Expose

For the general debate on the 2014 central budget bill of Hungary

24/10/2013

Honourable National Assembly,

Mr Speaker,

According to the stipulations of the Basic Law of Hungary the Fiscal Council is an organisation supporting the legislative work of the National Assembly. In this capacity the Council's role is dual: it fulfils an advisory role in the course of the preparation of the central budget bill, just like it is playing this role at the beginning of the general debate. On the other hand, it has a strong public law licence to oversee the observance of the debt rule, fulfilling this obligation prior to the final vote on the budget bill.

The Act on the Economic Stability of Hungary authorises the chairman of the Fiscal Council to attend the meeting of the National Assembly and its respective committees to speak there and express his opinion when they discuss the budget bill and the amendment of the budget bill. Since my initial assignment this is the second time when I avail myself of the opportunity to expound my opinion at the plenary session that discusses the budget bill.

According to the stipulations of the Stability Act the Council has given its opinion on the 2014 central budget of Hungary that the

Council received on 13th September 2013. When setting the foundation for its Opinion, the Council was using the forecasts of the State Audit Office of Hungary, the Central Bank of Hungary as well as those of various analysing institutions, independent experts and competent international organisations. At its meeting held on 23rd September 2013 the Council formulated its Opinion for the Government on the Draft and forwarded it to the referring Ministry of National Economy. At the same time the Council also published the said Opinion.

The Council has authorised me to expound its Opinion on the Bill for the National Assembly (and its committees), mentioning the substantial differences between the bill and the draft bill as well as pointing out to what extent has the bill taken into consideration the Council's opinion. As the Opinion is available on the website of the House and the press has also dealt with it in detail please, let me now underline only the most important aspects from that material.

Ladies and Gentlemen of the House,

I feel it indispensable to speak first about the expected realisation of the 2013 budget act.

It seems to be proven that the Fiscal Council was acting with due responsibility when, in the course of the debate of the bill in 2012 as well as prior to the final vote, it had emphasized the significant uncertainty of the macroeconomic forecasts, as well as the risk threatening the realisation of the revenues – due to the measures introduced with the purpose of whitening the economy. It proved to be correct that partly as a result of our remarks, the Government submitted a proposal for establishing a large amount of freely useable reserve and that proposal was accepted by the Honourable House. After all, this reserve, together with the mid-year adjustment measures, made it basically possible to observe the annual targeted deficit and the debt rule. We have received just recently the information from the Government about the implementation of the latter. According to this information it is expected that the GDP proportionate public debt, calculated according to the Stability Act will decrease by 1, 1 % in 2013. This can be considered as a major result under the given external and internal conditions.

Let me now turn to the 2014 budget bill. First of all, in its Opinion the Council stated that as regards the authenticity and feasibility of the budget bill it had no such fundamental objections that would have justified the voicing of non-concurrence regarding the document that was submitted for an opinion.

Here, I should mention that there is a correction worth of merely a few billion HUF plus or minus between the Draft the Council has delivered its opinion on and the bill on your desk. These corrections have not changed essentially the major indicators of the budget. Accordingly, the findings of the Council regarding the Draft, i.e. the standpoint concerning the feasibility of the macroeconomic course and, at the same time, the necessity of tight financial management and the risks encompassing the implementation of specific appropriations, were justified and correct in respect of the bill; in other words can be regarded as valid.

The Council considers it a significant result that the basis of the 2014 budget planning (the expected realisation of the 2013 budget) is far better – both in respect of the revenues and the expenditures – than what it had to deal with a year before, when discussing the 2013 budget bill. At that time there were far more risk factors due, first of all, to the uncertainties regarding the earlier mentioned macroeconomic indicators and the revenues.

Thanks to the better basis and the improving planning, the risks identified for 2014 fall into the domain that call for caution.

The recovery of international prosperity and the slowly starting domestic growth this year, offer a chance for the quicker expansion of the economy next year. In our judgment the 2 % growth foreseen by the Government is valid when considering consumer consumption and public investments using EU funds.

The Council considers the first and second measures of the Funding for Growth Scheme that was launched with the aim of invigorating the economy and the investments, as measures that could raise hope. Namely, it is a warning sign that the share of investments in our country continually has lagged behind the same indicator of the neighbouring EU countries for years now and our handicap is not insignificant when compared to the average of the EU-27 countries either. Investment performance, the starting of growth and its recovery are the preconditions of getting opportunities for the domestic small and medium businesses, and the requirement of sustainable growth should also be considered.

