

[316] Issa, H. (2021) 'The Size and Economic Burden of External Debt in Syria', *Tishreen University Journal for Research and Scientific Studies – Economic and Legal Sciences Series*, 43(5), pp. 29.

[317] Shahrour, I.G. (2013) 'The General Budget Deficit in Syria and Its Economic Impacts', *Arab Economic Research*, 20, pp. 104-105. doi: 10.21608/asfer.2013.272924.

main tools available to fulfill the Ministry of Finance's funding needs. The decree clearly stated that the primary aim of borrowing through these securities was to "finance the state's general budget deficit". It also prohibited the outstanding balance of domestic public debt from exceeding the annual ceilings approved in the budget law.[318] In the years when the Syrian economy encountered significant challenges, namely 2002, 2005, 2009, and 2010, there was an increase in the growth rate of net debt provided to the government by the banking sector. This increase might have played a role in helping the Syrian economy recover from recession. In contrast, during 2007 and 2008, the Syrian government's dependence on these loans decreased, as evidenced by the negative growth rate of net debt extended by the banking sector.[319] In 2011, as the crisis in Syria began, there was a significant rise in the general budget deficit. At the same time, deposits intended for investment in government securities decreased, especially in the initial months of the crisis. This decline was driven by customers withdrawing funds due to concerns about the Syrian pound's depreciation or skepticism regarding the banks' capacity to fulfill withdrawal demands. As a result, state-owned public banks bore the majority of the subscription responsibility.[320]

- In terms of external borrowing, the dependence on foreign loans decreased significantly from about 91.1 percent of the total deficit in 2002 to roughly 17.4 percent in the year[321]... ...of the total deficit. This shift is primarily due to constitutional limitations in Syria; according to the Syrian Constitution, the government is not allowed to enter into external loan agreements or international financial commitments unless a specific law is passed by the People's Council to approve the international agreement or external loan. Additionally, these arrangements must be made solely through bilateral agreements with allied countries (Article 75 of the Syrian Constitution).[322]

[318] Syrian Arab Republic (2007) *Legislative Decree No. 60 of 2007*, Arts. 5–7 and 10–12.
[319] Shahrour, I.G. (2013) 'The General Budget Deficit in Syria and Its Economic Impacts', *Arab Economic Research*, 20, pp. 105. doi: 10.21608/asfer.2013.272924.
[320] B2B-SY (2016) *Title of Article*. Available at: https://b2b-sy.com/cat-30/sub-315/40275/ (Accessed: 28 august 2026).
[321] Shahrour, I.G. (2013) 'The General Budget Deficit in Syria and Its Economic Impacts', *Arab Economic Research*, 20, pp. 105. doi: 10.21608/asfer.2013.272924.
[322] Syrian Arab Republic (2012) *Constitution of the Syrian Arab Republic*, Art. 75.

Regarding revenue generation, the government implemented several legal measures concerning tax legislation during the period under review:

As previously noted, Syria had long relied on oil revenues. However, due to the inability to control the fiscal deficit between 2001 and 2005, compounded by the complex interplay of public debt obligations involving the Ministry of Finance, the Central Bank, and other banking institutions, the Tenth Five-Year Plan (2006–2010) was adopted. This plan aimed to overhaul the tax system by addressing its structure, rates, administration, and incentive mechanisms to boost non-oil revenues.

Key components of this plan included:

- Reduction of taxes on actual profits and corporate income (Decree 51 of 2006): Upon the launch of the plan in 2006, Legislative Decree No. 51 was issued to amend the Income Tax Law (Law No. 24 of 2003). It introduced unprecedented structural tax cuts, lowering the top tax bracket on individual and corporate profits from 28% to 22% to encourage private-sector activity. It also incentivized joint-stock companies by establishing highly preferential, reduced tax rates as low as 14% for joint-stock companies that offer their shares for public subscription. [323]

- Personal income taxes were amended; Legislative Decree No. 51 of 2006 revolutionized and radically altered Income Tax Law No. 24 of 2003. It was not merely a minor adjustment but established a new fiscal philosophy aimed at lowering direct taxes to revitalize the private sector and reducing actual profit tax rates—particularly for public sector companies, which were made subject to a unified tax .[324]New categories were added to the group of taxpayers assessed on actual profits .[325]and a provision was introduced allowing tax authorities to deduct the personal expenses of major taxpayers from their gross profit base subject to taxation.[326] The most significant change introduced by the decree was the elimination of the full tax exemptions (tax holidays of five or ten years) granted under

[323] Syrian Arab Republic (2006) *Legislative Decree No. 51 of 2006 Amending Certain Provisions of Income Tax Law No. 24 of 2003*, Art. 3.
[324] Syrian Arab Republic (2006) *Legislative Decree No. 51 of 2006 Amending Certain Provisions of Income Tax Law No. 24 of 2003*, Art. 3.
[325] Syrian Arab Republic (2006) *Legislative Decree No. 51 of 2006 Amending Certain Provisions of Income Tax Law No. 24 of 2003*, Art. 2.
[326] Syrian Arab Republic (2006) *Legislative Decree No. 51 of 2006 Amending Certain Provisions of Income Tax Law No. 24 of 2003*, Art. 11.

previous laws, replacing them with immediate taxation from day one—albeit with the provision of percentage-based incentive rebates throughout the project's lifespan.[327]

- A Value Added Tax (VAT) bill was drafted but never implemented.[328]

-During the Syrian crisis, as the purchasing power of the Syrian pound rapidly collapsed and the state was compelled to issue successive nominal salary increases, employees unfairly found themselves caught in the trap of "higher tax brackets." To address this, the legislator intervened through several decrees amending the 2003 law: the tax-exempt threshold was gradually raised in tandem with each wage increase, and fees ancillary to the salary tax were consolidated into a single progressive tax starting at 5% for the lowest brackets.[329] Furthermore, during the latter half of the crisis, updated laws required business operators such as pharmacies, physicians, wholesalers, and restaurants to link their accounting systems directly to the tax administration to document every sales invoice, thereby curbing tax evasion.[330]

Based on the deficit figures mentioned earlier, we can evaluate the legal mechanism adopted by the Syrian government as follows:

In the first phase (2000–2005), the legal framework failed to establish a stable deficit trajectory; the fiscal balance shifted from a deficit of 2.1% of GDP in 2000 to 5% in 2005. However, the second phase (2006–2010) represents the period where relative success is most evident; during these years, the deficit fell from 3.4% of GDP in 2006 to 2.2% in 2009. Non-oil tax revenues rose, and the share of income tax within total tax revenue improved in 2009.[331] Although there has been some success, research indicates that the main problem is related to performance, not the methods used. The state's execution of the social market economy system was flawed due to multiple deficiencies; merely having legislative measures was inadequate, and economic efficiency did not emerge at multiple tiers.

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[327] Syrian Arab Republic (2006) *Legislative Decree No. 51 of 2006 Amending Certain Provisions of Income Tax Law No. 24 of 2003*, Art. 5-27.

[328] [328] Kiki, M.H. (2014) 'The Budget Deficit in Syria during the Period 2005–2012: Causes and Methods of Financing and Ways to Reduce It', research paper, pp. 29.

[329] Syrian Arab Republic (2023) *Legislative Decree No. 30 of 2023 Amending and Adding Certain Provisions to Income Tax Law No. 24 of 2003 and Its Amendments*.

[330] Jusoor for Studies (2026) *Tax Evasion and Tax Policies in Syria: Causes and Impacts*. Available at: Jusoor for Studies (Accessed: 28 September 2026).

[331] Fadila, A.M. (2022) 'Prospects for Developing the Syrian General Budget: From Line-Item Budgeting and Control to Programme and Performance Budgeting', *Al-Baath University Journal*, 44(14), pp. 51.

We can clarify that:

Efforts to alleviate the tax load on businesses and organizations included lowering income tax rates, especially on real profits, and offering exemptions to major taxpayers. Despite these initiatives, they did not significantly improve compliance or increase tax revenue. Additionally, not applying these changes to wage taxes led to an unfair income distribution, affecting both the sharing of the tax burden and the taxation principle of paying according to one's financial capacity.[332] The Syrian legislator did not prioritize the Value Added Tax (VAT) or its implementation, nor did it make substantive amendments to personal income tax (with the exception of the regime applicable to large taxpayers). Instead, the income tax system for companies and individuals relied heavily on the tax levied on the Syrian Petroleum Company. Revenues from this source—which had previously accounted for approximately 60% of total tax revenue (categorized under taxes on industrial, commercial, and non-commercial professions and trades)—declined during the war.[333]

The period also saw a widening deficit; the 2011–2012 timeframe clearly exposed the limitations of this legal framework, as the deficit rose from approximately 2.2% of GDP in 2010 to 6% in 2011, and then to 15% in 2012.

The crisis in Syria has placed mounting, dual pressure on the public budget. On the revenue side, the contraction of economic activity and the decline in real GDP have diminished the state's capacity to mobilize tax revenues. Conversely, public spending requirements have risen; [334]the government has attempted to mitigate social impacts through successive salary and wage increases, as well as income tax adjustments—such as raising the tax-exempt threshold for salaries and wages to SYP 50,000 under Legislative Decree No. 24 of 2020. However, the effectiveness of these measures has been limited; nominal wage increases and tax exemptions failed to keep pace with inflation and the rapid rise in commodity prices. Consequently, purchasing power continued to erode, and the need for further government intervention and spending persisted. This created a feedback loop between weak economic activity and revenue generation on the one hand, and rising expenditure

[332] Kiki, 2014, p. 29; Fadila, 2022, p. 53

[333] Al-Hindi, F. (2021) 'The Impact of the Economic Crisis and the War on Tax Revenues in Syria', *Damascus University Journal of Economic and Political Sciences*, 37(3), pp. 74-78.

[334] United Nations Development Programme (UNDP) (2025) *The Impact of the Conflict in Syria: A Devastated Economy, Pervasive Poverty and a Challenging Road Ahead to Social and Economic Recovery*. UNDP Syria, pp. 23–24.

demands on the other a dynamic that largely explains the sustained budgetary pressure and the widening public deficit throughout the crisis.[335]

In the period of reform before the war, the Syrian legislator concentrated on managing financing methods and public debt through Legislative Decree No. 60 of 2007. The strategy was flawed due to certain factors, mainly the dependence on deficit financing and the reluctance to borrow externally. The emphasis on boosting tax revenues, especially from income tax, which was a key revenue stream, was misguided. Additionally, there were no governmental or constitutional actions taken to increase transparency or enhance the efficiency of the laws that support the budget. The situation worsened during the crisis, as Syrian policymakers focused on funding the deficit rather than achieving a sustainable reduction in it, which was the main reason for the inability to control deficit levels.

Hungary:

Following Hungary's accession to the European Union, the European Council decided on July 5, 2004, pursuant to Article 104(6), that the country was experiencing an excessive deficit. Consequently, acting under Article 104(7), the Council recommended that Hungarian authorities rectify the situation by seizing every opportunity to accelerate fiscal consolidation and by proceeding with planned reforms in public administration, healthcare, and education systems. These measures aimed to ensure the planned reduction in expenditure ratios and to improve the long-term sustainability of public finances.

To this end, Hungary has taken several steps to correct its convergence path, in particular: the government has implemented fiscal controls in the health sector, has strengthened the conditions for the use of unspent funds carried over from previous years, has imposed controls on local governments and extra-budgetary funds, has taken exceptional measures to collect dividends from public enterprises, and has strengthened the supervision of VAT refunds in connection with trade with the European Union. - The 2005 budget included tax cuts. Personal income taxes were simplified from three marginal classes to two, the threshold for the lowest classes was raised from 0.8 million to 1.5 million HUF, and local business tax exemptions were increased, along with a reduction in employer social security

[335] Hamayel, I.S. (2023) *Tax Evasion in Syria (With a Review of Other Countries' Experiences in Curbing Tax Evasion)*. Master's thesis in Business Administration (Business Law). Damascus: Higher Institute of Business Administration (HIBA), pp. 34-35.

contributions.[336] In addition, measures included the expansion of the social contribution base, an increase in the tax on slot machines, and the partial reintroduction of VAT on imports. However, Al-Sadr notes that these measures were insufficient; he also emphasized that the downward trend in public debt reversed starting in 2002, with the debt-to-GDP ratio rising from 53.5% in 2001 to 57.6% in 2004.[337] In addition to rising debt, other sources cite another reason for these measures' inadequacy: the increase in interest rates in2004.[338] It is noted that during this period, specifically in 2003, the company "ÁKK Rt." assumed responsibility for central government financing and the management of the state account's liquidity; this activity commenced in January 2004. Furthermore, starting in 2004, the company began entering into financial derivative transactions.[339] According to the literature, this caused significant difficulties for Hungary regarding public debt; although government borrowing was subject to established institutional frameworks, it lacked the strict constitutional ceilings currently in place.[340]

However, the shift in Hungary can be traced back to 2006, when, following a deterioration in the budgetary situation during the first five months of the year, the government adopted a fiscal correction package known as the "New Equilibrium Package" on June 12. This package included measures for revenue, taxation, expenditure, and combating tax evasion. - The first of these steps entailed shifting fiscal policy from tax cuts to revenue-generating fiscal consolidation. This targeted the remainder of a five-year tax-cutting programme that, if continued, would have reduced revenues by about 3% of GDP in 2010. The government then implemented a fiscal correction package aimed at increasing revenue and controlling expenditure.[341]

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[336] Kraan, D.-J. *et al.* (2007) 'Budgeting in Hungary', *OECD Journal on Budgeting*, 6(3), pp11 . doi: 10.1787/budget-v6-art14-en.

[337] Kraan, D.-J. *et al.* (2007) 'Budgeting in Hungary', *OECD Journal on Budgeting*, 6(3), pp. 4-12. doi: 10.1787/budget-v6-art14-en.

[338] Bíró-Nagy, A. and Medve-Bálint, G. (2025b) *The path of Hungary's EU membership*, *Studies in economic transition*, pp. 80. https://doi.org/10.1007/978-3-031-94009-5.

[339] Government Debt Management Agency (ÁKK) (n.d.) *History of Sovereign Debt Management*. Available at: ÁKK – History of Sovereign Debt Management (Accessed: 29 august 2026).

[340] Nagy, Z. (2022) 'Regulation of public finances in Hungary in light of financial constitutionality,' in *Legal studies on Central Europe*, pp. 88. https://doi.org/10.54171/2022.zn.ropfatilofc_5.

[341] Government Debt Management Agency (ÁKK) (n.d.) *History of Sovereign Debt Management*. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.C_.2006.260.01.0001.01.ENG&toc=OJ%3AC%3A2006%3A260%3AFULL(Accessed: 29 august 2026).

