THE OPINION OF THE FISCAL COUNCIL

on the amendment of the draft of Act CLXXXVIII of 2011 about the 2012 central budget of Hungary

I.

Antecedents of the Preparation of the Opinion, its Legal Basis and Publicity

The Council received the draft of the amendment of the 2012 central budget on 27 June 2012 as an enclosure of Minister for National Economy Dr. György Matolcsy' letter no. NGM/8692/2/2012 asking for the Council's opinion.

In harmony with the contents of Item 44 (2) of the Fundamental Law and according to § 23 and § 24 of Act CXCIV of 2011 on the Economic Stability of Hungary the Fiscal Council gives an opinion on the draft of the central budget.

When formulating its opinion the Council can make observations concerning the draft and – in case it has basic objections concerning the authenticity or its implementation – can register its non-concurrence.

By using the analyses of the State Audit Office of Hungary and of the Central Bank of Hungary, the Chairman of the Council formulated the body's opinion by utilising the remarks made in his scope of authority and decided to summarise and publish the followings.

II.

The Opinion of the Council

At its meeting held on 28 June 2012 the Council unanimously formulated the following opinion:

1. Regarding the accuracy of the draft of the central budget draft and its being appropriate for execution, the Council has no fundamental objections that would justify registering fundamental non-concurrence concerning the submitted document.

2. At the same time the Council deems it necessary to call the attention to the fact, that

- when the running of the 2012 macroeconomic processes turn out to be significantly more unfavourable than the forecast of the government, that was also attached to the 2012 budget plan, it involves the risk of having the 2012 revenues remarkably lagging behind the planned. In such situation the Council considers risky all increases of expenditures that would be covered by revenues that have not came in yet. In respect of this draft the opinion of the Council is that the realisation of excess revenues marked as the cover of excess expenditures, falls short by HUF 30 to 50 billion. The Fiscal Council recommends that the National Assembly should decide on the adoption of the draft by taking into consideration the above and follow the adoption of appropriate amendments;
- the draft amendment has significantly increased at various points the expenditure and revenue appropriations while the cash-flow balance remains the same. Although the intended amendments are neutral indeed from the aspect of the cash-flow balance, they contribute to the increase of the ESA-aspect deficit to a significant degree; in our estimation approximately by 0, 2 percent of the GDP. Hence, in our judgement, in case of the endorsement of the amendment draft, the risk of overshooting the ESA-aspect targeted deficit undertaken by the government for 2012 would significantly increase.

3. Concerning the fruition of the debt rule the Council established that the amendments – when compared to the draft – with high probability will increase the government debt expected by the end of 2012 to a small extent and the decreasing of the debt rate keeps appearing achievable. Although the risk of breaching the debt rule will grow, via its financing reserves (both in Forint and foreign currency cash deposits) the government has the opportunity to decrease the level of the end of the year debt and this – if necessary - would contribute to averting this danger.

III.

Justification

According to the general finding of the Council, although the draft of the amendment of Act CLXXXVIII of 2011 concerning the 2012 central budget of Hungary has been provided by textual justification that contains the reasons of the amendments, the draft does not contain background information about the numerical deductions and the magnitude of the concerned amendment. Those who introduced the amendments had not presented the substantiating calculations to the Fiscal Council.

The draft has left the balance of the Act on the Central Budget of 2012 unchanged, at the same time it has modified the gross sum of the revenues and expenditures by HUF 145 442,2 million. Thus, in case of three revenue targets, nine expenditure targets, six subsidy titles, altogether concerning seven chapters, the draft has changed the sums of the budget estimates.

Within the frame of the changes there are two items in connection of what the Council sees significant risks. With regard to the fact that, in connection with giving an opinion on the 2013 central budget of Hungary, the Council had already identified the expected risks involved in the course of the realization of the base year of 2012, the Council maintains its opinion as exemplary also in case of these two items.

