THE OPINION OF THE FISCAL COUNCIL

on the Amendment of Act CLXXXVIII of 2011 on the Central Budget of Hungary in 2012; draft submitted to the Fiscal Council on 8th November, 2012

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

The Fiscal Council received the draft of the amendment of the 2012 central budget adopted by the Government, on 8th November, 2012 as an attachment of the letter of the Ministry of National Economy, in which the Ministry asked for the opinion of the Council.

In harmony with the stipulations of the Fundamental Law of Hungary (Indent (2), Article 44) and Indent (1), Paragraph 24 of Act CXCIV of 2011 on the Economic Stability of Hungary, the Fiscal Council (hereinafter: the Council) shall deliver its opinion on the draft law of the central budget. In its opinion the Council shall be entitled to make observations and – in case the Council has fundamental objections concerning the authenticity or the feasibility of the implementation of the draft – it shall indicate its non-concurrence.

The Council has formulated its opinion on the basis of the analyses prepared by the Central Bank of Hungary and the State Audit Office of Hungary – emphatically of the summary of the report on the fiscal situation and management of local councils published by the SAO in April 2012 – as well as using the draft opinion prepared in the purview of the Chairman of the Council; additionally, the opinion No. 11/2012 of the Council on the major characteristics of the budgetary and economic processes of Hungary in the first nine months of 2012, according to the followings and published hereunder.

II The Opinion of the Council

At its meeting held on 13th November, 2012 the Council univocally formulated the following opinion:

1. With regards to the authenticity and feasibility of the draft aiming at the amendment of the Act the Council has no fundamental objections that would justify the indication of fundamental non-concurrence, concerning the submitted document.

2. In the opinion of the Council, the implementation of the measures established by Government Resolution 1428/2012 (X. 8.) on measures ensuring the observance of the balance of the year 2012 central budget, together with the lock of the Country Protection Fund, the GDP proportionate deficit of the budget can be kept below 3 percent, even in case of the planned amendment, and the fundamental processes of the central budget can ensure the maintaining of the GDP proportionate public debt decrease, in comparison to the level of the previous year. Hence, the Council deems it necessary that the draft amendment should also include a resolution on the permanent lock of the Country Protection Fund.

3. The partial taking over of the debts accumulated by local governments will not affect the public finance level balance, respectively the public debt directly. The severe indebtedness of local governments and the rearrangement of their tasks justify the one time government interfering. At the same time, and apart from the tightening of the conditions regarding the borrowings by local governments, that had already taken place, the Council deems it necessary to introduce measures that would strengthen the responsible economic management of the local governments and, consider the changing risks as well, would prevent the repetition of similar situations.

III Justification

In the period that has elapsed since the last change of the Act on the 2012 Central Budget, the amendment of the Act of the Central Budget of 2012 has been justified by the legal changes occurring in the meantime, as well as the necessity to settle certain financial and regulatory issues.

The amendments concern the totals of both the revenues and the expenditures of the central subsystem of the public finance, as well as its cash-flow deficit however; these are not affecting the so-called ESA balance, according to the EU methodology, because both the forgiving of the debts and debt consolidation are transactions within the public finance system. The public debt level is not growing thus; the amendment does not concern the feasibility of the public debt rule. The Council however, considers the debt rule feasible only, if the use of the Country Protection Fund shall be permanently locked.

The amendment establishes harmony between the text of the Act on the Central Budget of 2012 and Act XLII of 1994, under amendment, about the Hungarian Export-Import Bank Private Limited Company and the Hungarian Export Credit Insurance Pte Ltd.

The law regularizes the amendment of the chapter managed appropriation title related to the complete reconstruction of the Kossuth Lajos square in district V in Budapest, thus making the utilisation and accounting of resources at disposal for the realisation of the investment possible. In the field of public asset management it gives opportunity for the implementation of borrowing and lending operations for the Hungarian National Asset Management Inc.

The amendment includes the write off of the obligations of the land registry offices of the bureaus of both in the capital and the counties as of 31st December 2011, and cancels the paying back of supports related to the 2010 professional and IT developments of the concerned maintaining organisations.

The amendment allocates resources for the implementation of the Panel II Programme of the Green Investment Programme against the revenues collected from the sales of emission units of the greenhouse effect gases.

The amendment provides opportunity for the full settling of the debts of settlements inhabited by less than 5000 people and the multi-purpose micro-regional associations of local governments. The planned action may – in many cases – prevent the emergence of bankruptcy of local governments. At the same time, taking over the debts might contribute to the lessening of the commitment of the actors of local governments and – in a wider sense – of the actors of public finance, to prudent operation.

Hence, it is also necessary to establish rules that shall contribute to the prevention of local governments going bankrupt respectively that, in the future, would prevent that, in similar cases, the government were forced to act.

Despite the steps resulting the decrease of expenditures and increasing revenues, risks remain in case of both the revenues and the expenditures, that are the consequences of the unfavourable growth trends, as indicated earlier by the Council.

Budapest, 13th November 2012

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