Opinion

of the Fiscal Council

on the execution of the Act on the 2017 Central Budget of Hungary and the trend of government debt

I

Antecedents, legal basis and publicity of the Opinion

According to the stipulation of Point c) Indent (1) § 23. of Act CXCIV of 2011 on the Economic Stability of Hungary (henceforward: Stability Act) the Fiscal Council (henceforward: Council, FC) „ every six months shall formulate its opinion about the situation concerning the execution of the budget act and the development of government debt".

Accordingly, the FC reviewed the processes of the execution of Act XC. of 2016 on the central budget of Hungary (henceforward: 2017 budget act, BA). Following the practice employed so far. In its Opinion the body was building on the antecedents related to the preparation and mid-year amendment of the 2017 budget act:

- In its Opinion 2/2016.04.21. formulated about the draft bill of the year 2017 central budget the Council established that „the 2017 budget was built on a 3, 1 percent economic growth that – taking into account the expected rise of EU resources and other growth related factors, primarily consumption – the draft bill appeared plausible […], and both the revenue and expenditure appropriations were basically in harmony with the macroeconomic forecast". At the same time the FC deemed that the 2, 4 percent GDP proportionate targeted deficit – calculated by EU methodology – was in harmony with the presented economic processes and the planned revenue and expenditure appropriations. Parallel with this in its above Opinion the Council also called the attention that by increasing the targeted deficit the structural deficit is likely to increase.

- In its resolution 5/2016.06.09. prepared for submitting the T/10377/1167. uniform budget bill for final vote, the FC observed that „the degree of the government debt indicator laid down in Indent (3) § 3. of the uniform budget bill was plausible […], and in harmony with the fiscal processes described by the bill. The government debt indicator shall decrease in 2017 and, as a consequence, the stipulation of Indent (5) Article 36. of the Fundamental Law shall be met."

- In its Opinion 2/2017.04.27. formulated on the amendment of the 2017 budget act the FC established that „the appropriation changes increase equally the revenue and expenditure grand totals of the central subsystem thus the cash deficit and debt of public finance shall not change. According to the Council the 2, 4 percent GDP proportionate targeted deficit – calculated by EU methodology – together with the changes of the revenue and expenditure appropriations – is feasible”. Additionally, the targeted deficit and the EU prescription are met even if „the GDP or the balance turns out to be less favourable”. The Council also considered the government debt rule feasible as the GDP proportionate gross government debt calculated with standard exchange rate is expected to decrease by the end of 2017 compared to the results of the previous year.

- In its Resolution 4/2017.06.14. prior to the final voting on the amendment of the year 2017 budget act the Council laid it down that the changes concerning equally the revenue and expenditure totals of the public finance central subsystem […] are well founded, won’t increase the measure of public debt” thus […] the amendment is in harmony with the stipulations of Indent (5) Article 36 of the Fundamental Law”[1].

- In its Opinion 3/2017.04.27. about the draft of the 2018 central budget bill the Council also stated its evaluation concerning the year 2017 macroeconomic and public finance processes and the expected implementation of the appropriations. In the Justification section of the FC’s Opinion it expounded that following the temporary slowdown in 2016, the growth of the economy „could dynamically continue”. The Council took it into consideration that the Government was building its calculations for 2017 on a 4, 1 percent growth (as a basis for year 2018). By counting with the continuity of this rate as a basis (that was also laid down in the 2017 – 2021 Convergence Programme) the

[1] Indents (4) and (5) Article 36. of the Fundamental Law contains the government debt rule stipulations as the most important element of rule based budget. According to this the National Assembly shall not adopt a central budget act as a result of what government debt would exceed half of the GDP. As long as government debt exceed half of the GDP, the National Assembly can adopt only such central budget act that contains the decrease of the government debt’s GDP proportionate degree.
According to the Stability Act the application of the government debt rule is regulated as follows:
- in the course of **the preparation of the central budget act** the government debt indicator shall be considered both for the basic year and the last day of the fiscal year as the ratio of the government debt expected for that time and that of the gross domestic product prognoses for the given year.
- when calculating the indicator, the consolidated (calculated by the elimination of obligations toward each other) debt of the public finance central subsystem and of other organisations assigned in the governmental sector shall be compared to the GDP.
- in case of transactions establishing debts enumerated in foreign currency shall be considered at unchanged exchange rate stipulated by the central budget act.
- any growth of government debt originating from the time requirement of retroactive rebates of EU resources, the possible lack of the EU budget liquidity or any other reasons due to what the EU support share of the given expenditure shall not be accounted for in the central budget.
According to the stipulation of the Stability Act that came into force in 2015that stipulated that the planned amount of government debt planned for the end of the next year in the amount that is the difference of the half of the inflation rate and the rate of the GDP growth (debt rule regulations). This rule was changed – due to its effect of hindering economic growth – and as a result it shall be used solely in case of an inflation rate exceeding 3 percent and an economic growth similarly higher than 3 percent. In any other cases at least 0, 1 percent decrease of the government debt indicator has to be achieved.
The regulation concerning the **realisation of the central budget,** according to Indent (3) Article 37. of the Fundamental law stipulates that: as long as government debt exceeds half of the GDP no loans can be obtained and no such financial obligations can be taken as a consequence of what the proportion of government debt to the gross national product would increase compared to the same data of the previous year.

