Resolution 5/2018.07.17.
of the Fiscal Council KVT/46-2/2018

Opinion of the Fiscal Council

for the final vote of the bill on the 2019 central budget of Hungary

I

Antecedents, legal foundation and publicity of the Opinion

The Fiscal Council (henceforward the Council or FC) shall formulate its view concerning the body's preliminary consent stipulated by Indent (3) Article 44. of the Fundamental Law of Hungary and required for the adoption of the bill on the central budget, in harmony with § 25. of Act CXCIV of 2011 (henceforward: Stability Act). In the course of this process the Council shall examine if the bill is in harmony with the stipulation of decrease of Indent (5) Article 36. of the Fundamental Law concerning the measure of the government debt indicator.

In its Opinion 3/2018.06.07. about the 2019 central budget of Hungary the Council found that „the trend of the 2018 government debt indicator (72,9 percent of the GDP) presented by the draft bill, according to the stipulations of the Stability Act and calculated by constant exchange rate, as well as that of the 2019 debt indicator (70,3 percent of the GDP) were in harmony with the planned and expected macroeconomic and budgetary processes and was meeting the requirement (government debt rule) according to Indent (5) Article 36. of the Fundamental Law". The FC also established that „the planned degree of the government debt rate decrease was also in harmony with the stipulations of the European Union concerning government debt". When justifying its Opinion the Council emphasised: „the planned 2, 6 percent decrease means that the government debt rule shall be met even if the domestic economic growth possibly lags behind the planned measure". Additionally: the facts that „the cash-flow deficit of the central subsystem shall decrease when compared to that of the 2018 appropriation" and that the proportion of the foreign currency debts keeps decreasing mean that these factors are also supporting the decrease of the debt. With respect to the fiscal risks the FC deemed it necessary to determine the appropriation of the Country Protection Fund in HUF 60 billion. The Council also agreed with the stipulation that the utilisation of the Country Protection Fund shall be approved only if the respective criteria laid down by the law were fully met.

Bill T/503/584. contains the response of the Government to the Opinion of the Council (3/2018.06.07.) formulated about the 2019 central budget bill of Hungary. At the beginning of the general debate of the bill – upon the authorisation of the Council – the Chairman of the Fiscal Council shall expound in detail the FC Opinion.

Compared to the draft bill that the FC had formulated its Opinion on, the appropriations of the bill T/503/854. submitted to the National Assembly have not changed significantly. Considering the changes; increasing both the revenue and expenditure principle amounts equally by HUF 106 billion, the Council's remarks on the draft bill are just as valid also for the submitted bill. In its exposé presented by the Chairman of the Council at the beginning of the general debate on the bill he pointed out in particular the increase of the budget reserves, with respect to the risks.

As an attachment of his letter OE-41/323-1/2018. of 16th of July 2018 the Speaker of the National Assembly forwarded the uniform budget bill no. T/503/584. on the 2019 central budget bill of Hungary that also contained the transferred amendments approved by the National Assembly to the Chairman of the Council. In harmony with the stipulation of § 25. of the Stability Act, the Speaker asked for the opinion of the Council if the bill was in harmony with the government debt rule. He was also asking for the preliminary consent of the Council as required by Indent (3) Article 44. of the Fundamental Law to submit the bill to the National Assembly for final vote.

II

Opinion of the Fiscal Council

At its meeting held on 17th of July 2018 upon the basis of examining the uniform budget bill T/503/854. – in harmony with the stipulation of § 25. of the Stability Act - the Council formulated the following Opinion.

1) The Council finds that the measure of the government debt indicator predicted by Indent (3) § 3. of the uniform budget bill T/503/854. on the 2019 central budget of Hungary for 31st of December 2019 is well-founded, was established in harmony with the stipulations of the Stability Act and is in accordance with the macroeconomic and budgetary processes that served as a basis for the bill. As the measure of the government debt indicator calculated for the end of year 2019 is lower by 2, 6 percent than the measure expected for the end of 2018, the stipulation of Indent (5) Article 36. of the Fundamental Law is also being met.