- Effective January 1, 2007, corporate tax underwent reform with the introduction of a minimum tax. Companies with a small or negative tax base became liable for a minimum corporate tax amounting to 2% of adjusted revenue, with certain exceptions. Furthermore, from September 1, 2006, a 4% solidarity tax was levied on the pre-tax profits of companies subject to corporate income tax. These initiatives were designed to expand the corporate tax base. Additionally, the Value-Added Tax (VAT) was revised: as of September 1, 2006, activities and services previously taxed at a preferential rate of 15% were shifted to the general rate of 20%, while the 5% rate for specific goods and services remained unchanged.[342] The program depended on a critical component: the implementation of stringent multi-year expenditure ceilings across most spending categories, alongside the enhancement of budgetary expenditure controls.[343] We consider this a vital measure taken by Hungary—a first step toward achieving sustainable solutions for the deficit. Furthermore, as much of the literature indicates, imposing expenditure limits curbs discretionary power—particularly when such ceilings are integrated into a medium- or multi-year framework. Indeed, as observed, Hungary moved closer to the target set in the program, with nearly half of the reduction in the deficit ratio scheduled to take place in 2007.[344]

It is observed that the deficit did not rise in the subsequent years and remained below 2006 levels even amidst the 2008 global crisis due to several factors:

Most important was the "Structural Reform Programme" was designed to enhance the resilience of the Hungarian public sector through structural reforms, support economic growth, increase employment rates, and improve the competitiveness of the Hungarian economy. The country's decision-making bodies evaluated the prevailing medium-term economic and financial conditions and subsequently implemented exceptional measures. Key measures primarily focused on expenditure-side consolidation, including:

- Abolishing the 13th-month pension, with an impact of HUF 165 billion in 2010 and 2011; modifying the pension indexation method, resulting in an impact of HUF 76 billion in 2010

[342] Hungary (2006) *Act LIX of 2006* and *Act LXI of 2006*.
[343] Council of the European Union (2006) 'Council Opinion of 10 October 2006 on the Adjusted Convergence Programme Update of Hungary, 2005–2009', *Official Journal of the European Union*, C 260/01.
[344] Kraan, D.-J. *et al.* (2007) 'Budgeting in Hungary,' *OECD Journal on Budgeting*, 6(3), pp. 32 . https://doi.org/10.1787/budget-v6-art14-en.

and HUF 91 billion in 2011, freezing minimum pensions, restricting disability pensions, and reducing housing subsidies; reducing gas and heating subsidies, cutting prescription drug subsidies, freezing ministry budgets, freezing family allowances, and reducing sick pay.[345]

-Concerning tax reforms, in 2011, Parliament eliminated the two-tier progressive tax bracket system, which previously consisted of rates of 17% and 32%. This system was replaced with a uniform flat tax rate of 16% applicable to all forms of personal income. Additionally, a substantial tax credit was introduced to assist households with multiple children. [346] To compensate for revenue lost due to the implementation of a unified income tax, the standard VAT rate was raised from 25% to 27%, making it the highest standard rate in the European Union. Corporate tax incentives: The corporate income tax rate was significantly reduced to 10% for small and medium-sized enterprises (SMEs) with profits below 500 million Hungarian forints, while the rate remained at 19% for larger enterprises. "Crisis taxes" on specific sectors.[347]

- The legislative milestone of this period was the enactment of Hungary's new "Fundamental Law," which prohibits any future budgetary framework that would result in the national debt exceeding 50% of GDP, as previously noted. Although deficit ratios stabilized during this time, public debt ratios remained elevated. [348] The Economic Stability Act (Act CXCIV of 2011) precisely defined the calculation methods required to ensure annual debt reduction (Article 2). The European Commission notes that debt fell below 80% of GDP in 2011 and subsequently dropped by approximately another 3 percentage points to nearly 78% by the end of 2012; however, it attributes this decline to a combination of factors rather than solely to the Stability Act. [349]However, the Hungarian Fundamental Law and the Economic Stability Act (Act CXCIV of 2011) marked a shift in the legal

[345]Ministry for National Economy (2011) *Hungary's Structural Reform Programme 2011–2014: Based on the Political Thesis of the Széll Kálmán Plan*. Budapest: Ministry for National Economy, pp. 5.

[346] Bartha, Z. (2014) 'Mid-Term Effects of the Flat Rate Personal Income Tax in Hungary', *Humanities and Social Sciences Quarterly*, 19(21)(4), pp. 26. doi: 10.7862/rz.2014.hss.34.

[347]Oeconomus Economic Research Foundation (2023) *Taxation in Hungary Has Fallen the Third Most in the European Union Since 2010*. Available at: https://www.oeconomus.hu/en/oecofocus/taxation-in-hungary-has-fallen-the-third-most-in-the-eu-since-2010/

[348] Hungary (2011) *The Fundamental Law of Hungary*, Arts. 36–37 and 44.

[349] European Commission (2013) *EU Balance-of-Payments Assistance to Hungary: Third Review under Post-Programme Surveillance*. Brussels: Directorate-General for Economic and Financial Affairs, European Commission, pp .7 .

regulation of public debt; the issue of debt was no longer merely a political or administrative goal but became a binding legal constraint when preparing the general budget.[350]

Deficit ratios continued to decline until 2019, as the Hungarian government maintained the mechanisms adopted during that period. Efforts focused on enhancing tax compliance and improving tax administration through systems such as online cash registers and EKÁER, which improved collection efficiency and reduced tax evasion.[351] However, it is observed that after 2020, particularly due to the coronavirus pandemic and the subsequent energy crisis following the Russia-Ukraine war, deficit ratios began to rise again.

Legislation known as "Act XII of 2020 on the Protection against Coronavirus" was enacted, authorizing the government to take exceptional financial and tax-related measures to ensure financial stability. Government Decree 92/2020 (IV.6.), concerning specific rules for the 2020 central budget during the state of emergency, was also implemented. Several exceptional economic and financial measures were adopted,[352]including tax exemptions such as reduced labor taxes for the tourism, restaurant, and entertainment sectors, as well as exemptions from social insurance contributions.[353] After 2022, the government introduced corrective taxes targeting the financial and energy sectors. References from this period confirm that measures focused more on cutting expenditure than on increasing revenue.[354]

In summary, Hungary has relied on a range of legal and financial mechanisms to influence deficit levels. These measures interact with three key variables.

- The first relates to fiscal policy—specifically revenue generation—through fiscal controls, the broadening of social contribution bases, and frequent adjustments to rates and exemptions affecting major levies such as corporate and personal income taxes. The focus has gradually shifted from merely adjusting tax rates to enhancing

[350] Baksay, G. and Kiss, G.P. (2013) 'Second Act – Second Thoughts: The Hungarian Debt Rule', *MNB Bulletin*, October, pp. 7.
[351] Magyar Nemzeti Bank (2018) *Growth Report 2018*. Budapest: Magyar Nemzeti Bank, pp.142-134.
[352] Nagy, Z. (2019) 'Regulation of Sustainable Fiscal Policy in Hungary', *Public Governance, Administration and Finances Law Review*, 4(2), pp. 107.
[353] Várnagy, R. (2021) 'Hungary: political developments and data in 2020', *European Journal of Political Research Political Data Yearbook*, 60(1), pp. 167. https://doi.org/10.1111/2047-8852.12339.
[354] Dept, I.M.Fund.E. (2023) 'Hungary', *IMF Staff Country Reports*, 2023(070), p. 4. https://doi.org/10.5089/9798400228865.002.

actual revenue collection capacity by combating tax evasion and improving tax administration and electronic monitoring.

- The second variable is the public debt ratio; as noted earlier, there is a close link between debt and the deficit. This relationship is managed by strengthening the legal framework for fiscal discipline through constitutional and legislative constraints on public debt and budget-setting rules, thereby limiting the scope for unrestricted fiscal expansion.
- The third variable involves attempts to influence inflation, albeit to a lesser extent, particularly through Value Added Tax (VAT). An empirical study by Karádi and Reiff (for the Magyar Nemzeti Bank—MNB) utilized VAT changes in Hungary as a natural experiment and found an asymmetric inflationary response to tax adjustments. [355]

However, was this mechanism sufficiently effective?

A study by Anna Możdzierz (2015) indicates that the reduction in the deficit, particularly from 2010 to 2015, was primarily driven by increased revenues. Specifically, the implementation of a flat 16% income tax rate in place of the tiered system, along with the introduction of tax credits and corporate tax incentives, as well as other previously mentioned tax adjustments, proved effective. In contrast, the impact of structural spending reforms under the Széll Kálmán Plan was limited during this period.[356] However, data indicates that debt ratios improved relatively during this period, though they remained high.[357] While the Fundamental Law and the Economic Stability Act have proven beneficial, their full impact is expected to materialize over the long term; Dr. Zoltán Nagy confirmed that the Hungarian framework aims to achieve a sustainable long-term debt level, with debt rules serving as a central tool of fiscal policy.

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[355] Rabitsch, K. (2010) The Role of Financial Market Structure and the Trade Elasticity for Monetary Policy in Open Economies. MNB Working Papers 2010/3. Budapest: Magyar Nemzeti Bank. Available at: mnb.hu.

[356] Możdzierz, A. (2015) 'Fiscal Consolidation in Hungary in 2010–13', Argumenta Oeconomica Cracoviensia, 13, pp. 43–60.

[357] Ministry for National Economy (2013) 'Change in the Budget and General Government Debt on the Basis of Data Reported for the Excessive Deficit Procedure', Hungarian Outlook. Government of Hungary, 8 April. Available at: https://2010-2014.kormany.hu/en/ministry-for-national-economy/hungarian-outlook/change-in-the-budget-and-general-government-debt-on-the-basis-of-data-reported-for-the-excessive-deficit-procedure-2

The International Monetary Fund (IMF) estimates that certain measures resulted in tangible savings. Specifically, reductions in expenditures on goods and services, public sector wages, and household transfers collectively accounted for approximately 2.25% of GDP during the period of 2011–2012.[358] However, other measures were merely exceptional and difficult to sustain; recommendations were subsequently made to contain public expenditure growth, improve public administration efficiency, and implement various other measures.[359]

Although the measures implemented by Hungary were largely effective in reducing deficit ratios, they did not achieve fiscal sustainability. This limitation became apparent when these measures proved inadequate in the face of various crises after 2020, leading to multiple reviews by the European Union.

2.4 A final discussion reflecting the researcher's opinion

-We must agree that countries' circumstances vary; as previously mentioned, historical developments, regional conditions, and the nature of the political system significantly shape legal systems. This is evident in Syria and Hungary. Regarding public debt, for instance, Syria relied heavily on domestic loans from Syrian banks to finance its deficit; consequently, it enacted legislation to regulate these financial instruments—most notably Legislative Decree No. 60 of 2007 (the Government Securities Law). This law remains in effect today and has proven effective for Syria without causing the country distress.[360] In contrast, Hungary faced multiple debt crises, whether directly linked to the deficit or to associated factors particularly during 2009–2010.[361] In contrast, Hungary faced multiple debt crises whether directly linked to the deficit or to associated factors particularly during 2009–2010 (https://www.mnb.hu/letoltes/baksay-pkiss.pdf, p. 12), before the Hungarian Fundamental Law regulated public debt and the Economic Stability Act was enacted.

[358] Guerson, A. (2013) The Composition of Fiscal Consolidation Matters: Policy Simulations for Hungary. IMF Working Paper No. WP/13/207. Washington, DC: International Monetary Fund, pp. 5.
[359] Forthun, C. and Hagemann, R.P. (2010) 'Sustaining the Momentum of Fiscal Reform in Hungary', OECD Economics Department Working Papers, No. 802. Paris: OECD Publishing, pp. 56-9-10.
[360] Zeina, H.M. (2023) Government Securities from a Legal Perspective. PhD dissertation. Damascus: Damascus University, pp. 239.
[361] Baksay, G. and P. Kiss, G. (n.d.) [Title to be verified]. Budapest: Magyar Nemzeti Bank. Pp. 12 available t: https://www.mnb.hu/letoltes/baksay-pkiss.pdf.

Thus, asserting that Hungary succeeded or Syria failed in reducing the deficit would be an inaccurate conclusion lacking a research-based foundation. Instead, it is more appropriate to state that both countries made efforts, contingent upon the legal mechanisms they adopted and the specific circumstances of each historical period. In the study (Institutions, Politics, and Fiscal Adjustment: Brazil in a Comparative Perspective) by M. Loureiro, the researcher emphasized that fiscal adjustment is significant in itself, particularly regarding constraints on debt and spending, but noted that it is contingent upon various factors, most notably the political climate.[362]

- However, we must not overlook fundamental legal factors that influence deficit ratios and were used in various ways in both countries; chief among these is tax restructuring. In Syria, we observe that legislation focused... The approach focused primarily on amending income tax laws covering both personal and corporate income taxes by frequently adjusting tax bracket rates and granting exemptions to such an extent that Syrian researchers[363] described them as excessive and illogical. Nevertheless, the Syrian Personal Income Tax (PIT) system revealed an attempt to strike a balance rather than merely boost revenue; for instance, in 2009, wage tax exemption thresholds were raised, while the top PIT rate was increased from 20% to 22% to offset the revenue impact. Tax incentives were also employed to achieve objectives such as encouraging investment in remote areas, boosting employment, and promoting stock market listings.[364] The fundamental goal was a broader transition toward a market- and investment-driven economy, particularly during the crisis yet this effort failed; the World Bank described the system as complex and opaque, a situation further exacerbated by the cessation of oil revenues.[365] In Hungary, by contrast, we observe that, particularly following the reforms of 2006 and 2008, legislators sought to reduce the tax burden on labour and capital income while increasing it on consumption. In our view, this shift was not haphazard; it effectively addressed the fiscal deficit. Reports

[362] Loureiro, M.R.G. (2001) 'Instituições, política e ajuste fiscal: o Brasil em perspectiva comparada', Revista Brasileira de Ciências Sociais, 16(47), pp. 75–96.
[363] Kiki, M. and Al-Hindi, F.
[364] International Monetary Fund (2010) 'IMF Executive Board Concludes 2009 Article IV Consultation with the Syrian Arab Republic', Public Information Notice No. 10/42, 25 March. Washington, DC: International Monetary Fund.
[365] International Monetary Fund (2007) Syrian Arab Republic: 2007 Article IV Consultation—Staff Report; and Public Information Notice on the Executive Board Discussion. IMF Country Report No. 07/288. Washington, DC: International Monetary Fund, pp. 4.

explicitly described the move as relatively successful in reducing the deficit[366], although the tax structure itself still required further improvement regarding the reduction of the tax burden. In the researcher's view, Hungary's objective was to boost public revenue to cover past deficits while simultaneously easing the tax burden on workers and fostering a more investment-friendly environment.

Thus, while tax adjustments in both countries targeted specific goals, Hungary's mechanism proved more effective and strategically focused.

A review of the literature and empirical studies reveals a consensus on the structural link between tax system design and public deficits. For instance, the study called Economic and Fiscal Policy Determinants of Public Deficits: (The Philippine Case identified "tax effort) as the strongest positive determinant of fiscal health in the Philippines; it recommended revenue enhancement by addressing tax system weaknesses such as a narrow tax base caused by widespread tax incentive laws, alongside improvements in tax administration.[367] Similarly, the study: (Fiscal Policies to Diminish the Deficit in Romania) highlighted Romanian Law No. 296/2023, which introduced fundamental amendments to the Tax Code. These changes covered the small business tax regime, VAT, minimum corporate tax, social contributions, taxes on income from unspecified sources, and the elimination of certain exemption measures that had a direct impact on the deficit.[368]

Consequently, the analysis of tax system structures is a fundamental issue related to both the deficit and the overall public finances of a state, particularly in the cases of Syria and Hungary, as examined in this study. The third chapter will thus provide an analytical review of the tax systems implemented by these countries, with a focus on a comparative analysis of their labor and capital income tax regimes. The rationale for selecting this specific tax, as opposed to others, was detailed in the discussion within the first chapter, where the importance of choosing this tax to analyze their respective legal systems was also emphasized.

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[366] Forthun, C. and Hagemann, R.P. (2010) 'Sustaining the Momentum of Fiscal Reform in Hungary', OECD Economics Department Working Papers, No. 802. Paris: OECD Publishing, pp. 22.

[367] Diokno, B.E. (2007) 'Economic and Fiscal Policy Determinants of Public Deficits: The Philippine Case'. UP School of Economics Discussion Paper No. 2007-02. Quezon City: *University of the Philippines School of Economics*.

[368] Cioroiu, C.G., Ionascu, A.E. and Olteanu (Burcă), A.L. (2023) 'Fiscal Policies to Diminish the Deficit in Romania', *Ovidius University Annals, Economic Sciences Series*, 23(2), pp. 662–669.

- During the period under review, Hungary implemented a diverse range of mechanisms, including legislation regulating expenditure; measures to strengthen oversight of revenues and expenditures thereby reinforcing the budgetary controls discussed at length in the previous chapter; laws aimed at enhancing tax administration efficiency and improving compliance; and exceptional legislation designed to address specific crises. In contrast, the mechanisms observed in Syria were less varied; there were no fundamental changes to the legislation governing the budget. Instead, the focus was placed on borrowing specifically, improving the laws regulating it and on interventions concerning income taxes and certain other taxes.

In order to analyze this case, it is necessary to consider the experiences of other countries. Argentina, for example, after enduring prolonged challenges with unsuccessful financial reform initiatives, adopted a policy characterized by "harsh legislative shock therapy." The government abolished eleven ministries, significantly reduced public expenditure to unprecedented levels, and entirely removed subsidies for energy and transport. These "surgical legislative measures" resulted in Argentina achieving its first fiscal budget surplus in over a decade. Nevertheless, these outcomes were ultimately unsustainable.[369] The findings of the study by Alesina and Perotti are, in our assessment, partially applicable to the Argentine context. The significance lies more in the nature and composition of the measures than in the mere scale of fiscal correction. The researchers determined that reforms primarily focused on reducing government transfers and wages were more closely associated with sustained fiscal consolidation. In contrast, reforms that heavily depended on broad tax increases, especially those targeting households and social security contributions, were found to be less sustainable.[370]

In contrast, there are instances of massive budget surpluses: Ireland recorded a general government surplus of €11.2 billion (approximately 3.3% of Gross National Income). Projections indicate that this surplus will persist and that the sovereign wealth fund will

[369] Yusuf, S. (2014) *Countries and Crises: How Some Rise to the Challenge and Reform, While Others Fail*. Washington, DC: Center for Global Development, pp. 8–11.
[370] https://www.nber.org/system/files/working_papers/w5730/w5730.pdf p 2

exceed the €100 billion mark by 2030.[371] This success stems from Ireland's enactment of landmark fiscal laws establishing a low, competitive corporate tax rate, with the state funding its budget and sovereign wealth funds—through the profits of these major corporations.[372]

In applying this analysis to Syria, it becomes evident that the state utilized various financial mechanisms; however, these were not aligned with policies or systems aimed at controlling spending and debt growth or establishing financial reserves to mitigate shocks. Instead of concentrating solely on the immediate augmentation of revenues and reduction of expenditures, it would have been more judicious for Syria to prioritize the implementation of modern, equitable, and diversified tax legislation, particularly concerning indirect taxes, and to update budget laws, specifically budget control mechanisms, as exemplified by Hungary. Additionally, efforts should have been focused on revising borrowing and public debt regulations, as well as tax administration laws, to improve institutional financial coordination and tax compliance.