Council deemed this attainable. At the same time the FC called the attention to the fact that „the world economy's conditions and certain domestic processes also represent certain risks". According to this Opinion the processes were indicating in the direction of a smaller deficit than the EU targeted deficit of 2, 4 percent for year 2017.

- In its Opinion 6/2017.10.02. concerning the execution of the 2017 central budget act and the expected trend of government debt – based on the macroeconomic and fiscal processes of the first six months of the year – the FC considered that the EU and domestic criteria relative to the public finance deficit might be met in 2017 as […] as the tax and contribution revenues were adequate and the expenditures altogether don't exceed the pro rata temporis part of the appropriation". According the findings of the Council „the 2, 4 percent GDP proportionate targeted deficit, calculated by the EU methodology is feasible". The FC also added that „the GDP proportionate government debt is expected to decline by the end of 2017 and that is in harmony with the prescriptions of both the Fundamental Law and the Stability Act".

When evaluating the execution of the year 2017 central budget and the trend of government debt the Council took into consideration the data of KSH (Hungarian Central Statistical Office) and the various information of the Ministry for National Academy – in addition to the analyses in writing prepared by the State Audit Office of Hungary and the Central Bank of Hungary. Beyond the above the Council was also relying on the contents of Hungary's 2018 – 2022 Convergence Programme as well as the updated forecasts and evaluations of international organisations and market analysts. The requested and duly received documents from the Ministry for National Economy/Ministry of Finance also were helpful in the preparation of the respective document.

However, in the evaluation process the Council could not take into consideration the contents of the Final Accounts Law that was built on final data as – in harmony with Act CXCIV of 2011 on Public Finance – the Government shall submit it to the national assembly at a later date.

The FC shall inform the Speaker of the National Assembly about its Opinion as well as the Government and publish the document on the National Assembly's website.

II

Opinion of the Council

In harmony with the stipulations of Point c), Indent (1) § 23. of the Stability Act, at its meeting held on 7th of June 2018 the Council reviewed the major processes of the execution of Hungary's 2017 central budget act as well as their respective backgrounds. It was this basis on what the FC formulated the following Opinion.

1) According to the consideration of the Council, the Hungarian economy is on as stable and sustainable growth course in the medium term, despite the favourable trend of the conditions of the world and domestic economy and some existing risks. This served as a reliable basis for the realisation of the macroeconomic expectations for year 2017.

2) The Council finds that in 2017 the tax and contribution revenues of the budget as a whole, in harmony with the amended appropriations[2], were met while other revenues (not consolidated)[3] exceeded the plans. In case of the wage related tax and contribution revenues – primarily thanks to the increasing wages – the appropriations were over-fulfilled while, in case of certain indirect taxes, the realisation was very close to the plans. At the same time the cash revenues related to the EU supports were lagging behind significantly. The growth of expenditures compared to the appropriated amount to a great extent was the result of the higher than planned EU advance payments that only slightly concerned the accrual based deficit. The favourable tax revenues offered an opportunity to increase certain expenditures mid-year, upon individual decisions (partly by transfers).

3) Based on the macroeconomic and fiscal data the Council saw that the EU and domestic stipulations concerning the accrual based public finance deficit were met in 2017, just like in the previous years and the targeted deficit calculated by EU methodology turned out to be lower (2 percent) than the GDP proportionate 2, 4 percent that was the plan. However, the structural balance[4] was somewhat higher than the medium term fiscal goal (1, 5 percent) stipulated by Point a) Indent (2) § 3/A of the Stability Act. The cash deficit of the central subsystem was significantly bigger than the proportion stipulated by the budget act – primarily due to the huge advance payment of the EU revenues – but this did not endanger the meeting of the accrual based targeted deficit.

