Adopted by Resolution 9/2013.09.06. of the
Fiscal Council KVT-104-2/2013

OPINION OF THE FISCAL COUNCIL

on the draft bill amending 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 (hereinafter: the Council) received the draft amendment of the 2013 central budget on 5th September 2013, as an attachment of the letter of State Secretary of the Ministry of National Economy, Dr György Naszvady, (file number NGM/5378/21/2013) in which he had asked for the opinion of the Council. On 6th September 2013 the MNE forwarded the amended draft bill to the Council highlighting the changes. The present Opinion was made by taking into consideration the above amendments.

In harmony with the stipulations of the Fundamental Law of Hungary (Indent (2), Article 44) and Indent (1), Paragraphs 23 and 24 of Act CXCIV of 2011 on the Economic Stability of Hungary, the Fiscal Council shall deliver its opinion on the draft central budget bill – amendments changing the principal amounts of the revenues or the expenditures of the central budget, or those increasing the budget deficit included. In its opinion the Council shall make notes and – in case it has fundamental objections concerning the authenticity or the feasibility thereof – it shall express its non-concurrence.

To this date the National Assembly has amended the 2013 Central Budget Bill six times. The Council has had the opportunity to exert its opinion twice regarding the amendments (Resolutions 1/2013.03.25. and 3/2013.O5.16.). No objections were raised in the aforementioned cases regarding the observance of the debt rule.

The additional amendments of the bill did not belong to the jurisdiction of the Council. These amendments have had a reference to a factor affecting the budget that appears in the present draft bill, i.e. the purchase of the gas branch of business of E.ON.

In its evaluation of the execution of the 2013 Central Budget Bill – on the basis of the processes of the first half of the year – in its Resolution 7/2013.07.16. the Council found that shortfalls were detected in case of a significant part of the projected revenues that were related to the trend of the macroeconomic course, the unpredictable external conditions and – partly – the excessive governmental estimates. The Council also declared that the correcting measures of the Government had been justified. However, apart from executing the above measures, the

Council found it appropriate to partially or completely refrain from using the Country Protection Fund in order to keep the GDP proportionate deficit of the public finance on the planned level. The Council also indicated that the balance depended on the trend of the macroeconomic progress. The Council assessed the observance of the public debt rule viable. Here the Council wanted to suggest that as a consequence of a smaller than planned GDP due to a more favourable inflation rate, it shall act against a more significant decrease of the debt rate.

The present draft bill is suggesting an increase of expenditures at the following items and amendments that would result in the increase of the deficit concerning the Central Budget of 2013:

- In the draft bill the Government wishes to create the budgetary cover worth of HUF 71 billion, with the purpose of executing the measures related to the strategic transformation of the cooperative credit institutional background, apart from the amount of HUF 100 billion required for the recapitalisation of the Savings Bank and the available resources of MVM Zrt. (Hungarian Electricity Ltd.) for the acquisition of the E.ON SE domestic natural gas branch of business, thus aiming at strengthening the strategic role of the state;
- The draft bill envisages the raising by HUF 20 billion of the EU Own Resource Fund, established in 2012. This raise is justified by the need of the targeted use of EU development supports – especially the need to successfully complete the sewage and waste management projects related to improving the quality of drinking water that are concerned by obligations of deregulation;
- Other provisions of the draft bill aim at ensuring the excess cover worth of HUF 32,5 billion required for the compensation of the introduction of the educators' career plan to be introduced in the public educational institutions belonging to the central a local governmental subsystem, beginning with 1st September 2013;
- The amendment shall establish the financing conditions for the new basis of non-governmental public educational activities (HUF 5 billion) as well as the excess amount required for the financing of social and human services (HUF 4,6 billion);
- The Government wishes to use additional resources (HUF 11 billion) for higher education by raising the appropriation of the Higher Educational Structural Fund;
- The appropriation of the Country Protection Fund shall be reduced by HUF 84 billion;
- The amendment shall account in a gross way the expenditures related to the e-toll system, by increasing governmental revenues and expenditures alike by HUF 10, 9 billion.