However, it is evident that Hungary's experience more closely resembles that of Argentina; it failed to withstand crises, and the recovery was short-lived. Consequently, Hungary must enhance the effectiveness of its existing fiscal framework through several measures. Foremost among these is the continued modernization and alignment of tax legislation, prioritizing taxes such as personal income tax while accounting for tax system elasticity and emulating the experiences of developed nations like Ireland and other European countries to establish a legal foundation for specific growth trajectories, while also addressing the legal loopholes that hindered previous fiscal plans.

The legal dimensions of the general budget deficit extend beyond the scope of this study. While we have analyzed a wide range of legal issues related to the deficit in Syria and Hungary, including tax legislation, public borrowing, expenditure and budget oversight, tax administration, and legal mechanisms for addressing financial crises we cannot claim to have addressed the subject exhaustively. Each of these areas warrants independent,

[371] Reuters (2023) 'Ireland Could Amass $156 Billion Wealth Fund with Windfall Corporate Tax', *Reuters*, 10 May. Available at: https://www.reuters.com/world/europe/ireland-could-amass-156-bln-wealth-fund-with-windfall-corporate-tax-2023-05-10/(accessed 3 September 2026)

[372] Burns, C. (2026) 'Ireland's Sovereign Wealth Fund is a Tale of Missed Potential', *The Fitzwilliam*, 26 August. Available at: https://www.thefitzwilliam.com/p/irelands-sovereign-wealth-fund-is (Accessed: 4 September 2026).

extensive research that cannot be fully encompassed within a single study or doctoral thesis; the breadth of these topics inevitably limited the depth of analysis possible in this work. Nevertheless, this limitation underscores the importance of further research in each of these fields. Our review of the literature covering Syria, Hungary, and global empirical studies reveals that most existing research approaches the budget deficit primarily from economic or fiscal policy perspectives. This research gap is particularly evident in the cases of Syria and Hungary, where there is a lack of studies examining the interplay between constitutional rules and the regulations governing budgets, taxation, and public debt regarding the formation, financing, oversight, and sustainability of the public deficit. Consequently, future research should examine these mechanisms in greater depth and isolation, employing legal methodologies while leveraging economic research to ensure the accuracy of findings.

This study does not seek to provide a comprehensive legal review of every mechanism related to public deficits; rather, it aims to lay the groundwork for a broader legal research agenda. Accordingly, the issues identified herein should be viewed as starting points for future legal studies on public deficits and fiscal sustainability, rather than as settled matters or topics on which research is concluded.

Chapter III

3. A Comparative Legal Analysis of Taxation of Employment, Self-Employment, and Capital Income in Syria and Hungary

Introduction

3.1 Rationale for the Selection of Income Categories in the Comparative Analysis

Throughout the preceding chapters, we observed the constantly evolving tax landscape in both Syria and Hungary. Over time, and amidst shifting economic and political conditions, both nations have continuously refined their systems to strike a balance between revenue generation, economic growth, and equity. This chapter examines the historical trajectories and current structures of income tax systems in both Hungary and Syria. As previously noted, Hungary struggled with a complex, convoluted tax system prior to 1988, whereas Syria underwent a series of reforms culminating in the enactment of a comprehensive income tax law in 2003. An analysis of the income tax landscape in both countries reveals divergent approaches particularly regarding the treatment of residents versus non-residents, the definition of taxable income, and tax assessment mechanisms. Furthermore, comparing Syria's progressive tax system where higher earners pay a larger share of their income in taxes with Hungary's shift to a flat-tax system (applying a uniform rate) invites discussion on the effectiveness and fairness of these tax policies. Through this review, we aim to explore the strengths and weaknesses of each system and highlight broader debates surrounding income taxation; specifically, this section focuses on several categories of income tax in both countries: taxes on income from dependent employment; taxes on income from self-employment, professional activities, and commercial operations; and taxes on capital income and capital gains. This includes interest and distributed profits; the rationale for specifically selecting these taxes stems from several reasons, which we will outline below.

The legal nature of income and its source

The selection of employment income, self-employment income, and capital income as the focus of this comparative analysis is on three types of income: employment income, self-employment income, and capital income. This selection is based on the legal nature and sources of taxable income. As Hewett explains, the concept of income for taxation purposes extends beyond mere economics; its legal definition relies on legislation and judicial rulings that determine which receipts, gains, and benefits are considered taxable income.

Hewett identifies several key distinctions, such as gross versus net income, realised versus accrued income, and the treatment of capital appreciation.[373] Similarly, Abreu and Greenstein illustrate that the legal definition of income does not always align with every type of economic benefit, as statutory provisions, court interpretations, and administrative practices play a significant role in defining taxable income.[374]

This study adopts a selective comparative approach, concentrating on the three main sources of income: employment, self-employment, and capital. These categories enable the research to explore how different forms of income are legally classified, how their tax bases are determined, and whether their distinct economic origins justify varied tax treatments under Syrian and Hungarian legislation. As such, this selection is not meant to cover every aspect of income taxation in either country but rather to provide a coherent legal framework for comparing the taxation of income derived from dependent work, independent economic activities, and capital ownership.

Structural Differences of the Income Tax System of Syria and Hungary

The choice of employment, self-employment and capital income for this comparative analysis is also justified by the basic structural differences between the Syrian and Hungarian income tax systems. As indicated in the previous studies of the researcher, the Syrian Income Tax Law No. 24 of 2003 generally uses a schedular system of income

[373] Hewett, W.W. (1925) ' The concept of income in federal taxation', *Journal of Political Economy*, 33(2), pp. 155–156. https://doi.org/10.1086/253661.Hewett, W.W. (1925) 'The concept of income in federal taxation,' *Journal of Political Economy*, 33(2), pp. 155–178. https://doi.org/10.1086/253661.

[374] Abreu, A.G. and Greenstein, R.K. (2022) 'Defining income', *Florida Tax Review*, 11(5), pp. 295–300, 307–312. https://doi.org/10.5744/ftr.2011.1005.

taxation, whereby income is classified according to source and taxed under different tax regimes, including the taxes on salaries and wages, real profits, lump-sum income, and income from movable capital. For each category there are rules that determine the tax base, the rates to apply and the procedures for assessment. By contrast, Hungarian Act CXVII of 1995 creates a personal income tax regime that distinguishes between income included in the consolidated tax base, principally employment and self-employment income, and income taxed separately, such as dividends, interest and certain capital gains. The main difference between the two systems is therefore not only the tax rates but also the legal structure and the classification of taxable income. Such an examination of these three categories thus provides a meaningful basis for an assessment of how different legislative structures determine tax liability, distinguish between sources of income, and regulate the relationship between consolidated and separately taxed income. This selective approach allows us to identify the main structural differences between the two legal systems without having to study in detail every category of income taxation.

The Selection of Income Categories as a Framework for Assessing Tax Fairness and Legal Efficiency

Examining income categories- specifically employment, self-employment (independent economic activity), and capital is essential when analyzing income tax law, particularly in the context of the general budget deficit. Studying these categories allows for an assessment of tax equity, a fundamental principle for fostering voluntary tax compliance and, consequently, increasing state tax revenues.

Tax equity cannot be assessed solely based on statutory tax rates; it also requires considering taxpayers' ability to pay, their sources of income, the mechanism for determining taxable income, and the availability of exemptions and deductions. Specifically, the "ability-to-pay" principle necessitates taking into account the financial and personal circumstances of taxpayers. "Horizontal equity" requires equal treatment of taxpayers with similar tax-paying capacity, while "vertical equity" dictates that

differences in capacity to pay be reflected in the distribution of the tax burden.[375] Furthermore, distinguishing between these specific types of income is crucial for assessing their adherence to principles of equity specifically, whether different income sources justify current tax treatments or whether exemptions account for variations in taxpayers' circumstances and economic status. Consequently, examining these three categories provides a framework for evaluating the extent to which income tax legislation aligns with principles of horizontal and vertical equity, tax comprehensiveness, and the avoidance of double taxation.[376] At the same time, these selected income categories allow for an examination of the legal and administrative dimensions of tax efficiency specifically the methods used to determine taxable income, the clarity and simplicity of tax rules, administrative complexities, and compliance requirements.[377]

Thus, the selection of income categories derived from employment, self-employment, and capital is not intended as a random comparison or an exhaustive study of every income category mentioned in Syrian and Hungarian tax legislation; rather, it is an attempt to conduct a legal analysis regarding the alignment of tax equity, legal certainty, and administrative efficiency in both Syria and Hungary.

A comparative legal analysis of income from employment, self-employment, and capital in Syria and Hungary provides a legal basis for examining the relationship between income tax and the general budget deficit, the subject of the preceding chapter. Although the deficit is determined by the interplay of public revenues and expenditures, the effectiveness of income tax legislation in both countries is a crucial factor in the state's ability to mobilize revenue and support fiscal sustainability. In this regard, the effectiveness of tax policy should not be evaluated solely by the volume of revenue collected but also through legal, financial, and economic criteria. Legal effectiveness,

[375] Sakkour, J. (2024). A Comparative Analysis of Progressive and Flat Income Tax Systems in Terms of Tax Fairness. In Fenntarthatóság, technológia, jog: Konferencia – válogatott tanulmányok. University of Pécs, Faculty of Law, pp.5, 15-17.

[376] Sakkour, J. (2024). A Comparative Analysis of Progressive and Flat Income Tax Systems in Terms of Tax Fairness. In Fenntarthatóság, technológia, jog: Konferencia – válogatott tanulmányok. University of Pécs, Faculty of Law, pp. 5, 19-20.

[377] Sakkour, J. (2024). A Comparative Analysis of Progressive and Flat Income Tax Systems in Terms of Tax Fairness. In Fenntarthatóság, technológia, jog: Konferencia – válogatott tanulmányok. University of Pécs, Faculty of Law, pp. 6-8.

for instance, requires adherence to principles such as legality, equality, legislative clarity, ability to pay, and procedural fairness.[378] Financial effectiveness, meanwhile, concerns the tax system's capacity to generate public resources commensurate with the economy's tax capacity and to avoid "tax abortion" (disincentivizing economic activity), which influences tax evasion rates. These considerations, particularly in Syria and Hungary, play a significant role in revenue generation and in the expenditure-revenue imbalances that can drive up general deficit levels. Thus, these factors link the legal regulation of income tax to the broader issue of fiscal sustainability. Ultimately, analyzing income from employment, self-employment, and capital serves a purpose beyond merely identifying differences between Syrian and Hungarian tax laws; it provides [379]a framework for assessing whether the legal regulation of income tax fosters an equitable distribution of tax burdens. ...taxation defines clear and predictable obligations and facilitates effective assessment.

3.2 A Comparative Analysis of the Taxation of Income from Self-Employment and Non-Self-Employment Activities in Syria and Hungary

Before the tax reform in 1988, Hungary's tax system was confusing and unclear, with many different rules, exemptions, subsidies, and other constantly changing provisions. Since all companies were state-owned, implementing privatization was difficult, and investment in the country was weak due to instability. In addition, before 1988, only a small portion of total government revenue came from indirect taxes, which was significantly different from Western European countries, where about a third of revenue came from indirect taxes. Hungary did not have a general sales tax or personal income tax before 1988. However, tax reform was introduced in 1988, and a personal income tax was implemented. This tax applies to foreign and domestic income and is calculated on the basis of individual income,

[378] Thuronyi, V. (Ed.). (1996). Tax Law Design and Drafting (Vol. 1). International Monetary Fund, Washington, D.C., pp. 5–11.
[379] El-Hawas, Z. (2016). The Effectiveness of Tax Policy in Directing Investment to Achieve Economic Diversification in Algeria. Journal of Economic, Management and Commercial Sciences, No. 15, pp. 302–304.

not family income.[380] Real personal income tax payments increased from 30 billion HUF in 1987 to 70 billion HUF in 1988, but it should be noted that wages were low when the personal income tax was introduced. Personal income tax is collected from the PIT amount, so after-tax wages remain unaffected in the short term. The personal income tax is also progressive, meaning those who earn more pay a higher percentage of their income in taxes. However, this tax did not generate significant revenues for the Hungarian treasury due to several drawbacks, such as inflationary "bracket creep", which shifts a larger portion of taxpayers' income to higher tax brackets but does not take into account real wage increases. [381]To address these concerns, the number of personal income tax rates was gradually reduced until it became a flat tax in 2011. The low and high tax rates in the progressive tax schedule also became closer over time. In 1988, the lowest and highest rates were 0% and 60%, respectively. By 2010, the percentage had changed to 17% and 32%. Then, in 2011, the only personal income tax rate was 16%, which was reduced to 15% in 2016 and remains a flat tax.

The tax system in Syria has undergone several changes over the years. However, the personal income tax law was established in 1958. The taxes applied were classified into direct and indirect, and the lump sum income tax was regulated. The income tax was fully regulated in 2003 under Law No. 11, which included amending the minimum exemption from income taxes from 1,000 Syrian pounds to 5,000. The taxes were reduced from the maximum of 62% to 38%. Law No. 2 of 2003 was introduced to combat tax evasion. Subsequently, new decrees and laws continue to be issued in the country from time to time.

The primary objective at this stage was to cancel some taxes and fees that were no longer appropriate. In addition to reducing tax and fee rates, the current stage aims to achieve justice and objectivity and simplify tax procedures. The highest tax rate was previously

[380] Karnosh, K. (2019) 'The Evolution of the Hungarian Tax System'. *International Immersion Program Research Paper. Chicago: University of Chicago Law School, pp. 3-4.*

[381] Newbery, D. (1993) 'Tax and Expenditure Policies in Hungary', Institute for Policy Reform Working Paper Series. Institute for Policy Reform. doi: 10.22004/ag.econ.294824

92%, but this has been lowered to 63%. The necessary preparations are also underway for the introduction of value-added tax.[382]

3.2. The reality of income tax in Syria and hungry

3.2.1 The taxpayer and the tax liability

Individuals who are tax residents in Hungary pay taxes based on their domestic and foreign income, and the tax liability is on this income, excluding any income declared to be tax-exempt. The term 'Tax liability' refers to all the responsibilities imposed under this Act and the Act on the Rules of Taxation, applicable to private individuals who earn income and the paying parties involved in the taxation process. This includes tasks such as reporting, submitting declarations, assessing tax base and taxes, filing tax returns, paying tax advances and taxes, deducting taxes, maintaining records, issuing receipts, data disclosure, and document storage.[383] The tax liability also applies to non-resident persons, and the tax liability is: The source principle applies, so the income is taxed in the country in which the income was received. It includes the tax liabilities of individuals with tax residence abroad, with only income derived from Hungary, or income subject to tax in Hungary on the basis of international agreements or reciprocity. It also includes those whose center of vital interests is Hungary.

In Syria, everyone who receives a salary, wages, or compensation from a private company must pay the salaries and wages tax if he is a resident of the Syrian Arab Republic. If they reside in Syria or abroad and receive money from the public treasury, they must also pay this tax. The lump sum income tax is known as the tax imposed on everyone who practices an industrial, commercial, or non-commercial trade or profession, but it does not fall within the category of those who pay real income as profits. On the other hand, income tax is imposed on real profits on profits that come from practicing industrial, commercial, and

[382] Hdewe, N. (2014) Value Added Tax and Its Impact on Economics and Society in Syria. PhD thesis. Damascus: Damascus University, pp. 15.
[383] Hungary (1995) Act CXVII of 1995 on Personal Income Tax. Chapter II, Section 2. Budapest: Hungarian Parliament.

non-commercial professions and crafts, as well as all other commercial activities, even if they are occasional, in Syria.[384]

3.2.2 Taxable incomes

When analyzing the two basic income laws in the two countries, we notice that Law No. 24 of 2003 followed the system of specific taxes on income. It adopts the system of specific taxes on the basis of distinguishing between incomes according to their sources, then subjecting each source of income to an independent specific tax that has its own base and price. [385](The real profits income tax also regulated the rules for imposing income tax on companies in the Syrian Arab Republic. In Syria, there is no special law for companies. Rather, the legislator distinguished the tax treatment of companies from the tax treatment of individuals in their rates and some provisions. [386]This means that the Syrian legislator made a difference in the tax treatment between Personal companies and financial companies - non-resident income tax - lump sum income tax - salaries and wages tax - circulating capital revenue tax - real estate revenue tax - and property tax).

