Resolution 3/2017.04.27. KVT/28-2/2017
of the Fiscal Council

Opinion of the Fiscal Council

on the draft bill of Hungary's 2018 Central Budget

I

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

According to the stipulations of § 24 of Act XCXIV of 2011 on the Economic Stability of Hungary (henceforward: Stability Act) the Fiscal Council (henceforward: the Council) shall formulate an opinion on the draft of the central budget bill. In its opinion the Council may make observations and shall indicate its complaint [1] in case it has fundamental objections as regards the authenticity or feasibility of the draft bill of the central budget.

The document, endorsed by the Government as the draft bill of the 2018 central budget of Hungary (henceforward: draft bill), was forwarded to the Chairman of the Fiscal Council as an attachment of the letter under file no. NGM/5364/27/2017. seeking the opinion of the

[1] Indents (4) and (5) of Article 36 of the Fundamental Law of Hungary contains the government debt rule, as the most important element of the rule based budget. According to this stipulation the National Assembly shall not endorse such a central budget act as a result of what government debt would exceed half of the GDP. As long as government debt exceeds half of the GDP the National Assembly shall endorse solely such a central budget act that prescribes the decreasing of the GDP proportionate government debt.
Employment of the government debt rule, according to the Stability Act:
- in the course of **the preparation of the central budget act** the government debt indicator shall have to be taken into consideration as the quotient of the government debt projected for the last day of both the basic year and of the budgetary year and that of the projected gross domestic product of the given year.
- when calculating the indicator the (consolidated) debt of the central subsystems of public finances and of other organisations classified into the governmental sector shall have to be compared to the GDP, by the elimination of their respective obligations for each other.
- transactions resulting in debts existing in foreign currency shall be calculated at a same rate, defined by the central budget act.
- any increase of the government debt shall not be taken into consideration if it originates from the timeframe required for the ex-post refunding of EU resources, possible liquidity shortfall of the European Union budget or any other reasons due to what the EU support dedicated for the emerging expenditure had not been accounted in the central budget.
As a result of the stipulation of the Stability Act that came into force in 2015, government debt forecasted for the end of the next year shall increase to a degree that equals half of the difference of the growth rate of inflation and real growth (government debt formula). This rule has been amended due to its presenting an obstacle for economic growth. As a result of this amendment this rule shall be employed only in case of a targeted deficit higher than 3 percent and an economic growth forecasted also above 3 percent. In any other cases the stipulated goal is to reach at least a 0, 1 percent decrease of the government debt indicator.
According to the stipulation formulated by Indent (3) Article 37 of the Fundamental Law of Hungary concerning the **execution of the budget**: as long as government debt exceeds half of the GDP, in the course of the execution of the central budget no borrowing can take place and no financial commitment can be undertaken as a result of what the proportion of the government debt to gross domestic product would increase in comparison to the previous year.

Council, signed by Péter Benő Banai, Minister of State responsible for public finances on 20th of April 2017.

In order to ensure a better foundation for its opinion on the draft budget bill the Council was relying on the preliminary data and the background of the major processes of the execution of Act C of 2015 on the 2016 central budget of Hungary, as a basis. As regards its Opinion about the execution of the 2016 central budget act and the trend of the government debt – in harmony with point c) Indent (1) of § 23 of the Stability Act - the Council shall formulate the said Opinion at a later meeting of the body and publishes the document afterward.

At the same time the Council received the presentation of the amendment of Act XC of 2016 about the 2017 budget act of Hungary as an attachment of Minister of State of Public Finances Péter Benő Banai's letter of 20th of April 2017, file no. NGM/7732/4/2017 asking for the opinion of the Council. Similarly to the cases of such requests earlier the Council shall simultaneously discuss this matter and formulate a separate Opinion.

The Council formulated its evaluation by taking into consideration the following antecedents related to the 2017 budget act:

- In its Opinion No. 2/2016.0421. regarding the draft of the 2017 central budget the Council established the followings: „The 2017 budget is built on a 3, 1 percent economic growth that can be regarded as well founded – considering the expected rise of the utilisation of EU resources and other growth factors, primarily of consumption – […], the revenue and expenditures appropriations are fundamentally in harmony with the macroeconomic forecast". According to the macroeconomic course and the budgetary appropriations the Council also found that „the 2, 4 percent GDP proportionate targeted deficit of year 2017 – calculated by the EU methodology – was in harmony with the economic processes presented by the draft budget bill as well as with the planned revenue and expenditures appropriations. The targeted public finances deficit is in harmony with the correction branch of the European Union's fiscal rules and Point b) Indent (2) of § 3/A. of the Stability Act". The Council called the attention to the fact that „nevertheless, with the increase of the targeted deficit the structural deficit[2] might increase as well".