Although it can be fulfilled the targeted deficit remains to be „close to the ceiling" (barely below the Maastricht criteria). The foreseen improvement of the debt indicator is also slight. The Council considers these indicators risky as, in case of the lower than expected economic expansion, the lower inflation rate or the slightly bigger than estimated amount of the deficit and debt of local governments, respectively of other organisations classified in the governmental sector, might prevent the prevailing of the debt rule and the observance of the targeted deficit.

In its opinion on the Draft the Council indicated that it considered some revenue appropriations over-optimistic – especially in case of the VAT and the revenues from the planned selling of frequencies. In case the conditions at the time of the planning would turn out to be more unfavourable, the joint effect of the above two factors also might result in increasing deficit that would require correction, if the budget has no appropriate reserves. As regards the expenditure side, the Council found that the proposed appropriations of the higher education expenditures, the own contributions related to EU resources and the financing of road maintenance were too stretched.

The Council recommended that the Government should repeatedly carry out the analysis of the above mentioned risks and determine the measure of the reserves – especially that of Country Protection Fund - that is decreasing to the quarter of this year's appropriation, by considering the result of the repeated analysis and/or make a recommendation concerning other measures, fit for managing other tensions. Among these the Council asked to consider - in the framework of a law proposal - the determination of rules limiting the use of appropriations classified in the Investment Fund.

We acknowledge with thanks the receipt of the laconic response of the government to the Council's Opinion. In this response the Government indicated that they have completed the risk analysis regarding the expected macroeconomic processes, as well as the revenues and expenditures of the budget – without any detailed documents – and were of the opinion that the reserves are appropriate to offbeat any possible negative effects. In the Government's opinion the targeted deficit for 2014 is feasible without any, significant revenue arrears or over fulfilment of expenditures.

The Council reserves its opinion that the 2014 budget bill built on the concept of an economic performance moving at the top edge of growth is stretched, builds on an economic change and is strongly exposed to unexpected events that might occur in the international economy. This exposure might be counterbalanced by the additional budgetary effect originating from the full utilisation of the Funding for Growth Scheme. In the long run, this could help the meaningful sustainability of growth exceeding 2 to 2, 5 %. Accepting the lower than that of the year 2013 reserve can be justified by the fact that when planning the 2014 revenues, the bill shall not consider such, difficult to quantify the effects of measures that justified the size of reserves in 2013.

Apart from the above, we consider it important that public finance financial management were austere and disciplined also in the next budget year.

Honourable National Assembly,

Finally, let me direct your attention to an issue that might appear early, yet it is related to the agenda.

According to the present debt rule that is stipulated by the Basic Law of Hungary, as long as public debt is exceeding the half of the total gross domestic product, the National Assembly can adopt only such and act on the central budget that contains the mitigation of the proportion of public debt to the total gross domestic product. According to our experiences so far, this very simple and transparent rule could keep under control the trend of public debt.

At the same time, in its Opinion the Council considered it justified already at this stage, to call the attention to the contradictory effect of the new public debt rule incorporated in the Stability Act and valid from 2015. Now, according to the rule coming into force in 2015, the balance of the budget shall be determined so that on its basis the growth rate of public debt compared to the preceding year shall not exceed the difference of the half of real growth rate of the inflation and the gross domestic product, expected for the budget year.

The problem is that, according to the method of determining the budgetary balance valid from 2015, the observance of the public debt rule – by low rate of inflation and possible lower rate of economic growth – could make it necessary to resort to such budgetary correction that would affect the vulnerable economic development in an extremely unfavourable way. In other words, it is already visible that the reviewing and amendment of this constitutional rule shall be necessary prior to the planning of the 2016 central budget.

Honourable National Assembly,

Finally, I would like to avail myself of the opportunity and express my thanks to the Minister of National Economy and his staff for being extremely helpful in assisting the work of the Council and, under the not so easy conditions of the planning, made it possible that the Council completed a substantial job and represented its Opinion.

Similarly, I would like to thank the State Audit Office of Hungary, the Central Bank of Hungary, the commissioned professional advisory firms and the staff of the specific economic actors, for assisting the varied, professional support of the Council's Opinion by alternative macroeconomic model calculations and sensitivity analyses, independent from the governmental prognoses.

Thank you for your kind attention and I wish you good work for the discussion of the annual financial plan assisting sustainable development, the budget bill and the related amendments.