As for Hungary, Act CXVII of 1995 it specified the categories of income subject to tax, dividing them into two parts: incomes that are collected and a single tax is imposed on them, such as income from self-employment activities, activities other than self-employment, and incomes that are subject to tax separately, such as capital gains and income from entrepreneurship. Private income, and income from the sale of real estate or movable property.... [387] We note that the Hungarian legislator followed the unified tax system, relying on collecting the net income of the taxpayer from all its sources in one pool and then imposing a unified tax on the total of this income without distinguishing between the nature or source of this income and following Unified verification and collection

[384] Syrian Arab Republic (2003) Income Tax Law No. 24 of 2003. Articles 2, 41 and 66. Damascus: Syrian Arab Republic.
[385] Al-Jalilati, M. (n.d.) 'The Syrian Tax System and its Reform Trends'. Mafhoum. Available at: //www.mafhoum.com/syr/articles/jlaylati/jlaylati.htm (Accessed: 14 January 2026).
[386] Shihabi, I. (n.d.) 'Corporate Taxes and Regulations'. Arab Encyclopedia – Legal Encyclopedia. Available at: . https://arab-ency.com.sy/law/details/26053/4(Accessed: 14 January 2026).
[387]EUGO(n.d.) 'Review of the Hungarian Tax System', EUGO Hungary. Available at:http://eugo.gov.hu/doing-business-hungary/taxation#Personal%20income%20tax (Accessed: 15 January 2025).

procedures, after excluding certain amounts to take into account the personal circumstances of the taxpayer.

Income tax is a kind of tax that is imposed by governments on the income earned by individuals and companies within their jurisdiction. In Syria, the income tax law covers all types of income, including legal entities, while in Hungary, it only applies to personal income. Therefore, we can only compare personal income taxes. The personal income tax is a type of income tax that is levied on an individual's wages, salaries, and other forms of income.[388]

3.2.3 Rules for income from self-employment in Hungary and Tax on profits from industrial, commercial, and non-commercial professions and crafts in Syria

Rules for income from self-employment in Hungary:

First, by referring to the 1995 law, we find that its definition of self-employment is not clear and concise. It specifies in its text the activities subject to this tax as follows:

Any activity that results in an individual earning income and is not included in non-independent activity or other activities and income subject to tax separately

1. Withdrawal of entrepreneurship from self-employed workers
2. Basic farmer income
3. Owner activity (exception: for the municipality)
4. Activities of the elected auditor
5. Member of the European Parliament
6. Local advisor
7. Agency relationship (commission fees)

[388] Kagan, J. (2026.) 'What Is Income Tax and How Are Different Types Calculated?', Investopedia.https://www.investopedia.com/terms/i/incometax.asp , (Accessed: 15 January 2025).

8. Income from intellectual activities that are not carried out in the context of the employment relationship.[389]

Dr. György Herich mentioned that independent activities are any activities the result of which the individual receives income and which don't fall under this scope of non-independent activities, like individual entrepreneur, private procedure, lessor, elected auditor, moveable and immovable utilities, sale of standing crop, and entrepreneur.[390]

In Hungarian law, the definition of self-employed workers lacks clarity. Academic scholars also employ varied or ambiguous terms when discussing this aspect of the labor market. Before the enactment of the EU Directive on Equal Treatment and Working Conditions, the absence of a precise definition in academic literature was not emphasized. The alignment of EU labor law served as the primary motivation for examining the definition of self-employment in Hungarian legislation, particularly in clarifying the personal scope outlined in Directive 86/613/EEC. Self-employment includes civil law contracts for sole entrepreneurs, sole proprietorships, and personally contributing members of business associations (mostly limited partnerships), whether or not they have employees. To summarize, there is no legal definition of self-employment, and even the academic literature regarding this concept is not uniform or clear. Self-employed workers are those who do not work under an employment contract, and the civil law contract is the only contractual form of self-employed activity due to the bilateral structure of employment relations. Casual workers are officially employed and, therefore, not self-employed. Additionally, members of various forms of cooperatives are not employees, but cooperatives often function similarly to employers or even temporary work agencies.[391]

But we also notice in Chapter x Section 49/A:

The Hungarian legislator has subjected private entrepreneurs to a specific tax on their entrepreneurial income. This tax is not combined with the unified tax base that applies to

[389] Hungary (1995) Act CXVII of 1995 on Personal Income Tax. Chapter VI, Section 1. Budapest: Hungarian Parliament.
[390] Herich, G. (2021) Adótan 2021. Budapest: Penta Unió, pp. 164.
[391] Gyulavári, T. (2023) 'Self-employment in Hungarian Law', Acta Universitatis Lodziensis. Folia Iuridica, pp. 103. 10.18778/0208-6069.103.07

other forms of income, such as wages or investment income. Rather, it is calculated independently, ensuring that business profits are taxed separately.

The entrepreneurial profit base is derived from the taxable income from entrepreneurship. To calculate this base, certain adjustments are made:

Asset transfers: When a tangible asset is transferred without consideration, and the entrepreneur has previously deducted the cost of the asset from his taxable income, part of the value of the asset is added back to the business income based on the period for which the entrepreneur has held the asset.

Depreciation adjustments: If an asset has started to be depreciated, any part of the expenses that reduced the business profit base in previous years must be added back to the income. This ensures that the tax benefits are distributed appropriately over time.

Investment costs: Investment-related expenses that were used to reduce the business profit base are also adjusted if the asset is sold or if the business is terminated.

It is noteworthy that the Hungarian tax system for private entrepreneurs is designed to be comprehensive and fair. The system effectively separates entrepreneurial income from other types of personal income, ensuring that business profits are taxed independently. This allows for a more accurate reflection of business performance and ensures that personal and business finances are not mixed. The rules on asset transfers and depreciation encourage entrepreneurs to hold assets for longer periods and invest in their businesses. By introducing tax benefits for investments in stages and penalizing rapid disposals, the system promotes stability and long-term planning.

3.2.4 Tax on profits from industrial, commercial, and non-commercial professions and crafts In Syria

This tax deals with the profits in which labor and capital share together without distinguishing between the percentage of participation of these two factors, as in the income tax resulting from self-employment in Hungary, which considered this tax to include any activity that produces income for the individual and is not included in the group of non-independent activity. Income tax in the Syrian Arab Republic is also considered a general law tax for the rest of the specific taxes, as Article 2 specifies the application of

this tax to sources of income that are not subject to another income tax, which is achieved through two methods. The real profit method (real profits tax) and the simulated profit method (lump income tax).[392]

Real profits tax

Real profits tax is a type of tax that applies to profits earned from commercial, industrial, and non-commercial professions and crafts, as well as all other commercial activities. Additionally, it is applicable to other sources of income that are not subject to any other income tax. This tax differs from income tax resulting from self-employment in Hungary, as it is considered an income tax for companies, and all companies are subject to it. The tax applies to institutions that maintain accounting records, as well as individual persons like import and export traders. In Hungary, individual income taxes only apply to individuals, not legal persons. Legal persons, such as companies, partnerships, and other entities, are subject to corporate income tax or relevant taxes based on their legal status and activities. Individual income taxes in Hungary include personal income tax (PIT), which is levied on income earned by individuals from various sources, including employment, self-employment, investments, and other forms of income.

Article 2 of Income Tax Law No. 24 of 2003 and its amendments specify the taxpayers subject to this tax, which includes 33 taxpayers subject to tax, such as public sector economic institutions and companies, joint-stock companies, limited liability companies, import and export traders, real estate, and industrial facilities if the total value of the facilities and machinery used in them exceeds Industrial work: two million Syrian pounds.

lump sum income

The lump sum income tax is a levy that applies to individuals who work in a trade or industrial profession, regardless of whether they operate on a commercial or non-commercial basis. This tax encompasses a broad range of taxpayers located in different cities, governorates, rural areas, and neighborhoods. It is calculated based on the taxpayer's net annual profits, which are determined by a classification committee appointed by the

[392] Syrian Arab Republic (2003) Income Tax Law No. 24 of 2003. Article 2. Damascus: Syrian Arab Republic.

Minister of Finance. The government has specified around 300 items that are subject to this tax, including interest on crafts and remuneration paid by lawyers, doctors, hotels, restaurants, and tourist accommodation providers.

3.2.5 Income from activities other than self-employment in Hungary and taxes on income resulting from work (salaries and wages tax in Syria)

Income from activities other than self-employment includes, in particular, activity in an employment relationship or in public works (a legal basis is an employment contract)...The personal contribution of an individual member of the partnership, the income of the company's CEO, the activities of legally elected officials, the work of non-self-employed people within the scope of an international treaty, the activities of adoptive parents, activities as members of Parliament, citizenship advocacy activity, the status of the project resident in the state) [393].as for the payroll and wages tax In Syria, the salaries and wages tax is imposed on a person who receives a salary, wages, or compensation from a private treasury if he is a resident of the Syrian Arab Republic and from a public treasury if he is a resident of the Syrian Arab Republic or abroad.[394]

3.3 Material scope and tax assessment process in both systems

3.3.1 Material scope

For Hungary:

Resident individuals are subject to tax liability for all their income (global tax liability). Tax liability for non-resident individuals applies to income that arises in Hungary as a place of profitable activity or is taxable in Hungary under an international agreement or reciprocity (limited tax liability).[395]

Regarding income from self-employment activities, the country in which the private individual resides. However, if the private individual carries out self-employment activities

[393] Hungary (1995) Act CXVII of 1995 on Personal Income Tax. Chapter VI, Section 1. Budapest: Hungarian Parliament.

[394] Hdewe, N. (2014) Value Added Tax and Its Impact on Economics and Society in Syria. PhD thesis. Damascus: Damascus University, pp. 32.

[395] Hungary (1995) Act CXVII of 1995 on Personal Income Tax. Chapter VI, Section 2. Budapest: Hungarian Parliament.

through his workplace (permanent establishment), it is the State in which that workplace is located (permanent establishment);

d) concerning income from activities other than self-employment, the country in which the activities are typically carried out; if the place where the activities are usually carried out cannot be identified, including, in particular, if the place where the activities are carried out cannot be recognized by several different addresses or the designation of a significant geographical area:

d) If the individual performs a gainful activity under an employment relationship with a local workplace (permanent establishment), branch, or business representation of the employer (principal), the place of the gainful activity must be Hungary;

d.b) In cases not covered by subparagraph d), with respect to any income calculated in proportion to activities carried out in Hungary, the place of the gainful activity must be Hungary.[396] . In conclusion:

Income is subject to tax as follows if the income is local:

If it comes from a local employer or a local manager

Resulting from work performed locally or from property within the country

Foreign income:

from a foreign employer or manager

It arises from activities conducted abroad or from assets abroad

covers the income of individuals and payers.

In Syria, there is a tax on profits earned from industrial, commercial, and non-commercial professions and crafts. This tax applies to natural and legal persons who earn profits from work within the Syrian Arab Republic. If a taxpayer has multiple branches, the tax is levied on the profits of all branches at the main center, regardless of whether their accounts and

[396] Hungary (1995) Act CXVII of 1995 on Personal Income Tax. Chapter III, Section 3. Budapest: Hungarian Parliament.

businesses are unified or independent. If the main center is located outside Syrian territory, the tax is levied on the profits of all branches that operate in the Syrian Arab Republic at the branch center located in the Syrian capital or the branch with the broadest operation.

It is important to note that profits earned outside Syrian territory are not subject to income tax.

Regarding the salaries and wages tax, it includes everyone who receives a salary or compensation, including employees, company directors, members of the board of directors, accounts commissioners, and artists. If you are a resident of Syria or receive compensation for services provided in Syria from a private treasury, you must pay income tax on this amount. This applies to everyone, regardless of their nationality and regardless of whether the private treasury is located in Syria or not. It also applies regardless of whether the income was received in Syria or abroad. If the income is paid from a private treasury as compensation for services performed in Syria, the beneficiary of the income is subject to tax, regardless of their nationality or place of residence.[397]

Overall, Hungary has greater scope by taxing residents on their global income, while Syria focuses primarily on income generated within its borders.

Treatment of self-employment income:
Hungary examines the location of self-employment activities and tax residence. The establishment of tax residence has become more important with Hungary's accession to the European Union, the increase in the number of international agreements, and the entry into force of Directive 2004/38/EC of the European Parliament and the Council on the free movement of persons. Under the previous paragraph, declared nationality and residence do not automatically lead to tax residence. The Hungarian Personal Income Tax Act (Law CXVII of 1995) contains detailed regulations on the determination of residence, and the determination of residence requires a complex test[398]. The Syrian regime seems to focus more broadly on earnings derived from work within the country.

[397] Syrian Arab Republic (2003) Income Tax Law No. 24 of 2003. Articles 3–66. Damascus: Syrian Arab Republic.
[398] Erdős, É. and Riczu, Z. (2023) 'Issues of International Double Taxation, in Particular to the Issues of Employment', Curentul Juridic (The Juridical Current), 92, pp. 83.

Foreign income treatment:

In the international context, there are many cases where an individual takes up a job in the territory of another country; the relationship between international agreements and national law can lead to misunderstandings, which in the worst case can have serious consequences. In general, international tax disputes can arise from differences in tax systems, and sometimes from their similarities. Based on this formulation, we have the problem of double taxation. To avoid such international tax

Hungary, as a member of the European Union, adheres to the OECD guidelines. Hungary taxes foreign income based on the source of income and implements international tax treaties. To prevent double taxation, double taxation agreements have been and are now being concluded between Hungary and most countries. Accordingly, under a number of bilateral tax agreements, the amount of tax paid in the country of employment is included in the tax due in the country of residence; In other cases, income earned in the country of employment may only be taxed in that country, and thus the income in question is exempt from tax in the country of residence,[399] while Syria exempts profits earned outside its territory from income tax despite entering into several agreements to avoid dual nationality, influenced by the ongoing recommendations of the Arab Council for Tax Reform to integrate tax systems between Arab countries, but circumventing the two double taxation agreements.[400]

I think the Hungarian system, with its global tax approach, may offer broader revenue sources and perhaps more equitable treatment for residents. Syria's land-based system may simplify tax administration, but it could discourage international investment. Each system has strengths and weaknesses, and its suitability depends on each country's specific context and objectives.

3.3.2 Tax assessment process

In Hungary, as a general rule, the taxable income must first be determined:

[399] Erdős, É. and Riczu, Z. (2023) 'Issues of International Double Taxation, in Particular to the Issues of Employment', Curentul Juridic (The Juridical Current), 92, pp. 87-88.

[400] El Balad (2020) 'Tax System Reform and Speed of Change'. Available at: https://www.elbalad.news/4603104?utm_source
(Accessed: 24 January 2025).

As for the income resulting from self-employment activities, regardless of the activities carried out in private entrepreneurship, it is the total income, deducting all expenses. All taxable revenues that an individual receives from others are considered income, or the part of this income, along with the expenses recognized in this law, the expenses that can be claimed without verification, and the expenses of the fixed amount deducted, or a certain percentage thereof stipulated in this law, with the exception of the amounts that are not included in income, but costs are only expenses directly related to profitable activities, which were actually paid during the tax year exclusively for the purpose of profitable activities and follow-up activities, and which have been duly proven.[401]

The taxpayer may choose from two methods of accounting for expenses:

Itemized expense accounting (based on expenses actually arising) or 10 percent of revenue can be calculated without certification.[402]

Income from activities other than self-employment includes all income received by an individual in connection with such activities or as a result of any legal relationship underlying such activities. This includes, in particular, wages, compensation for work in the public interest, bonuses or honoraria, any amounts received as bonuses, fuel allowance or reimbursement of expenses, and any taxable insurance premiums paid by others. All income from other activities other than self-employment is recognized as income, except for amounts received as reimbursement for expenses in connection with said activities other than self-employment, the expenses of which are approved in accordance with the provisions of subsection.[403]

As we mentioned previously, the unified tax base includes all income earned by the individual during the tax year through self-employment and activities other than self-employment, in addition to other revenues. Moreover, concerning fixed taxes, the

[401] Hungary (1995) Act CXVII of 1995 on Personal Income Tax. Chapter VI, Section 3. Budapest: Hungarian Parliament.
[402] EUGO (n.d.) 'Review of the Hungarian Tax System', EUGO Hungary. Available at: http://eugo.gov.hu/doing-business-hungary/taxation#Personal%20income%20tax(Accessed: 15 January 2025).
[403] Hungary (1995) Act CXVII of 1995 on Personal Income Tax. Chapter VI, Section 25. Budapest: Hungarian Parliament.

consolidated income is calculated from the revenues of private entrepreneurial and all small agricultural activities.