- In its resolution 5/2016.06.09. formulated for the final vote on the 2017 central budget bill the Council expressed that „the government debt shall decrease in 2017, consequently the requirement stipulated by Indent (5) Article 36 of the Fundamental Law of Hungary shall be met". In its justification the Council confirmed that it deems the decrease of the government debt indicator realistic and well founded and being in harmony with the expected budgetary processes.

[2] The balance of the governmental sector cleaned off the cyclic effects and individual items (Áht.-Public finances Act – Point y) Indent (1) § 2.

When evaluating, the Council was primarily leaning on the written analysis and findings of the State Audit Office of Hungary and the Central Bank of Hungary concerning the budgetary processes. Apart from this the Council was relying on the updated economic forecasts prepared upon the commission of the FC Secretariat by domestic research and analysing institutes and international organisations (European Commission, IMF, OECD) as well as other, relevant market analysers. The Council also took into consideration the Convergence Programme of Hungary for 2016 – 2020.

Within the framework of its authorisation the Council shall examine the 2018 draft budget and its macroeconomic background in its unity, shall analyse the details, the revenues, expenditures of the draft documents from the aspect of its compliance with the government debt rule and shall not enter into analysing distribution political aspects.

The Council shall inform the Speaker of the National Assembly and the Government about its Opinion, respectively shall publish the said Opinion at the FC's website.

II

Opinion of the Council

At its meeting held on 27th April 2017, on the basis of § 24 of the Stability Act the Council discussed the draft budget bill for year 2018 and – as a result of the discussion – it formulated the following, unanimous Opinion:

1) As regards the authenticity and feasibility of the 2018 central budget bill the Council has no such fundamental objections that would justify the indication of disagreement concerning the draft bill.

2) The draft document is counting with a high, 4, 3 percent economic growth that exceeds other, available forecasts. The expectations are relying on the expected dynamic growth of the gross average wages and the large-scale utilisation of EU resources. The forecast is realistically counting with the fact that the growth of domestic utilisation involves the dynamic (8, 2 percent) growth of the import. From the aspect of reaching the prognosed measure of economic growth the fact that in case of the less favourable trend of external circumstances the dynamics of the export might lag behind the planned degree holds risks. At the same time this factor could endanger the revenue appropriations of the public finances to a lesser degree as the decisive part of the implementation of the revenues depends on the trend of the incomes and internal consumption. On the other hand, the possible failure of the wage bill and consumption on national economy level might considerable reduce the tax bases.

3) Apart from some exceptions the expenditure and revenue appropriations of the draft bill are in harmony with the expected implementation of the appropriations of the basic year as well as with the data of the macroeconomic forecast of the Government for 2018. The justification section of the draft lists the planned measures that have an effect on the budget however; it does not quantify precisely their effect. On the basis of the available information the Council determines that the modest growth of the budgetary support for housing compared to year 2017 does not keep up with the expected dynamic increase of such demands.
At the same time, when determining the corporation tax appropriation, the draft does not count with the tax base increasing effect of the decreasing tax rate. In the interest of promoting realisation of the planned tax revenues the Council deems it necessary that the measure aiming at the whitening of the economy and increasing tax collection efficiency should continue also in 2018.

4) The draft is counting with a cash-flow deficit of the public finances reaching 3, 4 percent of the GDP in 2018 that equals with the 3, 2 % ESA deficit referred to the calculations in the justification section of the draft. Keeping the GDP proportionate 3 percent level of the whole of the governmental sector ESA deficit stipulated by the EU regulations and by Point b) Indent (2) of § 3/A of the Stability Act shall be ensured by the fact that a surplus equivalent to 0, 5 percent of the local governmental sub-system, while in the sector of organisations classified to the governmental sector outside the circle of public finances, a surplus estimated to 0, 2 percent of the GDP is predicted. With regard to the measures taken to prevent the indebtedness of local governments and non-public financial organisations classified in the governmental sector, as well as the tendencies of the past years, the Council believes that such expectations are well founded.

