THE OPINION OF THE FISCAL COUNCIL

on the draft bill of the amendment of Act CCXXX of 2013 on the 2014 Central Budget of Hungary

I

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

The Fiscal Council (hereinafter: the Council or FC) received the draft amendment of the 2014 central budget on the 11th of June, as an attachment of the letter filed under number NMG/1922/8/2014 in which the Government asked for the opinion of the Council. The draft bill had been discussed and approved by the Government at its meeting held on 11th June 2014.

In harmony with the contents of Indent (2), Article 44 of the Basic Law of Hungary and, according to the stipulations of Paragraphs 23 and 24 of Act CXCIV on the Economic Stability of Hungary (hereinafter Stab. Act), the Council shall deliver its opinion on the draft central budget bill; amendments concerning the revenue or expenditures totals of the central budget or the increasing of the budget deficit included. In its opinion the Council shall make remarks and – in case it has fundamental objections concerning the authenticity or the feasibility thereof – it shall express its non-concurrence.

In its opinion no. 16/2013/12.13. concerning the uniform recommendation on the 2014 central budget (no. T/12.415/1041.) – apart from acknowledging that the public finance deficit target and the cutting of the public debt were viable - the Council called the attention to the requirement of strict observance of the execution of the central budget. Based upon repeated calculations regarding the revenues and expenditures depending on the macroeconomic conditions, the Council found that the risks it had identified on the revenue side of the 2014 central budget earlier, in its Opinion no. 11/2013.09.23. attached to the draft bill, keep existing although, in a decreasing degree. Thus, the Council deemed it necessary that in harmony with the contents of the bill; up to the end of the 3th quarter of 2014, the Country Protection Fund should not be used.

The draft sent for an opinion, contained the calculations regarding the impact of the earlier accepted strategic decisions that concerned the infocummunication and energy industries. The acquisitions of companies, resulting in the increase of the ownership share of public properties, are being carried out by economic enterprises owned by the state and financed from the central budget.

According to the draft, nationalising Antenna Hungária Zrt., the Magyar Gáz Tranzit Zrt. (Hungarian Gas Transit Co.,), and the financing of the purchase of AVE Magyarország Kft. and FŐGÁZ Zrt. by capital increase, shall raise the expenditure appropriations of the central budget by HUF 152 billion. GDP proportionately this will increase the cash deficit by 0, 5 percent however, according to the justification of the bill this shall not endanger the fulfilment of the deficit target calculated by the EU methodology (i.e. accrual base).

Apart from the recommendations about creating cover for the purchase of the shares, the draft is also correcting the conditions of eligibility in several fields (vocational training, public education, feeding children, etc.) creating thus an internal coherence as well. Additionally, it sorts out the needs for specification and legal-technical adjustments.

The Council sums up and publishes its opinion on the contents of the draft as follows:

II

The Opinion of the Council

At its meeting held on 20th June, 2014 the Council formulated the following opinion on the draft amendment of Act CCXXX of 2013 on the 2014 central budget of Hungary.

1. As regards the authenticity and feasibility of the amendments of the expenditure side of the budget, that result the increasing of the cash flow deficit, the Council has no such fundamental objections that would justify the indication of non-concurrence concerning the submitted document.
2. The state transactions that shall result the proportionate and profitable increase of public property share, shall increase the cash deficit of the central budget by 0, 5 percent however, very likely, this shall not affect the balance calculated by ESA methodology. Thus these shall not influence the realisation of the government's deficit target. However, the risk that part of the transactions might increase the ESA deficit as well cannot be fully excluded. Thus, the purchasing of shares make it even more important that in other fields they should strictly stick to the execution of the budget, to thus keeping the public finance deficit target – calculated by EU methods – on the stipulated level.
3. Together with the cash flow deficit, the expenditures appearing in the draft bill also affect directly the gross public debt and increase it with the amount paid for purchasing the shares. Thus, the decreasing of the public debt rate stipulated by the Basic Law very likely shall be only meagre, paired with increasing feasibility risks.
4. According to the standpoint of the Council the safe maintaining of the public finance deficit target – calculated by EU methodology – and, especially the decreasing of the GDP proportionate public debt as stipulated by the Basic Law, make it necessary to refrain from using the Country Protection Fund and maintaining the economic budget management followed so far. Thus, the Council recommends that the future utilisation of the Country Protection Fund shall be allowed only following the full-scale and well-founded refreshing of governmental forecasts.
5. The Council did not consider the examination of the items of the amendment of the bill that concerned partly the clarification of the text of the draft and partly some technicalities, as those have not influenced essentially the formulating of its opinion.

III

Justification

The planned amendment shall increase the cash deficit of the central budget by HUF 152 billion. The Ministry for National Economy prepared some calculations and attached them to the draft sent to the Council for an opinion. In those calculations it presented the expected trend of public debt and public finance deficit in 2014, prepared by EU methodology. On the basis of these calculations it could be asserted that according to the public deficit rule stipulated by the Basic Law, compared to the end of the previous year and to the stipulations of the budget law, in 2014 the public debt could be decreased only to a much modest degree.

According to the justification of the bill the transactions shall not increase the deficit, calculated by EU methodology, because they can be regarded as financial operations. At the same time, up to the moment of the final decision of the EU statistical authority, the risk that part of the expenditures might concern the ESA deficit will exist.

In the draft amendment the Council did not detect such questionable regulations that would justify the indication of non-concurrence concerning the document submitted for an opinion. At the same time, the Council identified increasing risks concerning the observation of the 2, 9 percent deficit target that had been calculated by EU methodology.

On the basis of the above the FC deems it especially necessary to maintain circumspect and consistent budget management and the maintaining of the Country Protection Fund as long as the risks, threatening the reaching of the deficit target and the implementation of public debt, shall decrease to a comforting level.

Other recommendations of the draft amendment shall result the clarification of the regulations assisting the implementation.

Budapest, 20th June, 2014

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