THE OPINION OF THE FISCAL COUNCIL

On the draft bill of the amendment of Act CCIV of 2012 on the 2013 central budget of Hungary

I

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

The Fiscal Council (henceforward: the Council) received the draft bill of the amendment of the 2013 central budget, adopted by the 30th October 2013 meeting of the Government as an attachment of the letter of Dr György Naszvady, Minister of State for Public Finances of the Ministry for National Economy, dated 31st October 2013, (file no. NGM/5378/32/2013.) asking for the opinion of the Council.

In harmony with Indent (2), Article 44 of the Basic Law of Hungary and the stipulations of Paragraphs 23 and 24 of the Act CXCIV of 2011 on the economic stability of Hungary (henceforward: Stability Act), the Council shall declare its opinion on the central budget bill, amendments changing the totals of the revenue and expenditure sides of the central budget and those, increasing the size of the budget deficit, included. The Council is empowered to make notices in its Opinion concerning the bill and shall indicate its non-concurrence in case it has fundamental objections concerning the authenticity or feasibility of the bill.

So far the National Assembly has amended the 2013 central budget act seven times. From among these amendments, in harmony with the stipulations of the Stability Act (Resolutions 1/2013.03.25. , 3/2013.05.16. and 9/2013.09.07.) the Council had to formulate its opinion on three amendments. In these resolutions no objections were raised regarding the observance of the debt rule.

In its evaluation of the execution of the 2013 budget act (Resolution 7/2013.07.16.) – prepared by examining the processes of the first half of the year – the Council found that shortfalls were detected in case of a significant proportion of the revenues and that the GDP-

proportionate public finance deficit depended on the mid-year correction measures justified by the Government and the trend of the macroeconomic processes. According to the evaluation of the Council the public debt rule was feasible. However, it was perceivable that, thanks to the more favourable than expected rate of inflation, the nominal GDP acted against a greater decrease of the debt rate.

The present draft bill proposes changes that would result in the increasing of the expenditures and the debt in the 2013 central budget as regards of the following items:

- In the draft bill the Government shall implement the following measures, resulting from the acts concerning the integration of the cooperative banks: the Government wishes to order resources for the supporting of the Integration Fund of Cooperative Banks that would serve the purpose of material contribution, required for the management of the tasks of the Integration Organisation (apart from the already existing amount of HUF 100 billion created by Act XCLIV of 2013, an additional cover of HUF 35,5 billion for the same purpose). Additionally, the Government proposes to fit the Fund into the structure of the central budget, in harmony with the stipulations of the Act on Public Finances.
- The draft also intends to establish the cover for the additional financial programme amounting to HUF 3, 5 billion that is required for the implementation of governmental ideas aiming at the extension of public assets and additional ideas not detailed in the draft.

The amendments concerning the listed items shall increase the 2013 cash deficit by a total of HUF 39 billion.

Apart from the above items, the draft also contains procedural and technical provisions.

The Council summarizes and publishes its Opinion as follows.

II

The Opinion of the Council

At its meeting held on 7th November 2013 the Council unanimously formulated the following Opinion:

1. As regards the authenticity and feasibility of the amendment of the budgetary revenues and expenditures, the Council has no such fundamental objections that would justify the indication of non-concurrence concerning the submitted document.
2. The creation of the new budgetary chapter cited in the draft bill, as well as the expenditure related to the material contribution for the Integration Organisation of the Cooperative Banks, are justified by the 2013 resolutions of the National Assembly with the purpose of establishing the integration framework of cooperative banks.
3. In the opinion of the Council the ESA deficit could remain below the 3 percent of the GDP. The exact value however, depends on the ESA methodology calculation of the material contribution as per item 2. Hence, the Council finds it important to continue a strict budgetary financial management also in the remaining months of the year as well as not using the still existing portion of the Country Protection Fund, to enable the country to maintain the deficit target.
4. The Council finds that the GDP-proportionate public debt, calculated with standard rate of exchange and corrected by the items stipulated by the Stability Act, shall decrease by the end of the year – when compared to the previous year – thus the debt rule shall be observed.
5. The Council calls the attention to the fact that the frequent amendments of the act shall destroy the technical accountability of the budget even if the individual amendments are professionally justified.

III

Justification

The Council has not detected any such objectionable provisions in the draft bill that would have justified the indication of non-concurrence as regards the submitted document.

The draft has increased the cash deficit of the budget by HUF 39 billion that – in case of financing the deficit by debt – shall increase the expected rate of public debt with the same amount. Together with the draft bill the Ministry for National Economy presented the Council the expected trend of the 2013 public debt by attaching detailed calculations. On the basis of these calculations, together with the calculations completed within the jurisdiction of the Council, we can say that, in harmony with the provisions of the Basic Law of Hungary, the GDP-proportionate public debt is expected to decrease. Factors, independent from the deficit like, for example, the early repayment of the IMF loan and the municipal debt, as well as the utilisation of the resources of the Pension Reform and Debt Decreasing Fund could significantly contribute to the decreasing of the public debt.

According to the Fiscal Council the 2013 ESA debt is expected to remain below the 3 percent of the GDP. As regards its accurate measure the accounting of the material contribution to the Integration Organisation with ESA methodology depends on such criteria that are impossible to evaluate at the moment hence, this represents a risk. In case the state obtains a profitable share that is in proportion to the investment then the material contribution shall not concern the balance calculated by ESA methodology. At the same time, the operation of the Organisation is not clearly profit oriented thus, for the time being, the actual statistical accounting seems to be uncertain.

The additional recommendations formulated by the subject draft bill result in the clarification of the procedural rules.

On the whole: strict budgetary management and not using the remaining part of the Country Protection Fund are justified in the remaining months of the year in order to observe the debt rule and, especially, the targeted deficit.

7th November 2013-11-10.

Dr Kovács Árpád Chairman of the Fiscal Council	Domokos László Member of the Fiscal Council