Resolution 2/2017.04.27.
of the Fiscal Council KVT/29-2/2017

Opinion
of the Fiscal Council

about the amendment of the draft budget bill XC of 2016 on the 2017 central budget of Hungary

I

Antecedents, legal basis and publicity of the preparation of the Opinion

The Fiscal Council (henceforward: the Council or FC) received the amendment of the draft budget bill concerning the 2017 central budget act (henceforward: the draft) on 20th of April 2017 as an appendix of the letter seeking the opinion of the FC, under file number NGM 7732/2017 signed by Mr. Péter Benő Banai, state secretary responsible for the public finance.

In harmony with the stipulations of Indent (2) Article 44 of the Fundamental Law of Hungary and according to § 24 of Act CXCV of 2011 on the Economic Stability of Hungary (henceforward: Stability Act) the Fiscal Council shall express its opinion on the draft of the central budget bill, the amendments affecting the grand totals of the revenues and expenditures of the central budget, the changes increasing the amount of the deficit included. In its opinion the Council may make comments and – in case it has fundamental objections regarding the draft, its authenticity or feasibility – it shall indicate its disagreement.

Simultaneously, the Fiscal Council shall formulate and publish its Opinion concerning the above amendments as well as its opinion concerning the draft of the 2018 budget bill. Therefore – in order to avoid repetitions – the first chapter of the FC Opinion (Antecedents, legal basis and publicity of the preparation of the Opinion) concerning the draft of the 2018 central budget bill also contains the antecedents considered when preparing the draft bill.

According to the draft bill forwarded with the aim of seeking the FC's opinion, the revenue and expenditure appropriations of the central budget shall increase by the same amount. In harmony with this the cash-flow deficit of the central budget shall remain unchanged. As regards the 2017 central budget, the proposed changes, respectively new appropriations concern the following items:

A) Surpluses to be covered by the amendment of the budget act (HUF 175, 8 billion):
- Renovation and modernisation of the national public road network (HUF 50 billion)
- Creating the appropriation of Investment Preparatory Fund to promote more efficient implementation of public investments (HUF 25 billion)
- The renovation of fixed assets of the Ministry of Defence (HUF 10 billion)
- The execution of the first basic programme of the Suppliers' Action Plan (HUF 6 billion)
- The communication tasks of the Prime Ministerial Cabinet Office (HUF 5 billion)
- Increasing the appropriation of the general support of the operation of local governments, related to the protection of the landscape of Hungary's settlements (HUF 2, 8 billion)
- Joint developments of the Bethesda Children' Hospital of the Reformed Church in Hungary and the Buda Mercy of Order Hospital (HUF 2, 7 billion)
- Support of the Hungarian National Film Found Non-profit Private Share Company (HUF 2, 4 billion)
- Establish the Special Development Centre Fostering Job Market Placements at Vác (HUF 1, 2 billion)
- Purchasing a dormitory building for the Selye János University at Révkomárom (HUF 1, 1 billion)
- Additional resources for the development of rail vehicle construction in the framework of the Zrínyi Plan (HUF 1 billion)
- Increasing the appropriation of the Country Protection Fund (HUF 55, 9 billion)
- Increasing the appropriation of Extraordinary Governmental Measure (HUF 10 billion)
- Additional goals, tasks (to further develop and operate the Limitless! Program; for the additional support of the Hungarian Interchurches Aid; for the overall reconstruction of the building of the Márton Áron College; for the infrastructural investments of renewing the Kőbánya Health Centre that provides outpatient care under the umbrella of the Bajcsy-Zsilinszky Hospital and Clinic of the 10th borough of Budapest; for the

investments in the Pestszentlőrinc Health-Centre; the refurbishment of WWI war graves in the territory of the country) altogether (HUF 2, 7 billion).

B) The coverage for the above additional tasks shall come from the earlier made decisions (mostly from the wage agreement for the next six years – the result of the agreement born in November 2016 at the Permanent Consultative Forum of the Private Sector and the Government) and due to the favourable economic processes and the revenues from the sale of public lands:

   a. balance improving (HUF 599, 6 billion):
      - Payments related to public assets (HUF 162, 4 billion), from the lands sold under the aegis of the „Land for Farmers" programme
      - Personal income tax (HUF 111 billion) thanks to the increasing tax base as a result of the wage agreement and the favourable labour market processes
      - Other EU revenues (HUF 55, 9 billion)
      - Decreasing interest rate expenditures (HUF 53, 7 billion), through low sovereign debt yields
      - Other, centralised revenues (E-road toll, etc.) (HUF 45 billion), in proportion to the increasing traffic
      - Excise duty (HUF 34 billion), as a result of high demand for the concerned product
      - Contribution to the EU budget (HUF 31 billion)
      - Excise duty payments (HUF 23 billion), due to the recovery of purchasing properties and cars
      - Additional items (company car taxes, small taxpayers' itemized tax, small business tax, utility tax, mining fees, registration tax, insurance tax, revenues of budgetary organisations, vocational training contribution, percentage of Labour Market and Health Insurance contribution due to the National Employment Fund, other fees and contributions, taxes after work-related accidents) altogether (HUF 83, 6 billion)

b. balance deteriorating factors (HUF -423, 8 billion):
   - Following the 5 % decrease of the social contribution tax the Social Contribution Tax and Levies (HUF -192 billion), that - contrary to the labour market processes and the wage agreement – improve the increase of revenues
   - Corporation tax (HUF -139 billion), as a result of the decreased tax rate and its respective standardisation
   - Retirement provisions (HUF -50 billion), according to the trend of the number of entitled and the expenditures in the first quarter
   - Child benefit (HUF -16 billion), on the basis of applications and the data of the first three months of the year
   - Sick leave benefit (HUF -9, 5 billion), due to similar reasons listed above
   - Additional items (Simplified business tax, health contribution, other expenditures) altogether (HUF – 17, 3 billion)

Apart from the above the draft contains procedural, support requsitional, law harmonisation provisions as well as provision of legal technicalities and further specifications promoting the employment of the respective regulations.