[2] By appropriation henceforward we mean the legally amended appropriations both in case of revenues and expenditures. We indicate derogations from this principle.
[3] Amount calculated without eliminating payments within public finance.
[4] Balance of the governmental sector cleaned of the cyclical effects and individual items of the economy (ÁHT Public Finance Act, Point y) Indent (1). § 2).

4) By the end of 2017 the GDP proportionate government debt decreased further (by 2, 4 percent compared to the previous year, to 73, 6 percent) that was in harmony with the criteria stipulated by the Fundamental Law and the Stability Act. The Council deems it favourable that the foreign currency ratio within government debt keeps declining further, to 22 percent of the central debt. Parallel with this, the role of internal financing kept strengthening further. All these factors have mitigated considerably the external vulnerability of the country.

III

Justification

The Council completed the analysis of the execution of the year 2017 central budget act fulfilling its task defined by Point c) Indent (1) § 23. of the Stability Act in a narrow sense. The body completed this task also with responding to the need to thus set the basis for judging the draft of the 2019 budget bill and, related to it, the expected realisation of the 2018 budget regarding the revenues, expenditures, government debt and the deficit and – as a background of the above – the trend of the macroeconomic factors.

1. Trend of the macroeconomic conditions

In view of the Council our economy is on a stable growing course that is sustainable in the medium term and this course ensured an appropriate basis for meeting the macroeconomic indicators expected for year 2017.

At the time of the adoption of the budget act, from the aspect of the fulfilment of tax revenues, the macroeconomic processes that characterised the year were more favourable, primarily thanks to the signing of the multiannual wage agreement that took place following the adoption of the budget act. The results of this step were transferred during the amendment of the act in the spring of 2017.

External conditions have supported the domestic development. The expansion of world economy quickened to 3, 8 percent compared to the 3, 2 percent of the previous year. The growth was well balanced as expansion took place in all of the decisive economies and the activities of world economy have also gained speed. The US economy presented results more dynamically than expected, employment kept improving and the output of the Chinese economy was growing more rapidly than expected. Last year both the European Union and the economy of the Euro zone gained momentum – thanks to the expanding consumption, the improving foreign trade performance and the growth of investments, all closely related to the improvement of the labour market. Germany’s economic growth is outstanding. It can be attributed to the strong investment and innovation activities as well as to the recovery of internal and external demand.

In 2017 domestic growth gained strength, the performance of Hungarian economy expanded by 4, 0 percent, significantly exceeding the EU average (2, 4 percent). As a result the convergence of Hungarian economy to the more developed member-states gained speed.

It were the services that contributed the most to the 2017 GDP growth from production side (1, 8 percent); the contribution of building industry was 1, 0 percent, that of the industry 0, 9 percent while agriculture – mainly thanks to the serious summer draughts – could not contribute to the result.

Strong expansion of national economy investments was characteristic for the whole of year 2017. Their volume grew by 17 percent (investment rate turned out to be 21, 5 percent thus even exceeding the EU average). The significant expansion was due to the developments financed by the resources of the 2014 – 2020 EU fiscal cycle, the capacity growth of the private sector (undertakings) as well as the house buildings and other property investments. Investments in machinery grew by 13 percent and building investments by 21 percent.

It is favourable that the investment growth was balanced and affected all branches of the national economy. These factors also served as a sound basis for the medium term economic outlook by also contributing to the export performance of the economy.

The acceleration and effectiveness of the utilisation of EU resources have a material impact on the development of the macroeconomic course as investments realised from these resources support the growth of the domestic economy in the long run. In 2017 the value of awarded tenders exceeded HUF 8.500 billion (this makes up 96 percent of the framework), the value of tenders that have already been contracted is HUF 7.680 billion and the cumulative value of payments by the end of the year reached above HUF 4.060 billion.

Household investments – thanks to the family homemaking programmes and the temporary VAT rate decrease concerning new homes – have increased steeply. 14, 4 thousand new homes were built in 2017 that is more by 44 percent than the number of the previous year. The number of issued building permits and homes built on the basis of simple announcement was more by 20 percent than in 2016 (37, 9 thousand).