5) The justification part of the draft bill contains a reference that a 2, 5 percent structural deficit can be equal to the 2, 4 percent budget deficit in 2018 calculated according to EU methodology[3]. At the same time the EU criteria regarding structural deficit and the requirement stipulated by Point a) Indent (2) § 3/A of the Stability Act – that is based on the aforementioned EU rule - prescribe that the balance of the governmental section shall be calculated in a way that should be in harmony with the implementation of the mid-range budget goals that equals to 1, 5 percent of the GDP, in case of Hungary. Thus, the Council deems it justified that the justification part of the bill should contain the description of the method the Government intends to use in order to comply with this stipulation in the coming years.

3

Within the European Union Eurostat and the member states worked out the European System of Accounts (European System of National Accounts) at the beginning of the 1970-ies for the macroeconomic statistics and within this for the accounts of the economic sectors (governmental sector included). The presently applied system is the so-called ESA2010. An EU Council Regulation contains the ESA2010 system of national accounts that with our membership became part of the Hungarian legal order.
The governmental sector defined by the EU statistical standards is encompassing a bigger organisational scope than the public finances. Apart from the difference of the organisational scope the EU methodology differs from the public finance account as regards the date of accounting, its value and the scope of the accountable transactions.

6) With regard to the aforementioned risks and in order to safely realise the targeted budget deficit the Council deems the planned amount reserved for the Country Protection Fund necessary and confirms that utilising the Fund should take place only in case of meeting the criteria stipulated by the draft bill.

7) The Council lays down that the planned nominal growth of public debt is in harmony with the planned cash-flow deficit of the central budget. The growth rate however is significantly lagging behind the planned nominal growth rate of the GDP. As a consequence, the GDP proportionate public debt shall decrease to such an extent that the public debt rate stipulated by the Stability Act meets the requirement of Indent (5) Article 36 of the Fundamental Law of Hungary and shall significantly surpass the measure stipulated by Indent (2a) of § 4 of the Stability Act. As a result the public debt rule shall be met even if the rate of the economic growth lags behind the 4, 3 percent stipulated by the forecast of the Government. The expected rate of the debt rate decrease is in harmony also with the stipulation of the European Union concerning public debt. [4]

8) The Council authorises its Chairman to publish the Council's Opinion regarding the draft bill and to express its position at the plenary session of the National Assembly with regard to the Opinion's relation and links to the submitted bill as well.

[4] The debt rule of the European Union is defined by the resolution of the contract about the operation of the European Union (EUMSz.) and the Council signed on 7th July 1997, file no. 1467/97/EK. The debt rule of the European Union has become valid for Hungary for the first time since 2016. (In the three years after having ceased to be subject the EDP procedure, i.e. from 2013 to 2015 Hungary was obliged to meet the transitory rule concerning the structural balance, instead of the respective rule concerning public debt.)
According to the rule the proportion of public debt to the gross domestic product (GDP) shall not exceed 60 percent. In case public debt exceeds this reference number, the departure shall have to decrease at an annual average of the one twentieth part of the previous three years.

III

Justification

1. Authenticity of the draft bill

According to Indent (2) § 24 of the Stability Act the Council „may make observations regarding the draft bill respectively – in case it has fundamental objections concerning the authenticity or feasibility of the draft document – it may indicate its disagreement". According to the evaluation of the Council the resolutions, governmental goals, measures and the appropriations generating funds for the above are appropriately planned thus, there are no obstacles preventing the Council to give its approval concerning the document submitted for passing an opinion on.

2. Expected compliance of year 2017

According to the opinion of the Council, following the transitory period of economic slowdown in 2016 (related to the downturn of utilising the EU resources), the growth can continue in 2017 – with a rate that shall significantly exceed the expected average output of the European Union.

Domestic institutional and market analysers are also forecasting a growth rate exceeding year 2016 –generally between 3, 2 and 4, 0 percent. In its document titled „Macroeconomic and budgetary forecast 2016 – 2020" published in December 2016 the Government – analysing the data of the first three quarters of 2016, the goals of next year's budget act and the expected effects of the government's measures – projected a 4, 1 percent economic growth for 2017, primarily thanks to the expansion of consumption and investments.

As regards the external conditions, positive and negative circumstances are equally present: oil prices are relatively low but showing already signs of a rising tendency. According to the forecast of the European Commission "the moderate but solid growth may continue both within the EU and the economies of the euro-zone". Beyond that we have to take into consideration the possible outcome of the Brexit talks, the effect of the increasing commercial competition between countries that are playing a decisive role in world economy (USA, China and Germany) and the continuation of the unsolved issues of the migration crisis that concerns the EU as well.