In harmony with the respective stipulations of the Stability Act the FC examines the draft bill from the aspect of authenticity and feasibility but does not analyse its details, especially its internal proportions and distribution political relations.

As regards the Opinion of the FC concerning the draft bill, the Fiscal Council summarizes and published the said Opinion as follows.

II

Resolution of the Council

At its meeting held on 27th April 2017 the Council formulated the following Opinion with unanimous decision about the draft amendment of Act XC of 2016 on the 2017 central budget of Hungary:

1. As regards the authenticity and feasibility of the amendment of the revenue and expenditure appropriations of the budget the Council has no such fundamental objections that would justify the indication of disagreement concerning the document received for formulating an opinion on.
2. The changes of the appropriations shall increase equally both the revenue and expenditure grand totals of the central subsystem thus, the public finance cash-flow deficit and debt shall not change. Considering the wage agreement signed for the next six years, the tax reduction, the growth of the economy and the inflation that is higher than originally planned, the lower than expected yields' environment as well as the additional revenues from selling state lands, the Council considers the changing of the revenue and expenditure appropriations justified.
3. In the Council's opinion the GDP proportionate 2, 4 percent targeted deficit – calculated according to the stipulations of the 2017 EU methodology – is feasible even with the changes of the revenue and expenditure appropriations. This is lower than the three percent stipulated by Point b) Indent (2) § 3/A. of the Stability Act so this rule shall be met as well as that of the similar EU regulations, even if the GDP or the balance will turn out less favourably.
4. According to the judgement of the FC the government debt rule shall also be realised as by the end of 2017 the GDP proportionate government debt – calculated with constant exchange rate – shall decrease compared to the result of the previous year. The Council deems it important that in the course of the execution of the budget the Government paid attention also to the trend of the debt rate calculated by the EU regulations.

5. The Council supports that the draft bill shall increase the reserves, i.e. the expenditure appropriations to a lesser degree than the available room to manoeuvre would allow, as by this consideration the security of the feasibility of the execution of the budget and - within it - that of meeting the targeted deficit and the GDP proportionate government debt shall be strengthened. On the other hand, the FC deems it important that the appropriations shall be met under control, in harmony with the plans and in case of any deviation from the plans the respective measures will be taken in time.

6. The FC recommends that - in case the 2017 budgetary processes would allow it - on the basis of the data of the first six-month of the year the Government examined if it would be possible to safely frontload to 2017 certain expenditures on the expenditure side planned for next year to thus facilitate the feasibility of the 2018 targeted deficit.

III

Justification

As regards the draft bill the Council did not encounter any objectionable provisions that would justify the indication of disagreement.

When formulating its Opinion, the Council took into consideration the favourable macroeconomic tendencies that created more favourable conditions for year 2017 than those having been considered in the course of planning in the first half of the previous year. The description of these conditions can be found in the Justification section of the Opinion concerning the draft of the 2018 central budget bill.

On the expenditure side of the central budget the following factors shall create the coverage for the increase of the appropriations and the new appropriations: the favourable trend of tax bases, the improving efficiency of tax collection, the revenues of the „Land for Farmers programme" as well as the wage agreement signed in November 2016 at the Permanent Consultation Forum of the Private Sector and the Government. Parallel with this the amendment of the bill contains resolutions to decrease the revenue expenditures due to the decrease of the social contribution tax and corporation tax.

According to the consideration of the Fiscal Council the level of the changes in the revenue appropriations is in harmony with the budgetary processes valid for this year as well as with the expected effect of the tax-related measures.

Altogether, the changes contain HUF 600 billion worth of designations (increasing revenue appropriations and decreasing expenditure appropriations) as well as resource implications of the same amount (decreasing revenues, increasing expenditures and reserves). Thus the changing of the expenditure and revenue appropriations shall not affect the cash-flow deficit.

The Council agrees with the concept that the draft bill shall increase the planned expenditure appropriations to a lesser degree than the expected additional resources, i.e. it shall increase the reserves that is, the appropriations of the Country Protection Fund and the resources reserved for Extraordinary Government Measures. The appropriate reserve system assists the safe execution of the budget – within it - the implementation of the decreasing targeted deficit and government debt indicator and the handling of risks related to the possible under implementation of revenues.

On the basis of the budgetary processes experienced in the first three months of the year the Council does not exclude the possibility of having additional room to manoeuvre as regards the budget in 2017 that won't endanger the targeted deficit planned for the year, as a result of the favourable trend of revenues respectively, the underperformance of certain planned expenditures. For this reason, the FC recommends that on the basis of the data of the first six months of 2017 and in case the 2017 budgetary processes would allow this, the Government should examine if it would be possible to frontload to 2017 certain expenditures on the expenditure side planned for next year. This would also contribute to insuring the safety of the feasibility of next year's targeted deficit.

The additional stipulations of the draft bill concerning the amendment of certain regulations of the 2017 central budget bill and technical specifications have no substantial effect on the implementation of the government debt rule.

In harmony with the stipulations of the Stability Act, the Council shall publish its evaluation concerning the execution of the 2017 central budget act of the first six month of the year and in that document it shall be dealing with the trend of the macroeconomic and public finance processes taken into consideration when evaluating the present amendment.

Budapest, 27th of April 2017

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