Employment and activity continued to rise. As regards the whole of year 2017 the average number of employees was 4.421 thousand that is more by 70 thousand than one year before. On the primary labour market the number of employees was higher by 103 thousand persons, the number of public workers was less by 27 thousand and the number of those working at foreign establishments was less by 7 thousand persons. Compared to the previous year the employment rate in the age group of 15 and 64 increased by 1, 6 percent compared to the previous year and rose to 68, 2 percent. The number of unemployed was 192 thousand persons (less by 43 thousand than in the previous year), the unemployment rate was 4, 2 percent, and the improvement (decrease) was close to 1 percent.

Last year employment rose significantly in the manufacturing sector – primarily in vehicle construction and the related supplier branches – however the growth was significant also in construction and transport and storage sectors. Besides the favourable employment indicators the labour market resources are depleting. The labour market that is getting tighter resulted in the growth of the wages. Thanks to this and the increasing employment the gross wage bill has grown significantly (by close to 15 percent). This was in close relation with the 3 year wage agreement signed at the end of year 2016. Representatives of the employers agreed with the Government to significantly raise the minimum wages and increase them in a quick pace in several steps, while the Government undertook to cut the social contribution tax in a calculable way once the conditions were met: as a first step, beginning with January 2017 the tax rate was decreased by 5 percent. An additional measure of the Government was the decrease of corporation tax and its unification at 9 percent.

In 2017 gross and net average wages increased equally by 12, 9 percent compared to the value of the previous year. Consumer prices rose by 2, 4 percent while real wages increased by 10, 3 percent. Thus the average gross earning of those working full time was HUF 297 thousand, the average net earnings on national economy level was HUF 197 500 in 2017. The increase of average earnings were heated by the following factors: the 15 – 25 percent increase of the minimum wage and the guaranteed minimum wage, the wage decompressions concerning various fields of the public sector, the rising wages related to the various career plans as well as the strengthening competition of wages in a tense labour market environment. The revenues at the people’s disposal entailed the growth of household consumption.
The expansion of employment, the governmental measures concerning wages and the agreement signed with the entrepreneurs together created a secure basis for the realisation of the tax and contribution revenues.

From the aspect of fiscal revenues it was also a favourable factor last year that instead of the planned 1, 6 percent the consumer prices increased by 2, 4 percent. Aside from the energy prices the increasing world market prices of certain foods (for example dairy products and pork) also played a part in this. Alcohol and tobacco products produced the highest price increase – due to the increase of excise duties. On the other hand, the decreasing of the VAT rate on dairy products, chicken meat, restaurant dining and internet services mitigated the inflation. Retail sale expanded by 5 percent: within this food by 2, 7 percent, non-food by 8, 3 percent, the retail sale of fuel by 3, 3 percent. The utilisation of commercial accommodation – due to the increasing use – was higher by 16 percent as regards the lodging related revenues compared to that in the previous year.

In 2017 the budget act was amended only once, while maintaining the targeted deficit unchanged. The change was the result of the measures taken following the adoption of the budget act (wage agreement, decreasing and unifying the corporate tax rate) and the effect of the marked deviations from the originally calculated macroeconomic processes (for example: the development of labour wages and salaries). These were transferred to the original fiscal appropriations. Thus, on the revenue side the following tax appropriations changed significantly: social contribution tax, corporate tax, personal income tax, the itemised tax of small taxpayers and the excise tax. On the expenditure side it was the appropriation of the guarantee and contribution to the entitlements of social security funds that increased significantly (in harmony with the decrease of the rate of the social contribution tax) and the expenditures of the chapter managed appropriations that increased.

2. The development of the revenues

In case of **the not consolidated united cash inflow of the** public finance **central subsystem** the realisation was HUF 19.133, 6 billion in 2017 that made up 107, 1 percent of the annual appropriation (this exceeded the amount in the previous year by HUF 903, 7 billion, i.e. by 5 percent). The above mentioned processed had a favourable effect on the revenues.

From the central subsystem **the revenues** due **to the central budget** amounted to HUF 13.087, 4 billion (i.e. 68, 4 percent).

