The Fiscal Council's Opinion

for the final vote on the 2018 central budget bill of Hungary

I
Antecedents, legal basis and publicity of the Opinion

According to the stipulation of § 25 of Act CXCIV of 2011 on the economic stability of Hungary (henceforward: Stability Act) the Fiscal Council (henceforward: the Council, FC) shall formulate its standpoint concerning its preliminary consent required by Indent (3) Article 44. of the Fundamental Law of Hungary, to adopt the central budget bill. In the course of the process the Council shall examine if the bill is in compliance with the stipulation of Indent (5) Article 36 of the Fundamental Law of Hungary as regards the requirement of decreasing the measure of the government debt indicator.

In its opinion 3/2017.04.27. about the draft of the 2018 central budget bill, the Council stated that „the decrease of the government debt indicator, stipulated by the Stability Act, meets the requirement prescribed by Indent (5) Article 36. of the Fundamental Law of Hungary and significantly overfulfills the measure prescribed by Indent (2a) of § 4 of the Stability Act". In the Justification part of its Opinion the FC pointed out that according to the draft bill, the size of government debt shall decrease from 71, 4 percent to 69, 5 percent – compared to the size presumed by the end of year 2017 and calculated with stable exchange rate. This decrease by 1, 9 percent means that the government debt rule shall be met even if the economic growth – due to arising of risks - lags behind the planned trend. Additionally, the Council explained that even by somewhat more modest decrease of debt the domestic and EU stipulations shall be met safely.

In the same Opinion the FC deemed necessary to maintain the amount of the Country Protection Fund and agreed that the utilisation of the Fund should take place only if the criteria stipulated by the draft bill shall be met. In the Justification part of its Opinion the Council noted that the rules regulating the utilisation of the Country Protection Fund assist the meeting of the debt requirements. Apart from the above the Council thinks it favourable to continue the practice according to what the operational, accumulation and EU budgets are dealt with separately in the bill and the balance of the operational budget is zero.

The submitted bill T/15381. contains the detailed response of the government to the Opinion 3/2017.04.27. formulated by the Council as regards the draft bill of the 2018 central budget. Upon the authorisation of the FC the Chairman of the Council orally expounded in detail the FC's standpoint at the beginning of the general debate of the bill.

Against the bill on which the Opinion of the Council has been given, the bill T/15381. submitted to the National Assembly increased both the revenue and expenditures grand totals by an identical amount of HUF 41 billion each (.i.e. by 0, 2 percent each). The appropriation of the National Tax and Customs Administration was significantly raised, as well as the resources of sectoral career programs (among Provisions). Emphasis can be put on the support of young people in obtaining their first, successful foreign language test, the amount dedicated to the info communication of the Ministry of Foreign Affairs and Trade and the additional resources ensured for national events (by increasing the targeted appropriation of Tourism). To cover the above the appropriations of corporate tax, value added tax, excise duty and taxes and contributions after wages were somewhat increased. Even taking into consideration the above, the findings of the Council as regards the submitted bill was correct.

Parallel with the 2018 central budget bill the National Assembly also discussed bill T/15429 about the sufficient foundation of the 2018 central budget of Hungary and bill T/428. about the Amendment of certain tax laws and other, related laws.

As an attachment of his letter OE-40/589-1/2017 dated 12th June, 2017 the Speaker of the National Assembly forwarded to the Chairman of the Council the uniform budget bill T/15381/1237. of Hungary's 2018 central budget that also contained the amendments adopted by the National Assembly and asked for the opinion of the Council – in harmony with § 25 of the Stability Act - if the bill was in compliance with the government debt rule as well as seeking the preliminary consent of the Council to submit the bill for final vote, according to the respective stipulations of Indent (3) Article 44. of the Fundamental Law of Hungary.