But here we ask the question: What is income from other activities, and what does it include? Income from activities other than self-employment includes all income that an individual receives in relation to these activities or as a result of any legal relationship on which these activities are based. This includes, in particular, wages, compensation for work in the public interest, bonuses or honoraria, any amounts received as bonuses, fuel allowance or reimbursement of expenses, and any taxable insurance premiums paid by others. All income from activities other than self-employment shall be recognized as income, except for amounts received as compensation for expenses related to said activities other than self-employment, the expenses of which are approved in accordance with the provisions of this subsection.[404]

Unified tax base:

1. Determine the tax calculated on the income to be distributed through determining revenues. It is necessary to determine whether they are revenues (the item is not included in the tax base and is not calculated as an expense; for example, it is exempt).

2: After determining the revenues, if they are subject to the unified tax base, it must be proven whether they arise from self-employment activities, activities other than self-employment, or fall within another category.

Then we calculate what the basis of the tax will be. For non-self-employed, gross income, for self-employed, 90% of income equals income, if other, all income[405]. (1995. évi CXVII. tv. 47. §, IX. fejezet).

The next step is to deduct the benefits that reduce the tax base from the consolidated tax base. Thus, we obtain the tax basis on which an income tax of 15% is imposed.[406]

[404] Herich, G. (2021) Adótan 2021. Budapest: Penta Unió, pp.159.
[405] Hungary (1995) Act CXVII of 1995 on Personal Income Tax. Chapter VI, Section 47. Budapest: Hungarian Parliament.
[406] Herich, G. (2021) Adótan 2021. Budapest: Penta Unió, pp. 161.

In Syria, the situation is different, as there are no unified tax base and no flat tax rate for the real profits tax. The tax is subtracted based on the net profit achieved during the business year. The year is calculated from January 1 to December 31, and the net profit consists of the sum of the total revenues of the taxpayer's business subject to this. Tax of all types after deducting the burdens and expenses required by its practice or that are associated with the type of work. It is one of the most important deductible expenses. Rental allowances for shops prepared for carrying out work, salaries, wages, and incentives paid to employees and workers in exchange for their services, payment for the employer's share in social insurance, taxes and fees imposed in the Syrian Arab Republic on the taxpayer and paid during the year in which the profits were achieved.[407]

It is worth noting that in Decree No. 51/2006:

the legislator invented the idea of senior taxpayers when he created a new section called the Senior Taxpayers Department, which left the Minister of Finance the right to set the criteria by which taxpayers can be considered senior and imposed on them the obligation to register themselves with these departments opened in the finance directorates in the governorates[408] in exchange for giving them some privileges when considering their objections, auditing their accounts, and calculating their net profits Because their percentage is relatively small.

The Syrian financial regime follows two methods for calculating the tax:

The proportional tax method is applied to large companies such as banks, insurance companies, joint-stock companies, and limited liability companies whose assets exceed 5 million SYP. The tax rate varies in each company according to its type. For example, banks are subject to a tax of 25%, and joint-stock companies are subject to a tax of 22%.

progressive taxation method

[407] Syrian Arab Republic (2003) Income Tax Law No. 24 of 2003. Articles 6, 7 and 8. Damascus: Syrian Arab Republic.
[408] Syrian Arab Republic (2006) Legislative Decree No. 51 of 2006. Article 1. Damascus: Syrian Arab Republic.
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It applies to all those charged with the real profits tax, except for the large companies we mentioned previously, including import and export merchants. The tax is divided into five types:

The tax is imposed on net profits in accordance with Legislative Decree No. 51 of 2006, according to income brackets.

-10% for the portion of net profit falling between the exempt minimum mentioned in the text of Article 20 of this law up to the amount of 200,000 SYP.

- 15% for the portion of net profit that exceeds 200,000 SYP and up to 400,000 SYP

-20% from 400,000 SYP to 700,000 SYP

-23% 00 0 700 SYP and up to 1 000 000 SYP

-26% from 1,000,000,000 SP and up to 2,000,000 SP

-29% from 2,000,000 SP and up to 3,000,000 SP[409].

For the lump sum income tax, taxpayers are not required to submit accounting books. Instead, their tax is estimated by the financial department using an arbitrary method. In 2015, several amendments were made to this tax through Legislative Decree No. 10. Taxpayers are now divided into four categories, each with its own classification period. These categories include senior taxpayers of the lump sum income tax, average taxpayers of the lump sum income tax, remaining taxpayers, and those with scientific professions. [410]The profit percentages for each profession are determined according to its type in the tax guide written by the Central Classification Committee. An appropriate tax is then imposed for each profession based on these percentages.

salaries and wages tax:

[409] Kiki, M.H. (n.d.) Direct Taxes in Syria from the Perspective of Tax Justice. ResearchGate. Available at: https://www.researchgate.net/publication/339712851_aldrayb_almbashrt_fy_swryt_mn_mnzwr_aldalt_aldrybyt_The_Direct_Tax_in_Syria_from_the_Fair_Taxation_Perspective (Accessed: 17 January 2025).
[410] Idlibi, M. (2023) 'Tax on Lump-Sum Income in Syria as per Legislative Decree No. 10 of 2015', Al-Baath University Journal, 10, pp. 73.

Legislative Decree No. 30 of 2023 amending some provisions of the Income Tax Law specified the brackets subject to tax according to a progressive rate:

5% for the portion of monthly net income falling between the exempted minimum and 250,000 SYP.

7% for the portion of monthly net income between 250,001 and 450,000 SYP.

9% for the portion of monthly net income falling between 450,001 and 650,000 SYP.

11% for the portion of monthly net income falling between 650,001 and 850,000 SYP.

13% for the portion of monthly net income falling between 850,001 and 1,100,000 SYP.

15% for the portion of monthly net income that exceeds 1,100,000 SYP.[411]

3.4 Discussion

3.4.1 Progressive or flat tax

As mentioned, Hungary eliminated its progressive income tax rate in 2011 as part of a broader tax reform effort. The decision to eliminate the progressive tax rate was primarily motivated by the government's goal of stimulating economic growth, attracting foreign investment, simplifying the tax system, and alleviating administrative burdens. The previous personal income tax system (which followed the progressive tax) had a transparent basis. The tax is payable on income was based on a uniform (calculated) tax base. If this figure did not exceed 5 million forints, then 17% of the consolidated tax base was payable. If the base was higher than 5 million forints, then 850,000 forints were payable plus 32% of the excess amount of 5 million forints. The year 2011 led to a decrease in the highest marginal tax rate from 32% (36% in 2009) to 16%, which is a fixed rate, while the opposite is true in Syria. The tax system there still adheres to the progressive system, but the question arises: Which of the two systems is better and more effective?

[411] Syrian Ministry of Finance (n.d.) Official Website of the Syrian Ministry of Finance. Available at: https://www.syrianfinance.gov.sy/ar/page/(Accessed: 1 February 2025).

To answer this question, several aspects must be discussed:

In terms of tax justice, tax justice requires distributing the tax burden among all people who can contribute to public burdens. Both tax systems can be considered fair, meaning that they are consistent and apply a rational approach to taxation.[412]

Both tax systems can be considered fair, meaning that they are consistent and apply a rational approach to taxation. However, they differ in the treatment of wealth. Advocates of progressive taxes say that they promote equality by imposing taxes at a higher rate on higher incomes and thus reducing the tax burden on the poor.[413]

However, the progressive method widely used in Syria, in order to be effective, must be imposed on a unified tax that falls on total income (this is taking into account the principle of tax according to tax capacity For the taxpayer) and not on specific taxes that affect some sources of income, which leads to a move away from the first requirement for progress, which is tax justice, as the owner of multiple incomes does not suffer from this increase. On the other hand, the one-income person is the one who suffers from the increase. This is the same reason that prompted Hungary to abandon its progressive system.

In the fixed tax system, although it appears fair on the surface, all taxpayers will contribute to public expenditures in the same proportion. Although the rich pay more, the percentage will be the same, which seems fairer, but only on the surface.[414]

In analyzing Hungary's flat-rate tax system, which was introduced in 2011, it becomes clear that it has significant implications for tax fairness. The system contrasts with the progressive tax models common in many EU countries, where higher earners pay a higher percentage of their income in taxes. Hungary's flat-rate tax imposes the same rate across all income levels, which can disproportionately affect lower-income earners. In fact, those with lower earnings face a higher relative tax burden, as they pay the same percentage as higher-income individuals.

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[412] Musgrave, R.A. and Musgrave, P.B. (1989) Public Finance in Theory and Practice. 5th edn. New York: McGraw-Hill, pp. 227.

[413] Kagan, J. (n.d.) 'Is a Progressive Tax More Fair Than a Flat Tax?', Investopedia. Available at: https://www.investopedia. com/ask/answers/042815/progressive-tax-more-fair-flattax.asp#:~:text=Progressive%20 taxes%20are%20a%20system,of%20their%20income%20in%20taxes, (Accessed: 3 February 2025).

[414] Ercsey, Z. (2012) 'The Current Personal Income Tax Regime in Hungary', Studia Iuridica Auctoritate Universitatis Pécs Publicata, 57, pp. 60.

Furthermore, Hungary's system is particularly challenging for childless taxpayers. Without tax credits or allowances aimed at alleviating the tax burden for lower-income individuals, those earning around 50% of the average wage face the highest tax burden in the EU. This exacerbates income inequality, as low-income earners bear a heavier relative burden compared to other countries with more progressive systems.

For low-income earners, Hungary's flat tax system is regressive, as it lacks mechanisms like tax credits or allowances to ease the burden on those with fewer resources. This results in low earners paying a higher percentage of their income in taxes compared to wealthier individuals. In contrast, progressive tax systems in other countries provide targeted relief to lower-income individuals, improving fairness in the system and helping to reduce income inequality.[415]

In conclusion, while both progressive and flat tax systems aim for fairness, their implementation and effects on different income groups vary. Progressive systems, when applied comprehensively, can better address wealth inequality, while flat systems, though simple, may inadvertently worsen disparities.

As for the economic benefit and encouragement of investment, we can definitely say that a fixed tax is much better. According to the World Bank's World Development, a single-rate corporate and individual tax often stimulates investment and economic growth, especially in the early stages of economic development.[416] As for the economic benefit and encouragement of investment, we can definitely say that a fixed tax is much better. According to the World Bank's World Development, a single-rate corporate and individual tax often stimulates investment and economic growth, especially in the early stages of economic development.[42] When the wealthy face higher tax rates, through progressive taxes, this may lead to a slowdown in the economy. The idea is that if wealthy individuals and companies have to pay more taxes, they may be less likely to invest or expand, limiting overall economic activity,

[415] Krekó, J., Erős, H., Greskovics, B., Hajnal, Á. and Scharle, Á. (2023) 'The redistributive effect of the Hungarian flat tax and family allowance system', Acta Oeconomica, 73(4), pp. 481–503.
[416] World Bank (2019) World Development Report 2019: The Changing Nature of Work. Washington, DC: World Bank, pp. 11

job creation, and overall consumer spending.[417]

This is what happened in Hungary. Despite the negative results of imposing the flat tax, the government is still very committed to the flat tax system and claimed that it has provided higher income to the budget since its implementation (an additional 60 billion Hungarian forints, in addition to the relevant social security contribution), stimulated the economy, and enhanced job opportunities.[418]

In Syria, we note that the legislator tried to make many amendments to the percentages and brackets in the progressive tax, as it became 10% for the portion of the annual net profit that falls between the exempted minimum and /10,000,000/ ten million Syrian pounds in Legislative Decree No. 30 of 2023, after it was 24% in Law 51 of 2006,[419] all intending to stimulate investment, which has not improved due to tax evasion that exists within progressive taxes and the use of legal loopholes.

Secondly, In Hungary, we note that the contribution of personal income taxes as a whole in Hungary is about 14% (2023) of total revenues[420], and the income tax and social security contributions of employers together constitute 60% (2023) of the total tax bracket.[421]

As for Syria, because the method of dealing with income taxes is different, the income tax on industrial, commercial, and non-commercial professions and crafts constitutes up to 32% (2018) of total revenues, including public and private companies' tax and salaries and wages tax, amounting to 7% (2018) of total tax revenues. This percentage is considered low compared to international monetary statistics (IMF Data), as income taxes must reach between 50 and 60% of the total tax revenue, which is the figure achieved more by Hungary.[422]

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[417] Kagan, J. (n.d.) 'Is a Progressive Tax More Fair Than a Flat Tax?', Investopedia. Available at: https://www.investopedia. com/ask/answers/042815/progressive-tax-more-fair-flattax.asp#:~:text=Progressive%20 taxes%20are%20a%20system,of%20their%20income%20in%20taxes, (Accessed: 3 February 2025).

[418] Ercsey, Z. (2012) 'The Current Personal Income Tax Regime in Hungary', Studia Iuridica Auctoritate Universitatis Pécs Publicata, 57, pp. 62.

[419] Syrian Ministry of Finance (n.d.) Official Website of the Syrian Ministry of Finance. Available athttps://www.syrianfinance.gov.sy/ar/page/,(Accessed: 7 February 2025).

[420] Perez Weigel, C. and Bunn, D. (n.d.) 'Taxes in Hungary', Tax Foundation. Available at: https://taxfoundation.org/ location/hungary/,(Accessed: 7 February 2025).

[421] OECD (2024) Taxing Wages 2024: Tax and Gender through the Lens of the Second Earner. Paris: OECD Publishing.

[422] Al-Hindi, F. (2021) 'The Impact of the Economic Crisis and the War on Tax Revenues in Syria', *Damascus University Journal of Economic and Political Sciences*, 37(3), pp. 47.

The rate of tax evasion in Syria is very high, reaching an estimated 2,000 billion liras (12% of the ratio of tax revenues GDP).[49] As for Hungary, it is estimated that the tax base avoided by the self-employed was about 8% of GDP, which means that the tax revenue thus lost was 4% of GDP. This is due to several reasons.

The first and most important reason is the continuity of the Syrian tax system by adopting a system of specific taxes on income. This tax is imposed on every type of taxpayer's income according to its source, and I believe that the Syrian legislator must move from a system of direct, specific taxes to a unified tax system, as is the case in Hungary. As we mentioned previously, it must be divided into two types: the first is the tax on natural persons, and the second is the tax on companies, especially since the private sector's contribution to the current real profits income tax applied in Syria is very low, as studies indicate, and is not proportional to the size of its contribution to the GDP[423]. This is due to many factors, most notably the massive tax evasion, as we mentioned, in addition to the presence of an informal sector that is not subject to tax.

Thirdly tax legislation that is simple and easy to understand is more likely to be followed correctly. This helps both taxpayers and tax administration work together more efficiently in collecting the taxes that are due. With clear guidelines, there is no room for confusion or misinterpretation.[5424] Unfortunately, this does not apply to tax legislation in Syria, where the tax law (Income No. 24 for 2003) has undergone numerous amendments that are still ongoing. We can deny that many tax laws contain confusing articles and amendments that make it difficult to understand and correctly apply the law, but this can lead to an increased burden on taxpayers and encourage them to seek ways to avoid paying taxes. This is exactly what happened in Hungary before the tax reform in 1988. Its tax system was created when Hungary decided to implement privatization. The Hungarian tax system before the reform was described as "confused and ambiguous." There were many different rules, allowances,

[423] The head of the Accounting Department at the Faculty of Economics at Damascus University, Ibrahim Adi, said that the volume of tax evasion is currently estimated at 2,000 billion liras, and this number is somewhat equivalent to the total values of social support in the current year's budget.

[424] Hamayel, I.S. (2023) Tax Evasion in Syria with a Review of the Experiences of Other Countries in Reducing Tax Evasion. MBA dissertation (Business Law). Damascus, p. 47.

exemptions, subsidies, etc., and these rules and exceptions were constantly changing, so it was difficult to implement privatization. Therefore, these shortcomings were eliminated when the Hungarian legislature enacted Law No. 5 on value-added tax, Law No. 6 concerning income tax, and Law No. 9 regarding corporate profits tax, all of which became effective on January 1, 1988.[425]

- In the case of progressive tax systems (such as Syria), these systems can provide social justice by imposing higher taxes on high-income earners, which reduces economic inequality. However, this type of system can suffer from tax evasion due to its complexity and multiple sources of income that may not be subject to the same tax treatment. Studies have shown that this type of system can lead to widespread tax evasion and inequality in the application of tax justice, as in the case of Syria, where the report indicated high tax evasion (2,000 billion liras) due to the variation in taxes according to the type of income. While a flat tax system (such as in Hungary) may seem fair on the surface, it burdens low-income groups more than the rich. The flat system causes a relatively higher tax burden for low-income, and the absence of facilities such as tax credits or exceptions for low-income groups increases the burden on them. This inequality contributes to increasing social inequality.