- As regards **the contributions of entities** the realized amount was HUF 1.563,7 billion that fell short of the amended appropriation by 0, 9 percent (altogether by HUF 14 billion). The amendment of the appropriation was the consequence of the uniform decrease of corporate tax to 9 percent, following the adoption of the original budget act. The measure resulted in an alleviation of tax burdens worth of HUF 100 billion for the businesses and the revenues decreased by this amount in 2017. A small shortfall was the case regarding the income tax of energy suppliers compared to the annual plan (95, 7 percent) and the simplified corporation tax (84, 2 percent), the environmental pollution charges (95, 6 percent), mining fee (89, 2 percent), gambling tax 89, 6 percent), small business tax (95, 2 percent) and public utility tax (99, 7 percent). The failure of the above taxes was compensated by the incoming revenues of corporate tax – 103 percent; energy tax – 101, 4 percent, the itemised tax of small taxpayers – 103, 9 percent that all exceeded the annual appropriations. The number of taxpayers shifted from the simplified business tax and corporate taxpayer's group to the new tax rates that involve lower rates, like KATA and KIVA.

- **From consumption related taxes** HUF 4.878,9 billion arrived in the central budget that is equivalent to 99 percent realisation. The following tax revenues exceeded the annual appropriation: registration tax 102, 5 percent), financial transaction levy (105, 7 percent) and insurance tax (104, 3 percent). Among the indirect taxes the revenues from the VAT tax, that represents a decisive share, was 99, 5 percent (lagging behind the appropriation by merely HUF 17 billion yet, even so, exceeding the same revenues of the previous year by HUF 235 billion). The latter was realised despite the VAT rate decrease that resulted in a loss amounting to HUF 120 billion (regarding basic food, newly built homes, restaurant meals, etc.) similarly to the HUF 120 billion loss related to curtailing the allocation deadline (from75 days to 45 days) as regards the tax qualification process. Beyond the earlier introduced macroeconomic effect the trend-like improvement of tax collection also played an important role in this. The realisation of telecommunication tax was 98, 4 percent.

- The revenue of the central budget from **excise tax** was HUF 1.022,1 billion. This exceeded the same revenue in the previous year by 1 percent however, it was lagging behind the 2017 appropriation by 4, 3 percent. The reason for the latter was primarily that in respect of a certain group of excise products an additional drop in turnover (revenue) took place following the increase of excise tax on tobacco.

- As regards **retail payments** the central budget gained HUF 2.147,3 billion in revenues. In this circle personal income tax was playing a decisive role and made up HUF 1.920 billion in budgetary revenues. This was higher by 0, 6 percent (HUF 1 billion) compared to the appropriation. (Here it is especially important that the over-fulfilment compared to the original appropriation was HUF 130 billion however, in case of the mid-year amendment, they took into consideration the real economy and budgetary effect of the wage agreement.) The introduced wage development implemented by the employers, the career models continuing in the public sector, the next in line step of increasing the minimum wages as well as the irregular entitlements all had exerted a positive effect of wage dynamics as a result of what the revenue even exceeded the amount of the personal income tax realised in the previous year by HUF 202 billion. Excise revenues were realised to 97, 4 percent. Although the conditions of the real estate market positively affected the realisation at the same time the significant decrease/remission of excise duty payment introduced with the intention of mitigating the administrative burdens, had a decreasing effect on the revenues. The realisation of motor vehicle tax was 105, 4 percent due to the increasing number of vehicles.

- The revenues of **budgetary organisations and chapter managed appropriations** were realised in the amount of HUF 3.871 billion (138, 8 percent). From this HUF 2.333 billion (close to the double of the appropriation) appeared under the headline of budgetary organisations. In case of professional chapter managed appropriations the realisation of revenues was close to forty times more than the appropriation (this, characteristically, is the result of accumulations within public finance – similar to the previous years). In case of the EU supports related to professional chapter managed appropriations the realisation was HUF 1015,2 billion that is 65, 7 percent of the appropriation. The arrival of the supports concentrated by the end of the year.

- **Revenues originating from public/state assets** (dividends related to real estate, moveable properties and other) reached HUF 260, billion (95, 3 percent). In this revenues from selling land represented a decisive share (HUF 151, 7 billion).

- **Interest revenues related to debt service (interest rate)** reached HUF 104, 2 billion that was 243, 8 percent of the annual appropriation.

