Resolution 4/2017.06.14.
of the Fiscal Council KVT/34-2/2017

The Fiscal Council's Opinion

on the amendment T/15427 concerning Act XC of 2016 on the 2017 central budget of Hungary for the final vote

I

Antecedents, legal basis and publicity of the Opinion

On the basis of the stipulations of § 25 of Act XCCIV of 2011 on the economic stability of Hungary (henceforward: Stability Act) the Fiscal Council (henceforward: the Council, FC) shall formulate its opinion on the central budget and its amendments as regards the body's preliminary consent required for the adaption of the bill, in harmony with Indent (3) Article 44 of the Fundamental Law of Hungary. In the course of this procedure the Council shall examine if the uniform budget bill meets the prescribed decreasing of the government debt as stipulated by Indent (5) Article 36 of the Fundamental Law of Hungary.

When formulating its opinion on the compliance of the proposed law T/15427 amending the 2017 central budget bill, the Council also considered the following antecedents.

In its Opinion 2/2016.04.21. as regards the draft bill of Hungary's 2017 central budget the Council stated that the 2016 government debt indicator (73, 5 percent of the GDP) calculated at constant prices and the trend of the government debt rate projected for 2017 (71, 9 percent of the GDP) introduced in the draft bill were in harmony with the expected economic and budgetary processes of year 2016 and those planned for the year 2017 thus, the debt rule stipulated by the Fundamental Law of Hungary shall be met. The planned and the expected trends of the debt rate decrease are also in harmony with the respective stipulations of the European Union concerning government debt."

In its Opinion 5/2016.06.09. formulated for the purpose of submitting the uniform budget bill T/10377/1167 on Hungary's 2017 central budget for the final vote, the Council found that the measure of the planned government debt indicator fixed by Indent (3) § 3 of the uniform budget bill had been formulated in harmony with the respective stipulations of the Stability Act. In the justification section of its Resolution the FC „considered the decreasing of the government debt indication realistic and well founded and compatible with the expected macroeconomic and budgetary processes".

In its Opinion 2/2017.04.27. concerning the amendment of Act XC of 2016 about the 2017 central budget of Hungary the Council established that „it considered the 2, 4 percent GDP proportionate targeted deficit of the 2017 public finances calculated by EU methodology feasible, even with the amendment of the revenue and expenditure appropriations". According to the FC's view the government debt rule shall also be met as – by the end of 2017 the GDP proportionate government debt calculated at constant prices shall very likely decrease when compared to the previous year. At the same time however, it deemed it important to note the in the course of the execution of the budget the Government should pay attention also to the trend of the debt rate calculated by EU methodology.

Summary amendment T/15427/14. of the Fiscal Council of the National Assembly proposed to raise both the revenue and expenditures grand totals by HUF 16, 2 billion each – compared to the submitted bill. By this raise the bill shall support the increasing of the appropriations of the Investment Preparatory Fund, the improving of the organisational system of the Immigration and Naturalisation Department, the realisation of ecclesiastic community goals, the supporting of folk culture via the Csoóri Sándor Fund, the investment of the Lakitelek Community College Fund and the development of properties, public spaces of local interest owned by local governments. The appropriation of extraordinary governmental measures shall be increased liable for the Country Protection Fund, in order to thus promote the more efficient use of resources during the year. The summary amendment proposal shall create the resources necessary for the above increase based on the favourable revenue processes, primarily by increasing the personal income tax revenue appropriations as well as taking into consideration the positive effect of the decrease of corporate tax on the tax base.

As an attachment of his letter OE-40/588-1/2017 dated 12th June, 2017 the Speaker of the National Assembly forwarded to the Chairman of the Council the uniform recommendation T/15427/16 about the amendment of Act XC of 2016 about the 2017 central budget of Hungary – this amendment also incorporated the amendments adopted earlier by the National Assembly – and in harmony with the respective stipulations of § 25. of the Stability Act he asked for the opinion of the Council as regards the compliance of the amendment with the government debt rule as well as asking the Council's granting its prior consent required for submitting the budget bill for final vote, according to Indent (3) Article 44. of the Fundamental Law of Hungary.

II
The Fiscal Council's Resolution

On the basis of its examination stipulated by § 25 of the Stability Act, as regards the uniform recommendation T/15427/16. concerning the amendment of Act XC of 2016 on the 2017 central budget of Hungary, at its meeting held of 14th of June 2017 the Council took the following unanimous decision:

1. The Council laid it down that according to the uniform recommendation T/15427/16. the changes concerning both the revenue and expenditure grand totals of the central system of the public finances to and equal extent, are well founded, do not increase the extent of government debt so, the recommended amendment of Act XC of 2016 about the 2017 central budget of Hungary is in harmony with the requirements stipulated by Indent (5) Article 36 of the Fundamental Law of Hungary.
2. As a consequence, the Council hereby is granting its prior consent to submit the uniform proposal T/15427/16. for final vote, according to the respective stipulations of Indent (3) Article 44. of the Fundamental Law of Hungary.
3. The Council shall authorise its Chairman to inform in writing the Speaker of the National Assembly about this decision.

III

Justification of the Council's Opinion

According to the uniform recommendation T/15427/16. concerning the amendment of the 2017 central budget the revenue and expenditure grand totals of the central subsystem of the public finances shall change the same way.

The changes of the revenue appropriation that decisively serve as the resource of additional expenditures beyond the items listed in the submitted bill, are well established, as a consequence of the wage agreement concluded in November 2016 at the Permanent Consultative Forum of the Private Sector and the Government valid for the next six years, in order to strengthen the job creating, workforce retention and competition abilities of the Hungarian economy, together with transferring the consequences of the unification of the corporate tax rate to the concerned appropriations. On the other hand, as regards the revenues, they validate the expected effect of the favourable economic trends of this year, together with the consequences of the measures introduced with the aim of whitening the economy (for example, personal income tax, levies, excise tax).

In its Opinion 2/2017.04.27. the Council found that the revenue and expenditure changes were well established and they recorded that „in the FC's opinion the government debt rule shall also be met…" The contents of the uniform proposal T/15427/16. did not make it necessary to review the above findings as the moderate increase of the expenditures – HUF 16 billion – are reasonably offset by the increase of the planned revenues. According to the FC's opinion the labour market trends and especially the 12, 8 percent annual gross wage increase measured in March are justifying the increase of the personal income tax prognosis. The increase of the corporate tax is based on the revenues of the first four months of the year that lag behind the level measured last year only to a minimum extent.

The macroeconomic trends of this year are favourable so far thus the FC maintains its opinion that following the favourable trend of the revenues respectively, the underperformance of certain planned expenditures that might offer additional room to manoeuvre, shall not endanger the targeted deficit in 2017. According to the Council it is still worth to consider the carrying out of an examination as mentioned in Point 6. of its Opinion 2/2017.04.27. on the basis of the data of the first six months of the year and – if possible – frontloading some of the 2018 expenditures to 2017.

On the basis of the above the Council grants its consent to submit the uniform proposal T/15427/16. for final vote.

Budapest, 14th of June 2017

Domokos László	Matolcsy György
Member of the Fiscal Council	Member of the Fiscal Council

Kovács Árpád

Chairman of the Fiscal Council