Verbal addition to the FC's approval for the final voting of the bill on the 2015 central budget of Hungary

15th December 2014

Honourable National Assembly,

Mr. Speaker,

Before informing you about the Opinion of the Fiscal Council related to the final voting let me tell you that throughout the year the Council has followed with attention the functioning of the economy, the public finance, and the present and expected trends of the budgetary management in the foreseeable future and formulated its opinion, respectively made its remarks accordingly. We hope that the Council's activities – within the realm of its possibilities – contributed to presenting the 2015 budget act that stands on the appropriate 2014 basis and is feasible.

By way of introduction I would also like to tell you that according to the Council the professional conditions of the budgetary planning were significantly more favourable than in the previous years, thanks to the results of the introduced consolidating measures.

In addition the Council carried out its opinion giving task in a conservative approach.

Most of our job is related to giving opinion on the draft budget bill and, naturally, the mid-year amendments of the budget act, as well as the half-year evaluation of the execution of the budget.

There is no doubt however that from among the various stages of this job the formulation and publication of the FC's standpoint prior to the final voting is of decisive importance, a guarantee-like, public law condition.

With our present approving declaration we've just met this requirement and this time I wish to add some summarising, respectively amending remarks, based on the authorisation of the Council.

Honourable National Assembly,

Upon the authorisation of the Basic Law of Hungary and the stipulations of the Stability Act, the Council examined whether the version of the budget bill submitted for final voting was in harmony with the stipulations of the government debt rule.

The Council found that the GDP proportionate government debt shall be reduced.

Accordingly, the uniform 2015 central budget bill of Hungary may be submitted for final voting.

Honourable National Assembly,

Beyond giving our declaration of consent, let me add some additional remarks with the purpose of assisting your work, while maintaining and deeming our remarks attached to the budget bill justified.

First of all, I would like to call the attention to the fact that as regards the 2015 debt indicator, the budget bill does not have any changes compared to the submitted bill, i.e. its planned measure by the end of 2015 is 74, 5 percent. The measure of the same indicator foreseen by 31st December 2014 also remains the same, i.e. 76, 3 percent.

In the course of calculating the government debt rules, both the deficit and the GDP data were identified in harmony with the respective EU regulations, the so-called ESA2010 accounting system that has been valid since 1st September 2014 and that has had some changes compared to the earlier system. As to the amounts of the debt, those were calculated with the rate of exchange stipulated by the 2014 budget bill that were identical in both years.

The bill does not contain new macroeconomic forecasts. Hence, the Council examined how the economic processes and forecasts that became known after the submission of the bill have influenced the uncertainties and risks related to the original governmental forecast.

When making its decision – following the procedure employed also when giving its opinion on the draft budget bill – the Council took into consideration the opinions of the State Audit

Office of Hungary and that of the Central Bank of Hungary. Additionally, the FC also considered the updated economic forecasts of domestic analysing institutions like Századvég and GKI, of international organisations, among them the EU, the IMF and the OECD together with the evaluations of other market analysts.

Based on the above the Council laid down that the GDP expected for year 2014 and the planned GDP for year 2015 were based on realistic economic forecasts. The government debt – according to the stability act – expected by the end of 2014 and the planned measure for 31st December 2015 are in harmony with both the economic and the budgetary processes of 2014 and those expected in 2015.

Ladies and Gentlemen of the House,

The Council has been following continuously the parliamentary debate of the budget bill. The Council considers it positive that the revenue and expenditure changes affecting more than 24 percent of the appropriations as a result of the adopted summary amendment consisting of 264 instances, have hardly affected the cash flow deficit.

However, the Council shall retain its opinion also in the future that the grounding of specific revenue appropriations is incomplete and the risks identified in October concerning the draft budget bill still remain.

This is especially true in case of „other selling and utilisation revenues" concerning public assets. The fact that the expenditures of the Investment Fund affecting several chapters and related to revenues can be stopped mid-year only with difficulties represents a risk, in case of loss of revenues.

According to experience, in case of investments this has a high probability. Hence the Council invariably considers it necessary that new developments financed by the central budget should be launched only in a rhythm that is in harmony with the incoming revenues.

Upon the recommendation of the Opinion of the Fiscal Council given for the draft budget bill, the amount of the Country Protection Fund originally increased from HUF 40 billion to HUF 60 billion has been halved to thus create partial resources for additional expenditures. In comparison to the original plan the appropriation worth of HUF 30 billion shall be able to handle fewer risks than the original amount.

This still carries certain risks even by the appropriations that became more realistic with these amendments. The Council believes that the Country Protection Fund - that was born as a result of the FC's requirement in the previous years and was prompted by the need of careful financial management in the course of the consolidation - has fulfilled its role, thus it would be more practical to establish a uniform risk management system.

This would imply the involvement of the reserve in risk management, amounting to HUF 100 billion separated for Extraordinary Governmental Measures and, at the same time, the unification of the two reserves and the creation of a strict rule concerning the utilisation of this reserve. A specific percentage of the reserves appropriations to be combined shall not be used prior to 30th September 2015 and even after this date it should be used only if the economic and budgetary processes shall not endanger the implementation of the targeted deficit.

In the course of preparing its consent the Fiscal Council also dealt with specific aspects of the expansion of the role of the state as owner, like for example in the field of financial institutions or energy. The Council recommends that such steps shall be realised via such transactions that shall not increase the deficit and debt of the governmental sector neither in the short run not in the longer run.

Honourable National Assembly,

The Council deems it necessary to note that there is a chance that the GDP or public finance deficit might turn out less favourably than originally calculated.

Growth expectations might be dulled by the moderate trend of the economic performance of the EU that might involve even the danger of set-back, the expansion of the deflation processes, respectively the spill over of the geopolitical tensions that cannot be totally excluded, the uncertainties of the oil market and the effect of the EU sanctions against Russia, even if the domestic macroeconomic and public finance processes otherwise look favourable.

It is not primarily the management of the consolidation, rather that of the mentioned challenges and the ensuring of the sustainability of the economic growth that prompts the Council to remind you that circumspect budgetary management is necessary also in the future to safely maintain a more strict targeted deficit than the one stipulated by the public finance act as well as to implement the government debt rule.

Thank you for your attention and for the opportunity to address you.