The agreement signed in November 2016 at the Permanent Consultative Forum of the Private Sector and the Government valid for the next six years shall improve accountability while decreasing the tax burden of employers and cutting corporate tax to a single digit, together with increasing wages may invigorate the economy. Apart from the above the accelerated utilisation of the EU resources, the expansion of employment due to the powerful demand for employees together with the economy developing strategy of the Government also support growth.

Following last year's setback it is expected that investments shall rapidly increase. This is related to the recovery of EU resource utilisation this year, to several, significant industrial investments and the increasing building and purchase of housing activity of households. The improving credit activity is also playing a favourable role in this process. At the same time it is important that the available resources were used for investments that produce higher added value in the long run. The Council notes that without the lasting growth of private investments motivated by the market capital accumulation can contribute to potential growth only to a moderate extent.

When it comes to commitment of EU supports it is favourable that by the end of March 2017 the framework of resources reserved for the total of the seven year cycle has been announced, in harmony with the goals of the Government. The value of the announced tenders exceeded HUF 9 200 billion by the end of the subject month, i.e. the Managing Authorities signed the invitations to tenders in a value close to HUF 1 000 billion. The value of the contracted tenders has also grown significantly by more than HUF 260 billion (to HUF 4 400 billion), while the value of the granted tenders has grown by slightly less than HUF 100 billion (to HUF 4 800 billion). According to the dynamics of the first quarters of the previous year payments have grown slowly and amounted to HUF 100 billion – thus approaching HUF 2 000 in March.

As regards the labour market the very favourable processes from the aspect of the budget continued. Compared to the data of the previous year gross and net average wages have grown in January and February by 10 -11 percent, minimal wage and the guaranteed wage minimum included and also affected significantly by the regulation of wages in the budgetary sector. The favourable effect of wage increases that released the labour market tensions also contributed to the increasing tax and contribution receipts.

Employment and activity also increased. Between December 2016 and February 2017 the number of employees was 4. 372 thousand, i.e. higher by 3, 1 percent than in the previous year (three month moving average). 144 thousand workers more worked on the primary labour market and, at the same time, the number of public employees decreased by 14 thousand people. The employment rate increased to 67, 1 percent. Concomitantly, lack of appropriate expertise and the low level of employment activity could be an obstacle for additional growth. The planned governmental measures are necessary to solve these problems.

Considering all the above the Council thinks that the 4, 1 percent growth rate of the economy expected by the Government for year 2017 is feasible, with the addition that the conditions of the world economy and certain domestic processes also represent some risks.

Data of the first quarter and the expected trends of the budget are indicating lesser deficit than the foreseen appropriations for 2017. The tax reduction programme following the adoption of the budget, together with the increase of tax bases, more or less cancel out each other's effects. The amount received in 2017 from the Land to Farmers Programme however means additional revenues. All these are reflected in the fact that in the first three months of 2017 budgetary deficit was lower than the average of the past years. The deficit of the first quarter was approximately HUF 200 billion however, if we disregard the one-off impact due to the changing rules of VAT refund, the balance is close to 0.

On the basis of analysing the above, according to the Council's opinion, the trends are indicating a lower deficit than the 2, 4 percent deficit targeted for 2017 and calculated by EU methodology.

With regard to the measure taken and the changes having taken place in the macroeconomic conditions the Government recommends the amendment of the 2017 budget act. The Council shall formulate its opinion on the amendment separately so hereby it will not discuss this.

3) Goals and conditions for year 2018

Expected macroeconomic indicators

The draft bill of the 2018 central budget is built on a 4, 3 percent economic growth that exceeds that of the previous year. The resources of the expansion primarily are the household consumption that will grow by 4, 6 percent, respectively the gross assets accumulation that will increase by 12, 9 percent, thus elevating the investment rate to 20 percent. Investment realised by EU and domestic resources are affecting the above. According to the draft bill employment shall expand further (altogether by 1, 8 percent and within this the number of employees in the private sector by 2, 6 percent, while the number of those employed in the public sector shall decrease by 1, 6 percent). The dynamic growth of wages shall continue, gross average wages shall further increase, its measure on the annual level is expected to reach 8, 8 percent. Productivity shall improve by 2, 4 percent, export by 6, 5 percent and the import by 8, 2 percent (both as an implication of the export and the consequence of domestic consumption). According to the draft document a 3 percent worth of consumption price raise is combined with the consumption growth.