According to the calculations of the Government the above listed amendment shall altogether increase the cash-flow deficit by HUF 171 billion in 2013. Calculating in a cash-flow approach, according to the plans of the Government, the gross growth of expenditures would be around HUF 250 billion; however this amount would be decreased by the decrease of the Country Protection Fund in the amount of HUF 84 billion. The capitalisations amounting to HUF 171 billion would increase only the cash-flow deficit and very likely shall not influence the expenditures and the balance calculated by the ESA method. Thus, according to the plans of the Government, the ESA balance shall not change.

Apart from the above mentioned items, the draft bill contains procedural and technical provisions as well.

Hereunder the Council summarizes and publishes its opinion as follows.

II

The Opinion of the Council

At its meeting held on 7th September 2013 the Council 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. The increasing expenditures referred to by the draft bill are justified by the mid-year decisions of the National Assembly and the Government. In the view of the Council the GDP-proportionate targeted deficit of the public finance seems to be achievable even with the higher expenditures however, it involves increasing risks. When evaluating the public finance processes in the first half of 2013 the Council was on the opinion that the partial or total non-utilisation of the Country Protection Fund was required to observe the targeted deficit. On the basis of the analysis of the draft bill the Council calls the attention that the envisaged decreasing of the Fund according to the draft bill shall not terminate the risks encompassing the feasibility of the targeted deficit.

3. In the Council’s opinion the GDP proportionate gross public debt accounted on constant rate of exchange, very likely shall decrease by the end of 2013 when compared to the amount of the preceding year, thus the debt rule shall prevail. At the same time the measure of the decrease is moderate and, apart from the budget deficit, the debt management procedures and the trend of the nominal GDP could influence it; hence, the risks shall be tangible also in this respect.

4. The Council calls the attention of the Government to the fact that the present amendment of the budget act also underlines the need of enhanced financial management discipline when observing the level of public debt. As part of this endeavour, it is necessary that the Government met the obligation of the evaluation of the succeeding of the public debt rule, as stipulated by Indent (1), paragraph 5 of Act CXCIV of 2011 on the Economic Stability of Hungary.

5. When formulating its Opinion the Council deemed it unjustified to further analyse the coherence of the draft bill items dealing mostly with procedural and technical issues.

III

Justification

When formulating the present Opinion the Council has taken into consideration its earlier findings related to the amendments of the 2013 Budget Act as well as those, published in the course of the evaluation of the public finance processes of the first half of 2013, regarding the feasibility of the targeted deficit and of the public debt rule.

In the draft bill the Council has not detected such objectionable provisions that would justify the indication of non-concurrence regarding the submitted document.

The planned quantified changes of the present draft bill are increasing the deficit of the central budget. However, the targeted ESA balance is feasible if the macroeconomic course remains stable throughout the year, the government shall exercise a stiff control over the expenditures and the revenues turn out to be as expected; surpluses resulting from the mid-year governmental measures also included. As a consequence of the above the observance of the public debt rule might also be feasible. When formulating its opinion the Council has paid attention to those unexpected internal or external conditions – beyond the recognisable risks – that might influence the feasibility of the goals, like for example, the possible suspension of the EU development supports.
According to the calculations of the Government the draft bill shall increase the cash-flow deficit of the central budget by HUF 171 billion and decrease the appropriation of the Country Protection Fund by HUF 84 billion. This would increase the public debt altogether by HUF 250 billion when compared with the situation when none of the present HUF 400 billion of the Country Protection Fund were used. This amount that would exceed 0,8 % of the GDP is already a significant influencing factor affecting the observance of the public debt rule, in a situation when it is being threatened also by other factors (a more moderate economic development that foreseen and significantly lower level of inflation). On the basis of the2013 trend of macroeconomic factors affecting the debt rate the Council had already indicated that the supervision of the calculation method of the public debt rule would be justified. For example, in the course of evaluating the public finance processes in the first half of 2013, the Council presented that the more favourable than planned inflation rate is acting against the decreasing of the GDP-proportionate public debt.

The other proposals formulated by the draft bill result in the clarifying of the procedural rules and assist the implementation of the budgetary, educational and pay policy goals. The additional taking over of local government debts does not concern directly either the consolidated deficit or the debt, thanks to the accounting within the public finance.

All in all, in order to observing the debt rule and the targeted deficit, strict budgetary management and the non-using of the Country Protection Fund are necessary also in the future.

Budapest, 7th September 2013

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