II

Resolution of the Fiscal Council

At its meeting held on 14th of June, 2017 – following the examination of the uniform budget bill T/15381/1237 about the 2018 central budget of Hungary, in harmony with the stipulations of § 25 of the Stability Act – the Council took the following decision:

1. The Council shall establish that the planned level of the planned government debt indicator stated by Indent (3) § 3 of the uniform budget bill T/15381/1237. is well founded, established in compliance with the stipulations of the Stability Act and – despite the growing risks due to the increase of certain revenue expenditures – is in harmony with the processes that serve as the basis of the bill. As the value of the government debt indicator calculated for the end of year 2018 (69, 5 percent) is lower than the amount expected for the end of year 2017 (71, 4 percent), the stipulation of Indent (5) Article 36. of the Fundamental Law of Hungary shall be met.

2. In harmony with the stipulation of Indent (3) Article 44. of the Fundamental Law of Hungary, the Council gives its consent to submit the uniform budget bill T/15381/1237. for final vote.

3. The Council shall authorise its Chairman to inform the Speaker of the National Assembly in writing about its resolution with no delay and expound the resolution at the National Assembly's session prior to the final vote. In the course of the latter he should address the most important connections of the 2018 budget and the amendment of the 2017 budget.

III

Justification of the Council's decision

Compared to the bill submitted under file number T/15381. the changes of the appropriations that had been adopted by the National assembly have increased the revenue and expenditure grand totals of the central subsystem of the public finances by the same amount i.e. HUF 10, 7 billion each. (As regards the amendments – calculated in a gross method, that is, without the elimination of the effects of financial flows affecting the central budget in a parallel way, the Pension Fund and the Health Insurance Fund – resulted an increase of revenues worth of HUF 89, 4 billion, a decrease of revenues worth of HUF 2, 9 billion, the growth of expenditures worth of HUF 123, 3 billion and a decrease of expenditures worth of HUF 36, 3 billion.)

The accepted changes shall primarily support families and those ready to have children. A significant amount shall be used for young students having children, to decrease the loans of those who have three or more children, for the programme titled „Year of Families" in 2018, for the development of nurseries and, additionally, for extending the period of the child benefit – GYED – paid to graduate parents. Churches, ethnic minorities, the Budapest Zoo, the preparations for the Paks 2 nuclear plant investment, the IT, touristic and social servicing systems assisting the elderly as well as developing the general medical practices shall get additional resources. The changes of the appropriations shall ensure cover also for the supports intended for the establishment of the Higher Educational R+D Fund, other educational and cultural tasks, purchasing real estate property for the accommodation of Autistic children, the Csoóri Sándor Foundation and a number of other developments. The increased expenditures shall be paid primarily by raising certain taxes and contributions {personal income tax, corporation tax, health care contribution (EHO), social contribution} on the basis of the favourable trends of this year. The statistical and budgetary data of the current year are showing the accelerating growth of wages (in March it was 12, 8 percent on a basis of year/year) and the favourable GDP growth of the first quarter (4, 2 percent on a year/year basis) are in harmony with the contents of the governmental forecast concerning the 2018 central budget bill. However, the revenue appropriations of the original bill were established on the basis of these favourable forecasts thus, the feasibility of the raised revenues involves risks. Nevertheless, the size of the risks shall not endanger the realisation of the government debt rule. The favourable forecasts of the world economy also support the dynamic growth forecast of the Hungarian economy.

The changes of the appropriations are neutral as regards the balance thus the cash-flow deficit shall not change. The amendments have no effect whatsoever on the deficit calculated according to the EU methodology either.

In its Opinion 3/2017.04.27. concerning the draft bill the FC laid down that „the government rule shall be met even is the size of the economic growth lags behind the 4, 3 percent defined by the governmental forecast”. The contents of the uniform budget bill T/15381/1237. did not make the supervision of the Council’s said Opinion necessary.

Just like in case of formulating an opinion on the draft bill T/15381. – apart from reviewing the evaluations prepared by the State Audit Office of Hungary and of the Central Bank of Hungary – the Council also reviewed the analyses of OECD, the European Commission, domestic analysing institutions and experts.

On the basis of the above the Council hereby gives its consent to submit the uniform budget bill T/15381/1237. for final vote.

Budapest, June 14, 2017

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