  A flat tax system like Hungary's could be more effective in attracting investment and increasing economic growth. World Bank studies confirm that applying flat taxes enhances economic growth and encourages investment, especially in the early stages of economic development. Hungary has also shown that this system led to increased revenues after its implementation, which helped stimulate the economy and create jobs. In contrast, in Syria, attempts to amend progressive taxes have not contributed significantly to improving investment due to widespread tax evasion and an informal sector that is not subject to taxes.

[425] Karnosh, K. (2019) 'The Evolution of the Hungarian Tax System'. *International Immersion Program Research Paper. Chicago: University of Chicago Law School.*

- A zero-tax bracket or basic deduction should be established, ensuring that low- income individuals pay no taxes or only nominal amounts. This will help reduce the impact of the progressive system on individuals who rely on a single income or limited sources. In Hungary, a minimum (zero bracket) could be established from which the basic income received by an individual is exempted, thus easing the burden on the most vulnerable groups without compromising the economic benefits of the fixed system.
- Tax laws should be reviewed and restructured to be clear and easy to understand, with a reduction in exemptions and deductions that are exploited by high-income earners, and a focus on providing facilities to the vulnerable classes in Syria. Mitigation mechanisms (such as tax exemptions and credits) should be introduced to reduce inequality without affecting the economic environment that is attractive to investments in Hungary.

3.4.2 Notes on the method of collecting tax

We also note that in Syria in 2016, 44% of the total taxes came from the salaries and wages tax,[426] and this is a very large percentage, especially since it is deducted from the source. This means that there is a problem with tax collection and tax administration. To collect these taxes, the Syrian legislator follows complex, varying, and outdated methods. In addition to the deduction at the source that follows it, there is the method of submitting accounting books for the real profit's income tax, which is easy to manipulate, and the method of arbitrary estimation by the financial departments of those who pay the lump-sum income tax, which is a method that is far from fair taxation. Large amounts of public funds are lost, but in Hungary,[427] personal income tax declaration is followed based on self-assessment. Individuals who are not entrepreneurs may request assistance from the Tax Authority to prepare their tax

[426] Al-Hindi, F. (2021) 'The Impact of the Economic Crisis and the War on Tax Revenues in Syria', *Damascus University Journal of Economic and Political Sciences*, 37(3), pp. 50.

[427] EUGO (n.d.) 'Review of the Hungarian Tax System', EUGO Hungary. Available at: http://eugo.gov.hu/doing-business-hungary/taxation#Personal%20income%20tax (Accessed: 15 January 2025).

returns. Employers and payers are obligated to subtract taxes and advance tax payments from wages and other payments they make. This method has proven effective because it helps simplify tax procedures, enhances transparency in addressing issues related to tax collection and administration, ensures compliance, and reduces revenue losses.

Finally, we note that in Syria, because it is a country of farmers, the legislator did not impose an income tax on agricultural investors,[428] Agricultural investors who collect and sell crops and fruits resulting from land they own or invest, and this leads to the absence of many tax liabilities, while we note that in Hungary, despite the fact that the agricultural sector in it plays a role Vitally, farmers and agricultural activity are included in the category of self-employment activities, with many advantages such as writing off deferred losses from their income from small-scale agricultural activities and giving small farmers the advantage of choosing fixed taxes if the revenues from this activity do not exceed ten times the annual minimum wage per year tax.[429]

Conclusion

In conclusion, these findings hold particular significance in relation to the preceding chapter, especially when analyzing the general budget deficit. The legal and administrative framework governing income tax can influence a state's capacity to mobilize revenue, specifically tax revenue that is sufficient, stable, and predictable. The growth and stability of public revenue, particularly that derived from taxes, are heavily dependent on the tax system. If a tax system distributes the burden equitably, clearly defines tax obligations, and manages assessment and collection processes efficiently, it fosters voluntary compliance among taxpayers and reduces administrative challenges for the tax authorities. Conversely, the quality of public revenue collection tax revenue in particular diminishes when the tax structure is

[428] Syrian Arab Republic (2003) Income Tax Law No. 24 of 2003. Article 4. Damascus: Syrian Arab Republic.
[429] Hungary (1995) Act CXVII of 1995 on Personal Income Tax. Chapter X, Section 50. Budapest: Hungarian Parliament.

shrouded in legal ambiguity or when tax treatment is inconsistent; this widens the gap between projected budget revenues and those actually realized. Consequently, the effectiveness of income tax legislation is not merely a matter of tax policy or the legal and financial framework; rather, it is an integral component of the broader legal and institutional structure that governs fiscal sustainability and plays a fundamental role in achieving fiscal balance within a country. Ultimately, a comparison reveals that neither a progressive tax system nor a flat-rate tax system can, on its own, guarantee greater fiscal effectiveness or a reduction in the general budget deficit. Our comparison between Syria and Hungary demonstrates that sustainable revenue mobilization requires more than just the selection of an appropriate tax rate; rather, more complex criteria come into play, such as the interaction with the tax base. Taxation, exemptions, legal certainty, administrative capacity, the extent of taxpayer compliance, general economic conditions, and the nature of how income is divided or allocated between the two countries short, the sustainable mobilization of revenue requires all of these factors.

A coherent legal and tax framework strikes a balance between tax equity, administrative efficiency, and an assessment of economic conditions, including the broader economic landscape, to enable the forecasting of tax revenues and their subsequent impact on the public budget, particularly the annual national budget. This aligns closely with a 2006 study by Keen, Kim, and Varsano, which conducted a comparative analysis of several countries, notably Russia and Slovakia, and concluded that neither a progressive tax system nor a flat-tax system can, on its own, guarantee effectiveness.[430] The issue is far more complex; securing higher financial revenues and reducing the public budget deficit depends on the interplay between tax rates, the breadth of the tax base, exemptions, the level of taxpayer compliance, and administrative efficiency, all within the context of broader financial and economic conditions.

[430] Keen, M., Kim, Y., & Varsano, R. (2006). The “Flat Tax(es)”: Principles and Evidence. IMF Working Paper WP/06/218, pp. 13-37-35.

3.5 A Comparative Legal and Fiscal Analysis of Capital Income Taxation in Syria and Hungary

Introduction

In general, capital gains arise from the increase in the value of assets, such as public stocks, private companies, and real estate, above their purchase price. Capital gains are said to be realized when the asset's value rises, and they are realized when it is sold. The value of assets can rise for various reasons, and capital gains may represent a combination of the risk-reward ratio, returns on human capital, and economic rent.

In numerous countries, capital income faces taxation through both corporate and personal income taxes. [431] As we mentioned before Hungary pioneered significant tax reform among transition economies, introducing a personal income tax and a value-added tax in 1988, followed by a unified corporate income tax in 1989. While the tax administration effectively managed the influx of new companies, the overall performance of the tax system was less than satisfactory. Tax policy was marked by volatility, featuring frequent tax rate changes and an array of targeted tax preferences, especially for foreign investors. This resulted in a convoluted system of tax distortions,[432] leading to revenue losses. Hence, the concept of a two-tier tax system surfaced, which entails taxing corporate profits first with corporate income tax, and then with individual income tax. Hungary adopted this system. Prior to 1990, during the socialist era, capital taxes and capital gains had minimal significance due to the restrictions on private ownership and capital activities. In 1995, Hungary implemented a unified tax on capital income, encompassing profits from bank interest, dividends, and capital gains from asset sales.[433]

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[431] Harding, M. (2013) Taxation of Dividend, Interest, and Capital Gain Income. OECD Taxation Working Papers, No. 19. Paris: OECD Publishing, pp. 5.

[432] Dethier, J.-J. and John, C. (1998) Taxing Capital Income in Hungary and in the European Union. Policy Research Working Paper No. 1903. Washington, DC: World Bank, pp.1.

[433] PricewaterhouseCoopers (PwC) (n.d.) 'Hungary – Individual: Income determination', Worldwide Tax Summaries. Available at: https://taxsummaries.pwc.com/hungary/individual/income-determination (Accessed: 10 December 2025).

In Syria prior to 2000, capital gains were not subject to a separate tax. Instead, they were sometimes combined with general income gains or, in many cases, were ignored due to the weak capital market and the absence of an active trading environment. Tax rates were calculated according to Law No. 20 of 1991, according to a progressive rate specified in Article 20. The rates ranged between 10% and 45% of this law until 2003.[434] As a result of economic and social developments, Income Tax Law No. 24 of 2003 was issued, which included a reorganization of the income tax. We now have income taxes on capital, which primarily include a tax on the proceeds of circulating capital. This is a specific and direct tax, imposed on gross rather than net income. It is also a specific tax imposed on the income from movable wealth, without taking into account the taxpayer's identity or ability to pay. There are no family burden reductions.[435]

3.5.1 The controversy over imposing a capital income tax on corporate and individual income

It is important to note that many countries tax corporate income, the income of individuals from companies. This raises the issue of double taxation, as the same profits are taxed twice: at the corporate level, at the shareholder (individual) level, and upon receipt of dividends or sale of shares.

Based on empirical studies, Professor A.J. van den Tempel analyzed the various tax systems in force in the member states of the European Community in the 1970s in his study, also CORPORATION TAX AND INDIVIDUAL INCOME TAX IN THE EUROPEAN COMMUNITIES by Prof. Dr. A.J. van den Tempel.

Professor van den Tempel classified the tax systems in European countries into three main systems

Classical System:

In which corporate profits are taxed first, then taxed again upon distribution of dividends, without any tax reduction or credit.

[434] Al-Nuaimi, Q., Al-Adi, I. and Rajoub, I.A. (2011) 'A Study of the Development of Tax Revenues in Syria (2002–2009) and a Forecast of These Revenues (2010–2015) Based on Public Budget Data', Tishreen University Journal for Research and Scientific Studies – Economic and Legal Sciences Series, 33, p. 68.

Tax Credit System:

In which shareholders are granted a tax credit equal to a portion of the tax paid by the company, thus reducing the tax burden on shareholders.

Split-Rate System:

Different tax rates are imposed on retained earnings and dividends, creating a balance between encouraging the reinvestment of profits and their distribution. Professor van den Tempel concluded that the classic system best meets the needs of the European Community. In his opinion, this system provides simplicity and clarity of application, reduces the complexity associated with coordinating different tax systems among member states, and contributes to reducing the economic distortions caused by double taxation.[436]

In Hungary Corporate profits are subject first to a 9% corporate income tax,[437] and dividends distributed to individual shareholders are subject to a 15% personal income tax under Act CXVII 1995 on Personal Income Tax, which classifies dividend income as taxable capital income separately. No tax credit or exemption is granted at the shareholder level against prepaid corporate tax on basic profits.[438] Similarly, interest income and capital gains from securities are taxed at a 15% rate at the individual level under the same Act, including interest on bank deposits, bond interest, and similar returns. Article 67 regulates capital gains, which are defined as the positive difference between the proceeds from disposal and the documented acquisition cost of the asset, ensuring that only net economic gains are taxable.[439]to Van den Tempel's classification (1970), Hungary applies a classic system: corporate profits are subject to a 9% corporate income tax, and a further 15% personal income tax is levied on profits distributed to individual shareholders, without any tax exemption or rate discrimination between retained and distributed profits.

In Syria, corporate income and individual income from dividends are also taxed, but the system is different from Hungary's. Net corporate profits (capital companies) are taxed on a progressive tax bracket, depending on the type of company. Dividends are not subject to

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[436] van den Tempel, A. J., Corporation Tax and Individual Income Tax in the European Communities, Commission of the European Communities, 1970, pp. 39–41.

[437] Hungary (1996) Act LXXXI of 1996 on Corporate Tax and Dividend Tax, Section 19.

[438] Hungary (1995) Act CXVII of 1995 on Personal Income Tax, Section 66.

[439] Hungary (1995) Act CXVII of 1995 on Personal Income Tax, Section 65-67.

additional tax. [440]There is no real double taxation between corporate tax and individual dividend tax in Syria. We note that Syria operates a system closer to partial integration in the experimental study area. Here, we emphasize the importance of Van den Tempel's idea in this regard, despite the passage of time. Although his recommendation of the classical system was controversial at the time and was later rejected by the European Commission, which proposed the reference system instead, most EU countries have since returned to the classical system (or variants close to it), effectively confirming his original position.[441]

3.5.2 Legal Framework

In an analysis of the 1995 tax Law in Hungary and the 2003 tax Law in Syria, we find that both laws detail the method of regulating income taxes resulting from capital gains. We begin with the Syrian law:

As previously mentioned, the Syrian tax law reduces the capital income tax to the capital gains tax. This tax is imposed on capital gains in the broadest sense. It applies to stocks, bonds, and all securities issued by Syrian institutions of all types or foreign institutions based in Syria, as well as insurance debts, cash deposits, and current accounts. The tax covers various revenues generated from these funds, including profits, interest, returns, lottery prizes, settlements, and other income.[442] In Hungary, the capital gains tax applies to income from capital gains, as well as proceeds from the transfer of securities, less the purchase price and incidental costs.[443]

3.5.2.1 Income scope and tax rate

Hungarian Law

The Hungarian system follows a broad and modern approach to capital gains taxation. It categorizes taxable capital income into clear categories, regardless of whether the income comes from domestic or foreign sources (taking into account double taxation agreements). Its scope includes:

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[440] Syrian Arab Republic (2003) *Law No. 24 of 2003 on Income Tax*. Damascus: Syrian Arab Republic, Article 3.

[441] Brauner, Y. (2005) 'Integration in an Integrating World', pp 75. https://doi.org/10.2139/ssrn.670441

[442] Hungary (1995) Act CXVII of 1995 on Personal Income Tax. Sections 67(1).

[443] Hungary (1995) Act CXVII of 1995 on Personal Income Tax. Sections 67(1).

- Interest income from deposits, bonds, loans, and securities lending.
- Dividend income from stocks, shares of companies, cooperatives, and investment fund units.
- Capital gains from the transfer of securities.
- Regulated capital market transactions - Regulated stock exchange and derivatives transactions.
- Long-term investment income - Preferential treatment for securities/interest/dividends in long-term investment accounts.
- Foreign exchange income - Profits from currency exchange and exchange rate differences.
- Crypto asset income - Profits from crypto asset transactions.
- Business withdrawals - Personal withdrawals from companies are treated as capital income.[444]

Hungarian law comprehensively covers all financial assets, including interest, dividends, securities trading, foreign exchange, cryptocurrencies, and investment accounts. This rule is comprehensive and source-neutral, taxing domestic and foreign capital income equally, unless exempted by treaty.

Syrian Law

Syrian law follows a dual approach:

It distinguishes between Syrian circulating capital (domestic bonds, stocks, loans, etc.) and foreign circulating capital (securities and stocks issued abroad).

Foreign circulating capital is automatically subject to capital gains tax, while Syrian sources, in addition to the circulating capital gains tax, may be subject to other tax systems (commercial/industrial profits tax).

Taxable income under Syrian law includes the following:

Dividends - from foreign shares, founders' shares, and interest shares of companies not incorporated in Syria.

Interest - from liabilities, deposits, debt instruments, and loans.

Proceeds (bond interest) - from bonds with dividends (in cash or in kind).

[444] Hungary (1995) Act CXVII of 1995 on Personal Income Tax. Sections 65–67/D.

Raffle prizes - lottery premiums paid on certain bonds.

Settlement prizes - additional rewards upon redemption, representing the difference between the nominal value and the issue value.

Free stock dividends - when reserves are distributed as additional shares or in cash.

Debt securities, loan bonds, and dividend bonds are taxable income if issued domestically (by companies in Syria) or by the Syrian government, as well as by foreign governments. [445]

3.5.2.2 Scope of Application

Hungary applies a comprehensive capital tax to all forms of capital and financial income, including modern assets such as cryptocurrencies.

Syria narrows the scope of application to include foreign capital in circulation and some domestic bonds, excluding many forms of domestic equity, a significant portion of which is reinvested under the commercial/industrial profits tax.

A comprehensive tax system (Hungary), which covers all forms of capital income at a single rate, promotes horizontal equity by taxing similar capital returns equally, regardless of category.[446] The integration of modern asset classes, such as cryptocurrencies, into the existing tax framework also reflects the system's flexibility and commitment to equal treatment of all asset types.[447] Conversely, a narrow tax system (Syria), which covers only specific categories, leads to horizontal inequity, increased tax distortions, and greater tax evasion. In most developing countries, the tax structure reflects the pressures of a large informal sector and widespread tax evasion within the formal sector, often resulting in narrow tax bases with numerous exemptions.[448]

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[445] Al-Hallaq, M. (2018) Tax Legislation. Damascus: Syrian Virtual University, pp. 156-158.