The Council examined the macroeconomic course (its elements) that served as a basis of the 2018 central budget bill draft by taking into consideration the Convergence Programme for the years 2016 – 2020, the evaluations prepared by the European Commission and OECD, as well as the research and expert analyses commissioned by the Secretariat of the Council. The forecasts did show a variability that has not been experienced in earlier years both as regards the growth of the volume of the GDP (3, 1 and 4, 1 percent) and regarding its resources. The forecasted growth rate of the draft bill, that exceeds the prognosis by consensus, is supported primarily by the dynamic growth of EU resources and that of the own resource budgetary expenditures that show a faster growth than in case of other forecasts.

Revenues of the central sub-system

The tax and contribution revenue appropriations were planned according to the higher growth dynamics as regards the prognosis of the macroeconomic course for year 2018. Taxes burdening labour are in harmony with the expected labour market processes foreseen by the draft bill, thanks to the effect of the wage agreement between representatives of the private sector and the Government signed in November 2016, the continuing pay increases as a consequence of the Government's career models and governmental measures promoting activity in this field. According to the draft bill in 2018 the gross wage bill of the national economy shall increase by 10 – 11 percent. As a result the personal income tax appropriation shall increase by 9, 3 percent (compared to the amended appropriations for year 2017). At the same time social contribution tax shall decrease by 0, 8 percent due to the additional 2 percent decrease of this tax rate and the subsequent tax release worth of HUF 220 billion. Thanks to the expansion of property sales contribution revenues might also significantly grow.

The corporation tax appropriation reflects the fact that this type of tax has been reduced to a single digit and the decreasing measure of the revenue from the growth tax credit however, does not count with the expansion effect of the tax base thanks to the single digit tax rate. As a consequence the appropriation is approximately 40 percent lower than that of the previous year. The VAT appropriation contains a growth of 8 percent – altogether HUF 289 billion – compared to the previous year. The growth is founded primarily on the additional expansion of consumption, the raising consumer prices and the strengthening of voluntary compliance. The draft bill is counting with the mitigation of the VAT on restaurant services and fish, the recourse of corporation tax facilities as well as with the easing of the conditions of conversion in case of small and medium businesses. According to the estimations of the Council, decreasing the VAT tax on the internet service represents the release of HUF 25 billion while the decrease of VAT on fish means HUF 4 million release. To realize the appropriation further expansion of tools and methods to promote the whitening of the economy are necessary.

The draft bill simplifies property rentals by annihilating the health contribution tax burdening the rental revenues that is affecting the budget by approximately HUF 2 billion but could contribute to the whitening of this activity (so far the health contribution tax payment obligation burdened the total of incomes from such activity above HUF 1 million).

Tax revenues altogether were planned in harmony with the macroeconomic forecasts of the budget bill however, the fact that the bill is counting with a higher growth rate than the consensus forecast, represents risk. Revenues from the VAT, the personal income tax and social contribution tax are sensitive as regards the macroeconomic processes and within them the trend of wages and consumption.

Expenditures of the central sub-system

The following priorities can be identified in the budget:

Buying a Home Programme continues to promote families getting access to homes respectively improving their housing. In case of high uptake of the programme the demand shall significantly exceed the planned appropriation. Transforming the system of taking care of small children during the day shall greatly contribute to parents' – especially- women's return to the labour market.

The draft bill assigns resources to the measures promoting the expansion of employment. Within this they encourage and support the placement of those involved in public works on the primary labour market that presently is not significant.

The resources of the plan make it possible to preserve the real value of pensions and of some relief compensations; moreover pensioners could have their share from the accelerating economic growth as well. The planned pension expenditures contain the premium pension as a rule, on the basis of the GDP growth as well as the growth related to the dynamic wage growth concerning the amount of determining new pensions.

The budget provides resources to continue the career programmes for educators, law enforcement and defence employees and those employed by district and county level government offices and by the National Tax and Customs Administration. Health care professionals and employees of the National Ambulance Service can expect additional wage increase. The increase of the base salaries of judges and attorneys may be concluded, respectively the wage decompression of lecturers, researcher and professors in higher education. Additionally they plan to implement the wage measures already voted for in the health care, social and cultural fields.

The bill is counting with the increase of expenditures related to the enlargement of the Paks nuclear plant. In the framework of Modern Cities Programme, developments affecting the modernisation, the competitiveness, the cultural attraction and those improving the quality of life will take place. The 2018 central budget has resources for several investments in higher education and national strategic economic developments.

Resources for fending off illegal immigration are also included in next year's budget.