Concerning the revenue surplus the draft refers to, more than two thirds of this surplus are planned to be covered by the revenues resulting from the raising of the general sales tax as, due to the amendment of the earlier adopted sales tax rules (in certain cases the deadline of returning the amount has grown from 45 days to 75 days), the expected sales tax revenues will grow by HUF 98, 4 billion. However, due to the slower than expected consumption, the realisation of the sales tax revenues could lag behind the target set by the draft. The increase of the target to such an extent can be regarded also as far-fetched. In accrual accounting the effect of the increasing revenue is less; in other words, the recommended amendment from the aspect of the ESA ’95 deficit target represents growing risks. As a result of the changing reimbursement rules the accrual sales tax revenues will not change in essence. In the ESA Bridge a deficit increasing correction has to be calculated, the amount of what will be equal to the estimated cash-flow surplus, worth of HUF 100 billion.

Revenues related to state assets will increase by HUF 47 billion (extra revenues from selling of frequencies and the effect of dividends paid beyond the planned amount).

From the above items, in cash-flow approach, the excess revenues will amount to HUF 145 billion while, in accrual approach this extra revenue will amount to merely HUF 47 billion.

On the side of expenditures the target of humane norms (social humane norms; social ecclesiastic collateral support; public education humane and ecclesiastic collateral support) will increase altogether by HUF 31, 5 billion.

Tied to public property acquisition, an extra expenditure amounting to HUF 19, 9 billion emerges (the consolidation of the Uniform Digital Communication System; the getting of the company in state property and the settlement of the company's debt). The savings expected from nationalising the company that amounts to HUF 3 billion, might lessen the chapter expenditures.

According to the agreement with the Hungarian Banking Association, the amount appropriatable for property acquisition shall increase by HUF 30 billion. As this expenditure has been accounted earlier in the ESA Bridge, the excess expenditures does not mean extra expenses in accrual approach (the effect of the ESA Bridge that results in increasing deficit shall decrease to the same extent as the amount of excess expenditure).

The resource serving the financial stimulation of the workers of the MÁV Group (Hungarian Railways) shall increase by HUF 2 billion.

Expenditures linked to investments established in a PPP design shall increase by HUF 15 billion.

In the opinion of the Council supplementing the subtitle EU Self-Financing Fund within the chapter of EU Developments by HUF 50 billion, also represents a risky field, as the Council has not received documentation on the survey of actual demands. The effect of this extra expenditure on the deficit from accrual approach' aspect is not unambiguous. In case the above expenditure had been listed earlier in the deficit of local governments then, parallel with the extra expenditures, the deficit of the local governmental subsystem might decrease; in other words, the measure is neutral from the aspect of ESA-deficit. We should note here that, in case the invoking of EU transfers shall lag behind the targeted plans – i.e. the proportion of self financing is lower – on the level of public finance the extra expenditures, in accrual approach, shall not result in growing deficit. At the same time if, in case of local governments real excessive expenditures occur, it might increase the accrual approach deficit by HUF 25 – 50 billion.

According to the evaluation of the Council the above titles might result in excess expenditures amounting to HUF 145 billion in cash-flow approach and HUF 90 – 115 billion in accrual approach.

As a result of the above the proposed amendments that from cash-flow approach are balance neutral amendments, might result in a deficit increase amounting to HUF 43 – 68 billion in accrual approach. This would mean the increase of the ESA approach deficit of the central budget by 0, 15 – 0, 25 percent. Thus, in our opinion, the risk of overshooting the targeted 2,5 percent deficit laid down in the budget act and the convergence programme could substantively increase.

According to the forecast of the Central Bank of Hungary the debt rate – without the utilisation of state fiscal tools and calculating with unchanged rate of exchange, according to the Act on Economic Stability of Hungary – might lessen by 0, 3 – 0, 4 of the GDP while both the Basic Law and the Stability Act of Hungary stipulate that up to the point of reaching the 50 % level of debt rate the decline should annually reach at least 0, 1 percent. By a higher deficit the risk of not meeting the stipulations of the debt rule keeps growing. The government has the option to lessen the end-of-the-year debt level by utilising its financing reserves (both Forint and foreign currency deposits) as this would lessen the danger of infringing the debt rule.

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