Combined revenues from **separated state funds** in 2017 (representing 3, 8 percent of the central subsystem) were realised in the amount of HUF 719, 9 billion (110, 5 percent). From among the funds that represented the largest part the revenues of the NFA (National Employment Fund) reached a result that was more than the appropriation, i.e. 102, 5 percent. From among the revenues the following exceeded the original appropriations: vocational training levy (107, 5 percent), health insurance and labour market levy (114, 6 percent). The revenues of the National Research, Development and Innovation Fund combined were realised at 93, 1 percent while the output of the innovation levy lagged behind (91, 4 percent) while other revenues of the Fund were realised at 154, 6 percent. The revenues of the Central Nuclear Monetary Fund, the Directorate of the National Cultural Fund and the Bethlen Gábor Fund collected revenues exceeding the annual appropriation.

From **the revenues of the social security funds** altogether HUF 5.326,3 billion, i.e. 27, 8 percent of the central subsystem was realised, representing 101, 4 percent of the appropriation (revenues of the Pension Fund reached 101 percent, and those of the Health Insurance Fund reached 102 percent). A major proportion of the 2017 revenues of the Pension Insurance Fund, i.e. 92, 4 percent and 61, 1 percent of the total of the Health Insurance Fund originated from social contribution tax and levies and the respective realisations reached 101, 1 percent, respectively 100, 5 percent. The revenue shortfall caused by „tax release" could have reached HUF 500 billion however; thanks to the economic recovery, the dynamic increase of the wage bill was able to partly counterbalance this effect.

3. Realisation of the expenditures

The year 2017 non-consolidated expenditures of the central subsystem amounted to HUF 21.107,5 billion and they exceeded the previous year's realisation by close to the same extent than a year before, i.e. 10, 8 percent and the appropriation (10, 9 percent). In accrual principle investments increased most dynamically, compared to the previous year. Intermediate consumption (i.e. purchased products and services) increased by 10 percent, the wage bill by 7 percent (even with the decrease of the social contribution tax rate). Monetary social benefit grew by 3 percent while debt burdens became less by 6, 5 percent.

Similarly to year 2016 there was a redeployment of expenditure savings by individual measures and utilisation of additional revenues for various targets in 2017 – not only in December but around mid-year as well. Churches, cross-border entities received significant resources and considerable amount of support was allocated to infrastructure development and renewals related to transport, health care, defence building purposes and sports related projects, as well as for educational and cultural programmes.

As regards the central budget the realisation was HUF 14.991,6 billion, that is 113, 9 percent, i.e. expenditures grew more strongly than the revenues. (Within the expenditures of the central subsystem the share was 71 percent.)

- The biggest difference incurred at **the budgetary organisations and the chapter managed appropriation**, where they used HUF 10.329, 6 billion, thus over-fulfilling the appropriation by 22, 4 percent and exceeding the previous year's realisation by 18, 3 percent. In the expenditure growth of the institutions the 13, 7 percent increase of gross wage expenditures, the more than 60 percent increase of expenditures related to investments and the expansion of payments for material expenditures by 9, 9 percent were playing a significant part. Beside the investment expenditures, the powerful dynamics of professional chapter managed appropriations was the result of the nearly 36 percent growth of other accumulation (transfer) expenditures and the approximately 19 percent growth of other operational expenditures.

- The **EU payments** exceeded the amount of HUF 2 555 billion, compared to the HUF 2 096, 9 billion in 2016. The magnitude of EU revenues arriving on different lines (HUF 1128 billion) significantly lagged behind the EU payments and made up merely 44, 1 percent. As a consequence – similarly to the previous year – the budget advanced to a great extent the EU revenues throughout the year. The fact that the major part of the payments also took place in the frame of advancing the EU programmes has not changed either; the ramp-up of effective payments was slower than the plans of the government. At the same time, with little exception, the expenditures were related to the 2014 – 2020 period and within that, served primarily the realisation of transport, economic development and innovation programmes as well as territorial and urban developments.

- They spent HUF 326, 3 billion **on individual and normative supports** that was more by 4, 8 percent than the appropriation. According to the public service contracts approximately 70 percent of this amount (the mid-year additional amounts included) was used for cost reimbursements related to community passenger transport while 23 percent was paid as a guaranteed contribution to the operation of railway networks. The remaining share was due to Eximbank Zrt. as way of interest settlement.

- HUF 185 billion was used for **housing construction supports.** This lagged behind the appropriations by 12, 6 percent. The rise of recourse of Family Housing Allowance (CSOK) was slower than expected however; even so the CSOK expenditures were more by HUF 35 billion than in 2016. Housing support expenditures exceeded the same item in the previous year by 25 percent. Apart from CSOK the increasing number of individuals applying for home savings as well as the effect of the decreasing of VAT tax on new homes contributed to the increase.