It is outstanding that in case of the EU programmes maximum utilisation appears as a priority in the budget bill to thus facilitate that the development resources would be available for the beneficiaries as soon as possible. Parallel with this their target oriented features, the realisation of efficiency and effectiveness and taking the necessary measures to this end have to be ensured. With utilising a significant part of supports already by the end of 2018 the former practice of paying a significant part of the supports only at the end of the financial period can be avoided. In order to accelerate economic growth it is of fundamental importance that earlier advances should be used actually in 2018 respectively, behind new payments real outputs should be standing as much as possible.

It is a favourable factor that apart from the EU resources, investments and renovations in 2018 can be launched, respectively continued from domestic resources (supports) in several fields. Such are, for example, public road developments, developments of sectors prioritised by the Irinyi Plan, the national bus manufacturing, the intensive development of industry in harmony with the Industry 4.0 programme, activation of Hungarian-owned companies (small and medium businesses) to be involved in the development and production of products requiring higher added value within the framework of the Supplier Development Programme, investment in the field of health care, sports and tourism and the Pest County developments serving the purpose of reducing the handicap of being classified as an outstandingly developed central region.

In summary: the Council deems the expenditure appropriations realistic, let them follow a determined trend or stipulated by other laws. On the other hand the growth rate of discretional expenditures is high so - based on the experiences gained during the previous years – the Council sees feasibility risks primarily concerning the EU supported appropriations.

For the unforeseen risks the draft bill has repeatedly provided reserves that can be used in a regulated method. Apart from the stability reserve separated at chapter levels, HUF 60 billion is available in the Country Protection Fund and the reserves kept for Extraordinary Governmental Measures – the same as the appropriations of the previous year.

Within public finances the defence and health care expenditures shall further grow in comparison to the GDP in 2018. By realising the aforementioned related priorities the proportion of the economic expenditures that has gradually increased in the course of the past couple years shall remain the same.

The subsistence of the present yield level shall bring along additional decrease of the interest rate as, within the indebtedness, reprising continues by the growth of the proportion of the low interest stock. Additionally, the yield reductions might strengthen this process however even without the changing of the yields a significant GDP proportionate interest rate expenditure decline is expected.

General government deficit

The public finances' targeted deficit, calculated by the EU methodology (ESA2010) i.e. the deficit of the governmental sector is 2, 4 percent for the year 2018, similar to the year of 2017. This is below the 3 percent Maastricht criteria and the same measure stipulated by Point b) Indent (2) 3/A of the Stability Act. The projected value of the deficit also promotes the realisation of the decreasing requirement prescribed by the public deficit indicator stipulated by the Fundamental Law of Hungary.

The realisation of the targeted deficit assumes the harmony between the trend of the revenues and the macro course of the budget act that is accompanied by the aforementioned risks. This is offset though by the measure of the reserves and that certain expenditures might lag behind the appropriated amount.

According to the Council's opinion the continuation of the practice according to what the operational, the accumulation and the EU budget are separated in the draft bill and the balance of the operational part is zero, thus cash flow deficit might occur only in the other two areas and this is a favourable feature.

According to the draft bill structural deficit exceeds the value stipulated by the Convergence Programme for the period of 2016 – 2020 as well as the mid-range target.

Public debt

The draft bill is in harmony with the debt rule of the Fundamental Law of Hungary and the debt formula of the Stability Act. The maximum value of the nominal growth of public debt is stipulated by Point (2)-(2a) of § 4 of the Stability Act. The rule states that in case the rate of the projected inflation and the growth of real economy equally exceed 3 percent then the budgetary balance shall have to be planned in a manner that the annual growth of the nominal public debt shall not exceed the difference of the projected inflation and half of the growth rate. If, from among the two indicators at least one does not exceed the 3 percent level then the debt rule prescribes 0, 1 percent debt rate decrease. According to the draft bill even if the real growth rate for 2018 shall be higher than 3 percent, the inflation rate shall not exceed that thus, the debt formula stipulates a 0, 1 percent decrease that shall be met.

Namely – calculating with the same foreign exchange rate that had been projected by the draft bill and assumed for the end of 2017 and also expected for the end of year 2018 – the public debt indicator shall decrease from71, 4 percent to 69, 5 percent by the end of 2018. The projected 1, 9 percent decrease means that the public debt rule shall be realized even if the economy's growth – due to the materialisation of the above mentioned risks – lags behind the planned rate. Even by a slightly modest debt decrease the domestic and EU stipulations (the „one-twentieth rule) shall be safely realised.

It is the rule governing the utilisation of the Country Protection Fund that helps the implementation of the debt requirements.

Budapest, 27th April 2017

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