[446] Investopedia (2026) 'Horizontal Equity'. Available at: https://www.investopedia.com/terms/h/horizontalequity.asp (Accessed: 9 March 2026).

[447] Józsa, E. and Erdős, É. (2025) 'Tax Regulation of Cryptocurrencies in Hungary and Romania – A Comparative Analysis in the Light of EU Standards', Curentul Juridic, 103(4), pp. 75–93. https://doi.org/10.62838/cjjc-2024-0063

[448] Jun, J. (2017) Tax Incentives and Tax Base Protection in Developing Countries. MPFD Working Paper WP/17/07. Bangkok: United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), pp.3. Available at: https://repository.unescap.org/items/05c08c63-9039-4bb0-92d2-ad29de1523f1

Tax rate

In Hungary all types of capital income, such as interest (Article 65), securities lending (Article 65/A), dividends (Article 66), capital gains (Article 67), controlled capital market transactions (Article 67/A), long-term investment income (Article 67/B), foreign exchange gains (Article 67/C), crypto-asset income (Article 67/D), and business withdrawals (Article 10), are subject to a uniform 15% personal income tax in Hungary (with an additional 13% social contribution in some cases).[449]

In Syria, capital gains tax under Article 83 and related provisions is applied at a flat rate of 7.5% to income from Syrian securities and commercial withdrawals (debt securities and loans), while income from foreign stock dividends, interest on debt instruments and loans, returns on dividend-bearing bonds, settlement prizes, withdrawal prizes, settlement prizes, and free stock dividends are exempt from this tax and are instead subject to the general commercial and industrial profits tax (progressive rates of up to 28-30%).[450]

3.5.2.3 Legal drafting analysis

Hungary imposes a tax on all capital gains, both domestic and foreign. In contrast, Syria taxes only foreign capital gains or those earned by Syrian companies and institutions, which are exempt from the industrial and commercial profits tax. It can be argued that the Hungarian legislator sought to be more consistent with the controversial principle of horizontal equity, which holds that individuals with equal incomes should pay equal taxes. This principle was applied by the legislator based on the fact that all resident investors pay the same tax.[451] Meanwhile, the Syrian legislature tried to minimize double taxation as much as possible in its legislation. Instead, it taxed foreign capital gains directly, reflecting a protectionist approach designed to control financial flows from abroad. However, it

[449] PricewaterhouseCoopers (PwC) (2026) 'Hungary – Individual: Income determination', Worldwide Tax Summaries. Available at: https://taxsummaries.pwc.com/hungary/individual/income-determination (Accessed: 10 December 2025).

[450] Hdewe, N. (2014) Value Added Tax and Its Impact on Economics and Society in Syria. PhD thesis. Damascus University, Damascus, pp. 35.

[451] Lindsay, I.K. (2016) 'Tax Fairness by Convention: A Defense of Horizontal Equity', Florida Tax Review, 19(2), pp. 81. Available at: https://journals.upress.ufl.edu/ftr/article/download/656/683

should be noted that Hungary, due to its extensive international and European connections through numerous anti-double taxation agreements, was less cautious in this regard.[452] Here, we believe that the Syrian legislator, especially with regard to capital taxes, has made a correct decision. Despite the establishment of double taxation agreements, countries still believe that capital income taxes at the international level are imposed with significant distortions and serious enforcement problems. Several problems arise with these agreements. First, these agreements are drawn up on a bilateral basis, with significant variations in conditions, such as withholding tax rates, between countries. Second, double taxation agreements do not contribute significantly to reducing the export of taxes and mitigating differences in effective capital tax rates. Especially given the significant variation in effective capital tax rates between countries, and double taxation agreements do not contribute significantly to reducing the export of taxes and mitigating differences in effective capital tax rates,[453] we find that Hungary often faces legal disputes in this regard. For example, in Case C-112/12, despite Hungary's commitment to the aforementioned principle of horizontal equity and the free movement of capital within the European Union, a dispute arose between Hungary and a foreign investment fund (Franklin Templeton Investment Funds SICAV), registered in Luxembourg. This is because Hungary granted tax exemption to domestic (resident) investors on dividends. However, the same treatment was not extended to foreign (non-resident) investors unless they met special conditions (such as a 20% ownership percentage for two years). This posed a challenge to the principle of free movement of capital within the European Union, as stipulated in Article 63 of the 1992 Maastricht Treaty.[454]

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[452] Lawyers Hungary (2026) 'Hungarian Double Tax Treaties', Lawyers Hungary, 2 October. Available at: https://lawyershungary.com/hungarian-double-tax-treaties/ (Accessed: 18 December 2025).

[453] Mintz, J.M. (1992) 'Is There a Future for Capital Income Taxation?', OECD Economics Department Working Papers, No. 108. Paris: OECD Publishing, pp.18. https://doi.org/10.1787/351474527568

[454] Court of Justice of the European Union (CJEU) (2012) Franklin Templeton Investment Funds Société d'Investissement à Capital Variable v Nemzeti Adó- és Vámhivatal Kiemelt Ügyek és Adózók Adó Főigazgatósága, Case C-112/12, Order of the President of the Court of 5 December 2012, ECLI:EU:C:2012:769. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:62012CB0112

3.6 Ensuring proportionality, procedural fairness, and public confidence in the tax administration.

Empirical evidence and international comparisons confirm that choosing a capital gains tax over a wealth tax is directly linked to the principles of proportionality, procedural fairness, and building public trust in tax administration. Thus High levels of tax evasion and administrative costs associated with wealth taxes were also cited as practical difficulties in imposing wealth taxes.[455] In their empirical study based on comprehensive administrative records in Sweden, Bastani and Waldenström demonstrate that wealth taxes, while theoretically capable of broadening the tax base by targeting unrealized capital gains, raise fundamental issues related to imposing a tax burden on hypothetical returns that do not reflect taxpayers' actual cash flows. This leads to liquidity and asset valuation problems, particularly concerning unlisted business assets and startups.[456]

As mentioned, Hungary replaced its progressive personal income tax system with a flat 15% tax rate. and similar taxes are levied on capital income. This system is indeed simpler and more structured than many alternatives. However, empirical studies on its distributional effects point to some issues.[457]

Empirical evidence from Hungary's flat tax reform suggests that the system favors high-income earners and fails to achieve equity proportionality. Microsimulation studies have shown that the tax reform primarily benefited taxpayers in the upper income brackets, particularly high-income earners and families with children. In contrast, low-income earners and working-age individuals without dependent children suffered the greatest

[455] European Commission (2015) Country Report Hungary 2015: Including an In-Depth Review on the Prevention and Correction of Macroeconomic Imbalances. Commission Staff Working Document, SWD(2015) 36 final/2. Brussels: European Commission. pp.78.

[456] Bastani, S. and Waldenström, D. (2023) 'Taxing the Wealthy: The Choice between Wealth and Capital Income Taxation', Oxford Review of Economic Policy, 39(3), pp. 613–614. https://doi.org/10.1093/oxrep/grad030

[457] European Commission (2015) Country Report Hungary 2015: Including an In-Depth Review on the Prevention and Correction of Macroeconomic Imbalances. Commission Staff Working Document, SWD(2015) 36 final/2. Brussels: European Commission. pp. 3.

losses.[458] Independent simulations also revealed that approximately 74% of the revenue loss resulting from the reform was concentrated among childless taxpayers in the top two income brackets, amounting to 444 billion forints annually, further highlighting the reform's distributional bias toward high-income taxpayers.[459] This underscores the structural gap between the institutional requirements for implementing complex taxes—such as a wealth tax and the tax system's actual capabilities. Available literature documents from an early period that the development of the Syrian tax system under central planning led to deepening bureaucracy and the adoption of outdated tax legislation, while weakening the role of the general budget as an effective financial tool.[460] Subsequent analyses of Income Tax Law No. 24 of 2003 reveal structural imbalances in the rules for calculating taxes and a lack of consistency between legal texts and economic reality, which constitutes a chronic obstacle to tax compliance and reinforces incentives for evasion.[461] It is worth noting that neither law fully aligns with the empirical study. However, the Hungarian tax system does agree with the conclusions of Bastány and Waldenström (2023) by relying on taxes levied on actual realized capital gains, dividends, and interest, and by the absence of a general wealth tax. Hungarian law links tax liability to actual cash flows, [462]rather than hypothetical returns or periodic asset valuations, which can avoid the problems highlighted in the empirical study.

[458] Krekó, J. and Tóth, C.G. (2024) 'The Role of Capital Income in the Hungarian Income Distribution from 2007 to 2021', Intersections: East European Journal of Society and Politics, 10(3), pp. 215.

[459] Tóth G., C. and Virovácz, P. (2013) 'Nyertesek és vesztesek: A magyar egykulcsos adóreform vizsgálata mikroszimulációs módszerrel', Pénzügyi Szemle, 58(4), pp. 399.

[460] El-Amach, H. (1996) Possible Interaction Between the Budget and Tax Reform in Syria: An Outlook at Fiscal Democracy. Working Paper No. 9639. Cairo: Economic Research Forum, pp. 6-8. Available at: https://ideas.repec.org/p/erg/wpaper/9639.html

[461] Amer, R. and Alamuddin, A. (2025) 'Evaluating the Performance of Fiscal Policy in Syria (1990–2024): Through a Study of the Performance of the State's General Budget', Qalamoun Journal, 31, pp. 112-114.

[462] Hungary (1995) Act CXVII of 1995 on Personal Income Tax, Section 67/A (1) and (4).

According to Thuronyi (1996), a tax must not exceed the amount necessary to achieve its financial or social purpose, and must not lead to the indirect confiscation of income or capital.[463]

The first violation of this principle occurred in **Syrian legislation**. Capital gains tax is required regardless of whether the amounts distributed to beneficiaries are derived from profits, reserve profits, or gains and losses. In Hungarian tax law, [464]"income from realized capital gains" refers to proceeds received upon the transfer of securities.

In Hungarian law, we find that the legislator has taken this condition into account in many paragraphs. For example, when there is a motive, the motive is to assess the amount of income generated from the revenue, the tax, and the tax advance corresponding to the legal ownership of the income, based on data and information available to him on the date of payment, or that can be obtained, or that the individual has verified regarding acquisition costs and additional costs. He declares and pays the amount in accordance with the Tax Code. In the absence of a motive, the taxpayer himself bears the responsibility for assessment, declaration, and payment.[465]

This enhances legal certainty and ensures that it does not lead to the indirect confiscation of income or capital by the tax administration. However, in Syria, there is no similar provision requiring the motive to assess and pay the tax directly. The capital gains tax is typically levied upon the distribution of dividends or the payment of interest, through a proportional deduction.[466]

Article 67 of the Law on Income from Regulated Capital Market Transactions stipulates that if an individual incurs any loss related to a regulated capital market transaction during the tax year and/or during the year preceding the current tax year, and/or in the two years preceding the current tax year, and if such loss is shown in his tax return for the year in which the loss was incurred, he is entitled to a tax compensation claimed in accordance with subparagraphs (7) and (8) as tax paid in the tax return. The tax compensation referred

[463] Thuronyi, V. (ed.) (1996) Tax Law Design and Drafting. Volume 1. Washington, DC: International Monetary Fund, pp. 6-7.

[464] Syrian Arab Republic (2003) Income Tax Law No. 24 of 2003, Article 83.

[465] Hungary (1995) Act CXVII of 1995 on Personal Income Tax, Section 67(5).

[466] Syrian Arab Republic (2003) Income Tax Law No. 24 of 2003, Article 45.

to in subparagraph (6) is calculated by multiplying the amount of the loss declared for the tax year and/or the two preceding years by the tax rate in effect at the time of the declaration, less any tax compensation previously claimed in relation to losses on regulated capital market transactions in the tax return filed for either of the two preceding years, provided that it does not exceed the amount specified in subparagraph (8). This framework demonstrates that the Syrian legislator relies on a unified model for procedures and review, which achieves a degree of equal treatment among taxpayers. However, from a procedural justice perspective, it is noteworthy that Syrian law focuses more on punitive measures than incentives or compensation, while the Hungarian system balances the state's right to collection with the taxpayer's right to fair compensation. The existence of a structured mechanism for loss transfer and the calculation of tax compensation reflects a commitment to the principle of procedural justice, as taxpayers are not left without redress if they incur economic losses resulting from legitimate capital transactions. This also enhances trust between taxpayers and the tax administration, especially when administrations use transparent, pre-filled tax returns and self-assessment mechanisms, as is the case in Hungary.[467]

3.7 Economic Efficiency

Economic efficiency in a tax system means that the tax should generate the required revenue at the lowest possible cost to economic activity, without distorting production, consumption, or savings decisions.[468] In the case of capital gains tax:

A tax is economically efficient when it does not discourage investors from selling their assets or transferring their money into productive investments.

If the tax is too high or unexpected, it leads to the so-called lock-in effect, where investors hold onto assets to avoid paying the tax, which hinders the movement of capital in the

[467] OECD (2013) Tax Administration 2013: Comparative Information on OECD and Other Advanced and Emerging Economies. Paris: OECD Publishing, pp. 241=-244 Available at: https://doi.org/10.1787/9789264200814-en

[468] Cnossen, S. (1996) 'Company Taxes in the European Union: Criteria and Options for Reform', Fiscal Studies, 17(4), pp. 67–97.

market.[469] Thus, tax efficiency is also defined in economic literature as minimizing distortion in economic decisions. According to Auerbach & Hines' analysis, the efficiency problem arises when a tax alters relative prices, prompting individuals or firms to modify their behavior whether in consumption, saving, or investment away from the allocation that would have been achieved without the tax. This behavioral change generates what is known as excess burden, a loss of welfare that exceeds the tax revenue itself. In the section "The Measurement of Excess Burden," the authors explain that the essence of efficiency lies in designing taxes that combine revenue with minimal distortion in resource allocation.[470]

To explore the economic effectiveness of this tax, its contribution to financing the general budget must first be traced. A comparison of the contribution of capital gains tax in Hungary and Syria reveals a clear disparity in the proportions of general budget financing. In Hungary, the combined share of taxes on income, profits, and capital increased between approximately 18% and 24% of total tax revenues during the period from 2007 to 2023. The highest percentage was recorded in 2008, at approximately 24.7%, and then stabilized in subsequent years between approximately 15% and 18%, reaching approximately 17.18% in 2022, reflecting the continued presence of this tax within the country's general tax structure.[471]

In Syria, the contribution of the capital gains tax was very limited during the period from 2000 to 2009. The rate reached 0.28% in 2000, decreased slightly to 0.27% in 2001, then recorded 0.32% in 2004, and rose slightly to 0.406% in 2005. In 2007, it reached 0.76%, then continued to rise to 0.84% in 2008, reaching its peak in 2009 at 1.17% of total tax revenues, then declined again in 2020 to 0.96%.[472]

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[469] Auerbach, A.J. (1991) 'Retrospective Capital Gains Taxation', The American Economic Review, 81(1), pp. 167–178.

[470] Auerbach, A.J. and Hines, J.R. Jr. (2002) 'Taxation and Economic Efficiency', in Auerbach, A.J. and Feldstein, M. (eds.) Handbook of Public Economics. Vol. 3. Amsterdam: Elsevier, pp. 1347–1421.

[471] World Bank / OECD / European Commission datasets (author's calculation).

[472] Al-Nuaimi, Q., Al-Adi, I. and Rajoub, I.A. (2011) 'A Study of the Development of Tax Revenues in Syria (2000–2009) and a Forecast of These Revenues (2010–2015) Based on Public Budget Accounts', Tishreen University Journal for Research and Scientific Studies – Economic and Legal Sciences Series, 33(4), pp. 78.

We note that capital gains tax in Syria is one of the least significant tax revenue sources contributing to the budget, reflecting its limited effectiveness as a financing tool.
This is due to:

- In contrast to Hungary, Syria's fragmented capital income taxation framework limits the responsiveness of firms to tax incentives. Empirical studies indicate that where capital income taxation lacks coherence, its influence on investment behavior is significantly weakened.[473]
- The weak institutional and regulatory framework for capital markets
- The absence of a publicly traded bond market
- The weak tax information infrastructure and ineffective assessment and collection mechanisms.