- At the **National Institute for Family and Social Policy** they spent HUF 641, 5 billion last year. They did not deplete the appropriations in this case either (99, 1 percent) and the expenditures were smaller by 3, 1 percent even compared to the previous year. Altogether they paid two-thirds of this amount for family supports (primarily for family allowance, child care allowance and child raising allowance, etc.) that amounted to HUF 405, 3 billion. This amount was less by 1, 5 percent than in year 2016. The reason was that the continuous growth of the number of those claiming the support of the Population Policy Action could not compensate the number of those not eligible as a consequence of the unfavourable processes of the previous years. In case of benefits under retirement age – that made up 15 percent of the Fund's expenditures – the decrease was the results of the fact that those concerned, reached the official retirement age in the meantime and thus became eligible for full retirement pension. Income replacement allowance and social income support made up 20 percent of the expenditures and were mostly used for municipality social tasks (care allowance, annuity for elderly people, supports replacing employment, supports for health damage and childcare allowances).

- Cash expenditure **interest payments** in 2017 amounted to HUF 1.091,2 billion that exceeded the appropriation by 21, 1 percent. The reason for the higher than planned interest payment primarily was that throughout the year the Government Debt Management Agency (ÁKK) repurchased more assets than foreseen at the time of preparing the respective act and even the value of the exchanges exceeded the planned amount. In an environment of low yields this increases the expenditures by the premiums to be paid upon repurchase. At the same time, as a result of the improving debt course and debt structure as well as the decreasing yield of sovereign debt markets, the tendency that started in 2015, continued and this expenditure kept decreasing; compared to year 2016 the decrease reached 27, 3 billion.

- The amount **of expenditures related to state assets** was HUF 139, 1 billion in 2017, the realisation reached 139, 1 percent. A considerable part of this amount was the resource allocations of state owned companies however, maintenance costs of state properties and investing in them was also significant.

- The aid appropriation of **local authorities** for 2017 – in harmony with the tendencies of the previous years – kept decreasing. The change compared to year 2016 was due to the fact that as of 1st of January 2017, the task of operation and the allocated resources of public educational institutions in case of settlements having more than 3000 inhabitants were taken over by state superintendents. Apart from the above they also transferred the ending of several aid developments. By additional operational (wage policy) and development targeted supports for the subsystem an amount of HUF 700, 5 billion was transferred (107, 1 percent of the appropriation).

They used HUF 647, 5 billion for the **separated government funds** in 2017, thus exceeding the previous year's amount by nearly 5 percent. More than two thirds of this amount was allocated to the National Employment Fund where the 7 percent leeway was due mostly to the decreasing pace of the expansion of the Start Work Programme (thus it was lagging behind somewhat of the previous year too). Public employment expenditures turned out to be less by HUF 1, 9 billion compared to the basis period, in harmony with the decreasing number of public workers. Growth was spectacular – both in comparison to the appropriation and the expenditures of the previous year – in case of the Bethlen Gábor Fund that used HUF 79, 4 billion in relation of supporting across border goals. Expenditures of the National Research, Development and Innovation Fund, the Central Nuclear Financial Fund and the National Cultural Fund turned out to be the same as in 2016.

Expenditures of the **Social Security Funds** amounted to HUF 5.468,4 billion, i.e. more by 4, 1 percent than the appropriation and the growth is similar to the realisation of the previous year as well. Thus 26 percent of the central subsystem was spent here.

- From the **Pension Insurance Fund** they paid HUF 3.172,1 billion for pensions, exceeding only slightly the appropriation. At the same time the budget spent more, compared to year 2016, by HUF 118, 6 billion (3, 9 percent) within pensions expenditures for retirement pensions for those who have reached the stipulated retirement age by HUF 71, 9 billion, for the pension of women who had 40 years of service by HUF 21, 6 billion and for survivor benefits by HUF 1, 1 billion. As the inflation rate exceeded the measure stipulated by the budget act (it was 2, 4 percent instead of the forecast 1, 6 percent) thus – in harmony with the law - pensions and pension type entitlements were raised retroactively in November (for 2, 75 million persons). Apart from this – related to the growth rate of the economy – they also paid pension premium.