2) Consequently, the Council is granting its preliminary consent to submit the uniform budget bill T/503/854. for final vote of in harmony with the respective stipulation of Indent (3) Article 44. of the Fundamental Law.

3) The Council authorises its Chairman to inform about this the Speaker of the National Assembly without any delay and delineate the FC Opinion before the session of the National Assembly prior to the final vote.

III

Justification of the Council's Opinion

In comparison to the contents of bill T/503. the appropriation changes adopted by the National Assembly shall increase both the revenue and expenditure totals (i.e. by HUF 267, 5 billion). Thus, as a result of the amendments, the cash-flow deficit of the central subsystem shall not change. The public finance deficit calculated by EU methodology has not changed either.

The amendments supported by the National Assembly altogether represent an expenditure growth of HUF 30, 3 billion. Within this the support for ethnic communities grew by HUF 4, 6 billion, the development of the Szeged Youth Centre by HUF 3, 3 billion, the supports for the Steindl Imre Programme and the Study Hall Programme by HUF 2, 5 – 2, 5 billion each, by HUF 2 – 2 billion the development of the operation of the toll systems and the appropriation serving the development of active leisure programmes. The cover for these growing expenditure was created by the increase of the revenue expenditures – within it that of the value added tax (by HUF 4, 6 billion) and by decreasing the appropriations of specific expenditures.

The reserves set aside for extraordinary expenditures and stability reserves of the chapters, as well as the appropriation of the Country Protection Fund have not changed. Taking into consideration that the decrease of the government debt indicator has significantly exceeded the prescribed measure, according to the Council's judgement adequate reserves are set aside altogether for counterbalancing the risks.

Just like in case of the draft budget bill that the FC had formulated its opinion on, the uniform budget bill also laid down that by the end of year 2018 the government debt indicator shall decrease from 72, 9 percent to 70, 3 percent. According to the Council's opinion the expected decrease of the government debt indicator is well-founded and in harmony with the expected macroeconomic and fiscal processes. It is important to emphasise that according to the Stability Act, when calculating the government debt indicator, the transactions resulting debt in foreign currency shall have to be accounted for by an unchanged rate of exchange, as set by the act on the central budget. Therefore, the fluctuation of the exchange rate shall not influence the compliance with the Fundamental Law. Nevertheless, the Council deems it favourable that the foreign currency denominated government debt has decreased form 52 percent at the end of 2011 to 26 percent by the end of 2017 and it is expected to further decrease in the coming years. Also, the debt financing is leaning primarily on domestic savings. As a result the exposure of the debt to external factors has significantly decreased.

In the justification part of its Opinion on the draft bill 3/2018.06.07. the FC expounded and in light of the uniform budget bill T/503/854. it still considers that the government debt rule is met even if the economic growth shall lag behind the planned measure.

The Fiscal Council widely discussed the economic processes, economic growth, inflation, the external factors and the trends of the money markets included, as well as their respective effects on the execution of the 2019 central budget. Considering all the above factors the Council found that the decreasing of the government debt indicator stipulated by the Fundamental Law was safely attainable and, on this basis, the FC granted its consent to submit the bill for final vote. However, in order to safely implement the set government debt indicator, it is a precondition that the Government carried out a disciplined financial management also in 2019 and adequately counterbalanced the possible revenue decrease or expenditure increase by making use of its room to manoeuvre that has increased in recent years.

As in the course of formulating its opinion on the draft bill T/503/854. in this case too, the Council took into consideration the evaluations of the State Audit Office of Hungary and the Central Bank of Hungary and composed its opinion about the implementation of the government debt rule in harmony with the stipulation of § 25. of the Stability Act.

Based on the above the Council hereby gives its consent to submit the uniform budget bill T/503/854. for final vote.

Budapest, July 17th 2018

Matolcsy György	Kovács Árpád
Member of the Fiscal Council	Chairman of the Fiscal Council