OPINION OF THE FISCAL COUNCIL

on the draft bill of the amendment of Act C of 2014 on the 2015 central budget of Hungary

I

Antecedents, legal basis and publicity of the Opinion

The Fiscal Council (henceforward: the Council or FC) received the draft bill (henceforward: the bill) about the amendment of the Act on the 2015 central budget, that had been discussed and approved by the Government at its meeting held on 15th September 2015. The electronic version of the bill was attached as an annex to the letter no. NGM/5727/17/2015 from the Ministry for National Economy, that arrived to the FC on 16th September 2015. In this letter the Ministry asked for the opinion of the FC concerning the bill.

In harmony with Indent (2), Article 44 of the Basic Law of Hungary and according to the stipulations of § 24 of Act CXCIV of 2011 on the Economic Stability of Hungary (henceforward: Stability Act) the Council shall form an opinion on the draft of the central budget bill, the amendment changing the revenue or expenditure side of the central budget or, an amendment increasing the degree of the budget deficit as well. In its opinion the Council can make comments. In case it has fundamental objections as regards the draft bill, its authenticity or feasibility, the FC shall indicate its non-concurrence.

When formulating its Opinion, the Council also considered the following antecedents:

- In its Opinion no. 7/2014.12.10. formulated on the uniform budget bill no. T/1794/561. about the 2015 central budget the Council established that „by the end of 2015 the GDP proportionate government debt shall very likely meet the stipulation of Indent (5), Article 36 of the Fundamental Law that prescribes the reduction of the government debt. Also, the degree of the government debt planned for 31st December, 2015 is in harmony with the budgetary processes projected for year 2015. Apart from mentioning the favourable macroeconomic and public finance trends, in the Justification part of its Opinion the Council also pointed out the factors endangering the implementation (the moderate growth of the economic performance of the EU, the pass-through of the geopolitical tensions that cannot be excluded, the effect of the EU sanctions against Russia, etc.). Consequently the

Council recommended strict budgetary management in order to sustain the targeted deficit and implement the stipulation of government debt rule.

- In its Opinion no. 3/2015.04.14. formulated on the draft bill to amend Act C of 2014 on the 2015 central budget the Council considered that the observance of the government debt rule as well as the 2, 4 percent GDP proportionate public finance deficit were feasible, despite the increasing risks. In the Justification section of it Opinion the Fiscal Council emphasised that the targets were feasible if „…the macroeconomic trend shall remain stable throughout the year, the revenues will turn out as expected and the Government keeps strict control over the expenditures also in the future, especially considering the possible unfavourable turn of external conditions."

The Council summarised and published its Opinion on the draft bill as follows. When formulating its opinion the FC took into consideration the calculations concerning the trends of government debt and the public finance cash flow deficit.

II

The Opinion of the Council

At its meeting held on 21st September 2015 about the draft bill of Act C of 2015 concerning the 2015 central budget of Hungary, the Council formulated the following opinion with a unanimous decision:

1. As regards the authenticity and feasibility of the amendment of the revenues and expenditures of the budget the Council has no such fundamental objections that would justify the indication of non-concurrence concerning the submitted document.
2. The changes in the appropriations will increase the revenue and expenditure grand totals of the central budget equally; in other words those have a neutral effect on the budget. Based on the analysis of the so far pro rata implementations, the Council sees the increase of the revenue appropriations realistic. As a consequence, the cash flow deficit of the public finance shall not change.
3. The Council deems the observance of the government debt rule feasible also in the future. However, the expenditures that called for the amendment of the budget act will narrow the elbow room available for handling possible additional risks.

4. Even by the favourable budgetary processes the Council considers it necessary to maintain enhanced management discipline to ensure the observance of the planned public finance deficit and the safe implementation of the government debt rule, among others due to the lack of predictability regarding the effects of migrant related events on the budget, respectively their consequences.

III

Justification

The Council did not meet any objectionable provisions that would have justified the indication of non-concurrence regarding the document.

When formulating its opinion, the Council took into account the favourable economic and public finance processes of the first half of year 2015 (the expected outperformance of employment, consumption, export increase, revenue appropriations). The above favourable trends have been cited in the Opinion of the Council (no. 7/2015.09.21.) about the state of the execution of the 2015 central budget of Hungary and the expected trend of the government debt (characteristics of the processes in the first half of the year) as well as their effect on the feasibility of the targeted deficit and the implementation of the government debt rule.

According to the draft bill that was forwarded to the FC for an opinion both the revenue and expenditure sides of the central budget would be raised by HUF 61 billion. The draft bill proposed the increase of revenues and expenditures of the central budget regarding the following major items:

- Proposes the raising of the original appropriations of extraordinary governmental measures amounting to HUF 100 billion by an additional amount of HUF 60 billion, due to the „exhaustion" of the original amount. The additional amount shall serve the purpose of handling possible, unexpected situations and the creation of resources for additional, necessary governmental measures;
- Proposes to establish a new appropriation as regards the Ministry of Interior chapter amounting to HUF 1 billion (to cover the incurring costs related to mass migration);
- The increasing of the value added tax appropriation by HUF 36 billion and of excise duty appropriation by HUF 35 billion shall create the resources for the amendment of the

reserve and expenditure appropriations. In the Council's opinion this is a solid basis for the amendment. Namely, as the FC explained it in the Justification part of its above mentioned Opinion no. 7/2015.09.21. „Thanks to the steeper improvement of household consumption (use of online cash registers, introduction of the EKÁER system / Electronic Public Road Trade Control System/ and employing other measures and control methods that improved the efficiency of tax collection, etc.) the VAT revenues can be met securely and will exceed the appropriated amount. It is the expansion of consumption (related to the decreasing oil prices) that is the driving force behind the increasing excise duty revenues. Thanks to the combined effect of the above, the cash flow deficit (and the EDP deficit calculated by EU methodology) shall not change the amount of government debt."

The draft bill contains a recommendation that the state should take over the debt of MTVA (the umbrella organisation for Hungarian Public Service Media) originating from the financial management of the preceding organisations of MTVA and amounting to HUF 47 billion. As this shall happen within the governmental sector, this step shall not concern either the EDP deficit (calculated by EU methodology), or the amount of government debt. However, more attention should be paid to the utilisation of the resources serving the public service tasks of MTVA to thus avoid the creation of similar situations in the future.

Budapest, 21st September 2015

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