- **From the Health Insurance Fund** the spending amounted to HUF 2262, 8 billion that equals to 108, 5 percent of the appropriation. The most, HUF 1196, 2 billion was spent on curative-preventive care (the amount was more by HUF 156, 4 billion, i.e. by 15 percent than the plan, and was more by HUF 106, 3 billion, i.e. 9, 8 percent than in the previous year). The deviation was partially the consequence of the introduced wage measures (the fractions of the whole year of the Fall 2016 and the Fall of year 2017). Apart from this factor in December 2017 the healthcare institutions altogether received an additional support under the title of operational and structural support while an additional HUF 16 billion was granted to purchase costly medications. At the same time dentists also received additional support (HUF 7, 6 billion) and organisations responsible for transport of patients. (HUF 1, 0 billion). The financial support paid for Child Care Benefit (GYED) exceeded the appropriation by 7, 5 percent. The Health Insurance Fund used HUF 151, 5 billion in 2017 for this purpose that was more by HUF 23 billion than a year before. The dynamic growth of expenditures was the result of the 15 percent increase of the minimum wages in the frame of the wage agreement as the granted amount of GYED depends on the relevant minimum wage.

4. The realisation of the targeted deficit

The fiscal reforms introduced since 2010 as well as the disciplined fiscal policies were successful and the accrual based deficit of public finance has been realised fewer than 3 percent of the GDP in the last six years. In 2017 the respective percentage was 2 percent, smaller by 0, 4 percent than the planned. The tendency that characterised the previous years continued: the surplus of primary balance exceeded 0, 8 percent of the gross domestic product, together with the net interest expenditures – the imputed interest expenditures[5] made up 2, 8 of the GDP. The mid-year deficit outcome was similar to year 2016 although the deficit concentration by the end of the year was less extreme. There was a surplus in the first half of the year but the governmental expenditures and the deficit grew dynamically in the third quarter.

The cash balance of public finance amounted to HUF 1466 billion by the end of 2017 according to the draft figures and it was more than the targeted cash deficit originally stipulated by the budget act, i.e. HUF 1186 billion however the over-recovery did not endanger the realisation of the targeted deficit calculated by ESA accounting.

The combined cash deficit of the central subsystem (central budget, decentralised funds, social security funds) last year amounted to HUF 1974 billion that was higher by HUF 808 billion than the targeted deficit of HUF 1186 billion. The cash deficit surplus is primarily related to the high EU advance payments paid to the municipalities (this is increasing the municipal revenues thus, on the level of the consolidated public finance this did not mean surplus deficit). Secondly, it was the result of the foregone realisation of the cash implementation of EU supports compared to the planned amount.

According to the available data the structural deficit in 2017 exceeded the 1, 5 percent medium term fiscal goal stipulated by Point a) Indent (2) § 3/A of the Stability Act. In its Opinion 2/2016.04.21. concerning the 2017 draft budget bill pointed out this beforehand.

5. The validity of government debt rules

The trend-like decreasing of the GDP proportionate government debt also continued. Upon the Eurostat initiative the debt of Eximbank Zrt. also has to be classified in the public finance

[5] Interest expenditure accounted after the statistically implicit liabilities appearing at the governmental sector because of the reform of the private pension funds that do not result actual payment.

system. This will increase the debt rate of the previous years by approximately 2 percent. Thus the debt rate at the end of 2017 turned out to be 73, 6 percent and the decrease compared to the end of 2016 was 2, 4 percent. This was in harmony with the respective prescriptions of the Fundamental Law, the Stability Act and the EU rules concerning government debt.

The dynamic economic growth, the mitigating interest rate expenditures and the positive primary balance all supported the meaningful improvement of the debt rate. Apart from the above factors there were some individual factors as well that influenced the value of the debt throughout the last year. The weakening dollar compared to the Euro mitigated, while the pre-financing of the EU supports increased the value of the cash deficit and thus the government debt. The advances of supports at the same time can be regarded as a temporary increasing factor as the transfers may be paid in the next years to the Hungarian budget and this might promote the downscaling of the debt rate.

The fact that in the period of 2011 and 2017 the share of foreign currency denominated debt decreased from 50 percent to 22 percent while the share of foreign stakeholders from 65 percent to 38 percent within the structure of the central government debt. Parallel with this the role of internal financing further strengthened and the amount of sovereign debt owned by households reached HUF 5 thousand billion that is more than 18 percent of the total government debt. All these factors have mitigated significantly the external vulnerability of the country.

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