Although the tax is stipulated in Income Tax Law No. 24 of 2003 (and its amendments), its scope of implementation has been limited due to the lack of adequate regulatory tools.
Until the mid-2000s, the tax administration did not have a comprehensive database for securities trading or capital income valuation.
Weak enforcement of the law has led to a gap between the legislative text and its practical application.[474]
The tax rate is very low and is not in line with other income tax rates. Chiad Faycal demonstrate in their empirical study, "The Impact of Taxes on Investment and Economic Growth in the Arab Countries," a structural pattern in Arab countries, including Syria, is characterized by: low tax efficiency (Tax Effort < 1 in most countries); a gap between tax capacity and actual collection; weak tax administration; a negative impact of indirect taxes on capital formation; and a negative relationship between the tax burden and economic growth.[475]

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[473] Overesch, M. and Voeller, D. (2010) 'The Impact of Personal and Corporate Taxation on Capital Structure Choices', Financial Management, 39(4), pp. 1835–1840.

[474] Hdewe, N. (2014) Value Added Tax and Its Impact on Economics and Society in Syria. PhD thesis. Damascus: Damascus University, pp. 35.

[475] Chiad, F. (2022) 'The Impact of Taxes on Investment and Economic Growth in the Arab Countries: Analytical and Econometric Study', Munich Personal RePEc Archive (MPRA), Paper No. 114425, pp. 25-26.

These findings are not explained solely by the level of tax rates, but also by the nature of the institutional and regulatory framework. In such contexts, the existence of formal legal provisions including those in Income Tax Law No. 24 of 2003—does not guarantee effective implementation. In fact, weak assessment tools, limited databases, and fragile enforcement structures lead to a structural discrepancy between legislative intent and practice, undermining both revenue performance and investment incentives.

We believe the Hungarian capital tax system is successful for several reasons, the most important of which are:

As noted, Hungary follows the two-tiered tax model. It levies a 9% corporate income tax on net profits[476], and a separate 15% personal income tax on capital income,[477] including dividends, interest, and capital gains. Studies confirm that capital income tax has tangible effects on corporate behavior, particularly regarding financing structures. The Impact of Personal and Corporate Taxation on Capital Structure Choices (Michael Overesch, Dennis Voeller) in 2010, using data from company-level tablets in 23 European countries, demonstrated that differences in personal and corporate tax rates significantly influence leverage decisions. These findings suggest that the design of capital income tax affects economic efficiency by shaping corporate financial strategies, even if macroeconomic outcomes depend on broader institutional factors. Dr. Erdős also believes that the Hungarian tax system was deliberately designed to attract foreign capital by maintaining relatively low and predictable tax rates on corporate income and capital. However, the overall investment climate is also affected by local and sector-specific taxes, and the Hungarian financial legislator should view these more carefully[478].

Hungary's uniform 15% rate on dividends, interest, and capital gains minimizes the second type of efficiency loss—misallocation across asset classes. When different forms of capital

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[476] Enache, C. (2026) 'Corporate Income Tax Rates in Europe, 2026', Tax Foundation, 13 January. Available at: https://taxfoundation.org/data/all/eu/corporate-income-tax-rates-europe/ (Accessed: 10 October 2026).

[477] PricewaterhouseCoopers (PwC) (2026) 'Hungary – Individual: Income Determination', Worldwide Tax Summaries. Last reviewed 1 July 2026. Available at: https://taxsummaries.pwc.com/hungary/individual/income-determination (Accessed: 10 October 2026).

[478] Erdős, G. (2021) 'Tax in History: The 30 Year Anniversary of the Disintegration of the Eastern Bloc: Tax Reform Process in Hungary', Intertax, 49(5), pp. 466–469. https://doi.org/10.54648/TAXI2021044

income face different tax rates, investors shift capital toward tax-favored forms regardless of pre-tax productivity. Weichenrieder and Klautke in their study “Taxes and the Efficiency Costs of Capital Distortions,” examined these distortions and showed that "tax neutrality towards alternative financing instruments for corporate investment" matters because departures from neutrality impose measurable efficiency costs on the debt-equity decision.[479]

Hungary's relatively low statutory tax rates and the predictability of certain capital income tax provisions may contribute to a more favorable investment environment. Thus, according to the Hungarian Central Bank, FDI as a percentage of GDP has been increasing in the automotive sector, and more recently in the battery sector, by an average of 9% between 2017 and 2023.[480] Nevertheless, investment decisions are influenced by a broader range of factors, including macroeconomic stability, market access, infrastructure, regulatory conditions, and other fiscal incentives. Accordingly, the observed development of domestic and foreign investment cannot be attributed solely to the taxation of capital income without further empirical analysis.

Due to the capital gains tax system and its amendments. This has offset the low rate with the large size of the tax base. In Syria, the contribution of the capital gains tax to total income taxes increased gradually until 2015, but never exceeded 1.28% of total income tax revenue. While the 7.5% rate is notably low compared to other income tax categories[481], the marginal revenue contribution likely reflects not only the low statutory rate but also the narrow effective tax base — resulting from the absence of cost deductions, the underdevelopment of formal capital markets, and administrative weaknesses in enforcement. As emphasized in IMF policy discussions on tax reform in the Middle East,

[479] Weichenrieder, A.J. and Klautke, T. (2008) Taxes and the Efficiency Costs of Capital Distortions. CESifo Working Paper No. 2431. Munich: CESifo. pp. 3-4-8-10.

[480] European Commission (2025) In-Depth Review 2025: Hungary. European Economy, Institutional Paper No. 312. Brussels: European Commission, Directorate-General for Economic and Financial Affairs, pp.26. Doi: https://doi.org/10.2765/945864.

[481] Hdewe, N. (2014) Value Added Tax and Its Impact on Economics and Society in Syria. PhD thesis. Damascus: Damascus University, pp. 35.

effective capital income taxation requires both an adequately designed rate structure and a broad, enforceable tax base to encourage the reallocation of savings toward productive investment rather than passive financial holdings. Adjusting the capital gains tax rate could therefore serve as a policy tool to redirect savings from passive deposits toward productive investment, provided that accompanying structural reforms strengthen tax administration, transparency, and financial market development.[482]

Tax Incentives for Long-Term Capital Investment:

Hungary grants tax exemptions or reductions on profits generated from long-term investments or high-value-added projects, enhancing capital sustainability within the country. In the Hungarian tax system, tax incentives for long-term capital investment (LTIs) are considered one of the main reasons why capital taxation is so effective and attractive to domestic and foreign investors. Article 67/B of the Hungarian Income Tax Act.

Mechanism: Individuals are entitled to open a long-term investment account at an accredited bank or financial institution.

Funds are deposited into this account to purchase securities or capital instruments (stocks, bonds, investment funds, etc.).

Tax Incentives:

Full exemption from capital gains tax if the investment is held for five consecutive years.

50% tax reduction if funds are withdrawn after only three years.

If funds are withdrawn before three years, the full tax rate (currently 15%) is imposed. Empirical evidence supports the effectiveness of tax incentives that depend on holding periods. Studies demonstrate that investors significantly adjust their trading behavior in response to capital gains taxation, strategically delaying the realization of gains when favorable tax treatment becomes available. This behavioral response provides an economic explanation for Hungary's long-term investment tax regime under Article 67/B of the Personal Income Tax Act. By granting partial tax reductions after three years and full capital gains tax exemption after five years through long-term investment accounts, the Hungarian system intentionally exploits the sensitivity of investors to tax incentives in

[482] international Monetary Fund (IMF) (2015) Hungary: 2015 Article IV Consultation—Staff Report; Press Release; and Statement by the Executive Director for Hungary. IMF Country Report No. 15/92. Washington, DC: International Monetary Fund, pp. 6-7.

order to encourage long-term capital allocation and enhance domestic capital sustainability.[483]

For **Syria**, the law relies on partial or temporary exemptions, such as granting a partial exemption of 80% of the capital gains tax on:

a. Interest on investment certificates.

b. Amounts deposited in savings accounts at public banks.[484]

That is, the tax is imposed on only 20% of the income generated from these interest rates. The aim of this article is to encourage local savings and investment in banks and investment certificates by reducing the tax burden. The Syrian legislator moved from a full exemption to a partial exemption to achieve a balance between encouraging savings and the need to collect public revenues.

We note that while **Syria** relies on partial or temporary exemptions (such as an 80% exemption on savings interest), the Hungarian experience shows that stability and long-term planning are more attractive to investors.

The Syrian legislator should link exemptions to clear criteria, such as the duration of the investment or the nature of the productive activity, similar to the Hungarian system (Article 67/B), which grants a full exemption after five years of continuous investment.

Therefore, in Syria, exemptions should be time-dependent rather than fixed. Empirical studies indicate that the behavioral impact of capital gains taxes diminishes with longer holding periods. Hegeman et al. (2017) showed that while capital gains taxes initially delay

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[483] Buhlmann, F., Dörrenberg, P., Voget, J. and Loos, B. (2020) 'How Do Taxes Affect the Trading Behavior of Private Investors? Evidence from Individual Portfolio Data', ZEW Discussion Paper, No. 20-047. Mannheim: ZEW – Leibniz Centre for European Economic Research, pp.20-47.

[484] Article 104 Abolishes the exemption from the capital gains tax on financial prizes issued by the General Exhibitions Corporation. In other words, prizes valued at more than one million Syrian pounds are now subject to tax. This article ends the previous privilege that exempted these prizes from tax.

Article 106 This article confirms the continuation of the exemptions stipulated in the previous two articles, with some modifications to include specific types of bank accounts. However, it also clarifies that the full (100%) exemption was abolished and replaced with a partial (80%) exemption under an amendment issued in 1970. It also indicates that interest on loan bonds issued by the Popular Credit Bank continues to be fully exempt.

exit decisions, their importance in decision-making gradually decreases with longer holding periods.[485]

For example, a full tax on holdings of less than three years, a reduced tax for three to five years, and a full exemption after five years would reward patient capital while preserving income from short-term trading.

Second, exemptions should be asset-neutral rather than limited to bank deposits. The current 80% exemption on interest from public bank savings specifically supports low-productivity, passive savings that the tax system should be channeling toward productive investment. Extending eligibility to include capital market instruments (stocks, bonds, and investment funds) would link incentives to the goal of directing savings towards the establishment of projects, as is the case in the Hungarian system.

Conclusion

In conclusion, this comparative study demonstrates that Hungary's capital gains tax system achieves greater consistency, transparency, and economic efficiency than Syria's. Hungary's uniform 15% rate applied to net capital gains — with statutory deduction of acquisition costs, recognition of losses, and clear annual periodization — ensures horizontal equity across asset types and minimizes inter-asset distortions. The long-term investment account regime (Article 67/B) further illustrates how rule-based, time-graduated incentives can channel savings toward productive capital market instruments without relying on administrative discretion.

Syria's system, by contrast, suffers from structural deficiencies that constrain its effectiveness as a tool for both revenue generation and investment promotion. The taxation of gross revenue rather than net gains, the conflation of capital income categories, and the restriction of exemptions to public bank deposits create a regime in which the effective tax burden bears little relation to the taxpayer's actual economic gain. Paradoxically, Syria's

[485] Buhlmann, F., Dörrenberg, P., Voget, J. and Loos, B. (2020) 'How Do Taxes Affect the Trading Behavior of Private Investors? Evidence from Individual Portfolio Data', ZEW Discussion Paper, No. 20-047. Mannheim: ZEW – Leibniz Centre for European Economic Research, pp. 20.47.

lower nominal rate (7.5%) may impose higher effective taxation on genuine capital gains than Hungary's 15% rate on net income a consequence of base design, not rate levels.

To strengthen its fiscal capacity, the Syrian legislature should prioritize three reforms. First, clearer legislative drafting that defines capital gains as the difference between proceeds and acquisition cost, anchored to specific reporting periods — reducing administrative discretion and reinforcing the principle of legality. Second, broadening the taxable base while ensuring asset-neutral and institutionally neutral treatment, rather than restricting incentives to public bank deposits. Third, introducing stable, time-graduated incentives linked to the duration and productive nature of investment, modeled on Hungary's Article 67/B regime and supported by the empirical literature on holding period effects (Buhlmann et al., 2018; Hegemann et al., 2017; Blouin, Raedy & Shackelford, 2000).

Such measures would improve compliance and fairness, enhance investor confidence, and support economic diversification. A coherent and transparent capital gains tax regime one that taxes actual economic gains through clear statutory rules remains a cornerstone of sound fiscal governance and sustainable economic growth.

The findings of this study complement the analysis of the general budget deficit presented in the previous chapter. As observed in the case of Syria, despite a low statutory tax rate on capital, the contribution of such taxes to total public revenue remains very weak. This indicates that merely lowering tax rates is insufficient to boost revenue collection; rather, other fundamental factors have hindered capital taxes from generating adequate or substantial state revenue. Specifically, a narrow tax base compounded by shortcomings in assessment and enforcement processes limits the financial contribution of these taxes. Conversely, if a state were to develop a more comprehensive, structured, and detailed legal framework for the taxation of capital income, one that encompasses various financial returns while accounting for acquisition costs and certain types of losses, it could significantly enhance the contribution of these taxes to the budget and help narrow the public deficit. In summary, this comparison demonstrates that addressing the revenue side of a budget deficit does not depend solely on adjusting tax rates or granting exemptions; it requires a broader approach, most notably the reform of the tax base and the improvement of tax administration efficiency.

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The author's publications related to the dissertation

An Introduction to the Syrian Public Finances (Public Expenditures, Revenues and the General Budget), published in *the Conference Volume of the Doctoral Forum, University of Miskolc, Miskolc, Hungary, 2022.*

The Problem of the General Budget Deficit and Its Important Causes (Insights from the Syrian and Hungarian Context) published *in Legal Milestones in the Central European Area 2023 (Conference Proceedings), Faculty of Law, Comenius University, Bratislava, Slovakia, 2023.*

Assisting the Performance of the Syrian Tax System During the Syrian Crisis and Its Suitability to the Condition of War, published in *The Economic and Legal Management of* the Crisis (Conference Proceedings), University of Pécs, Pécs, Hungary, 2024.

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Comparison of Income Tax for Self-Employment and Other Activities in Syria and Hungary published in *Publicationes Universitatis Miskolcinensis, Sectio Juridica et Politica, University of Miskolc, Miskolc, Hungary, 2025.*

International Economic Sanctions and Their Implications: A Case Study of Syria, published in *Acta Humana – Human Rights Journal, Budapest, Hungary, 2025.*

Statement

In accordance with the provisions of the Regulation on the Use of Artificial Intelligence of University of Miskolc and the Guidelines for the Use of Artificial Intelligence of the Deák Ferenc Doctoral School of Law, I, undersigned .....Jafaar Sakkour..... (name), declare that I have used / have not used artificial intelligence in my doctoral dissertation and thesis booklets.

In the case of the use of artificial intelligence (hereinafter: AI), I declare the following:

1. The name of the AI tool used: ChatGPT

2. The URL and the version number of the AI tool used:https://chatgpt.com/

3. The exact date of production of the generated content (year, month, day):

2025-11-15

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2026-06-03

2026-07-12

2026-08-04

2026-08-09

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2026-10-26

4. The purpose and extent of use (describing in detail which part of the dissertation and to what extent the use of AI affects, and for which sub-task the AI was used):

Artificial intelligence was utilized as an auxiliary tool during the preparation and review of this doctoral thesis. Its primary function was to assist with grammatical and linguistic checks, a particularly valuable feature given that the researcher is not a native English speaker. AI was also used to refine ideas, transforming them into more coherent academic prose than what might be achieved through manual drafting alone; it further assisted in structuring the presentation of concepts and paragraphs within individual chapters. It was also used in the process of formatting references in footnotes and bibliographies.

At times, ChatGPT was employed to clarify legal terminology, ensuring the accurate and consistent application of legal provisions throughout the research material.

Furthermore, when the initial formulation of certain comparative legal arguments, specifically those concerning public budget deficits and income tax in Syria and Hungary, did not meet the researcher's standards, AI was used to help refine and develop these arguments. Additionally, AI was applied to analyse statistical data—notably regarding public budget deficit ratios and revenue-to-budget proportions in Syria and Hungary. As the researcher could not locate a single, comprehensive source for these figures, AI proved essential for analysing and quantifying the data, as well as for assessing its alignment with the theoretical framework established in the thesis. The use of artificial intelligence has not replaced the researcher's responsibilities in conducting legal research, interpreting legislation, evaluating academic sources, performing comparative analysis, or formulating the thesis conclusions—this is certain. All content prepared with the assistance of artificial intelligence has been reviewed by the researcher and verified for accuracy; consequently, the researcher bears full academic responsibility for the thesis in its final form.

I acknowledge that according to the Guidelines for the Use of Artificial Intelligence of the Deák Ferenc Doctoral School of Law, *„The use of AI is prohibited for the formulation of theses, research results, conclusions, inferences and analyses. Any thesis or paper prepared in this way is not admissible."*

Miskolc, 28/10/2026

Jafaar Sakkour 

.....

signature