

Presentation
for the Fiscal Council

Subject: Report on the Realisation of the Year 2020 Action Plan of the Fiscal
Council

January 2021

According to Article 44 of the Fundamental Law of Hungary the Fiscal Council (henceforth: the Council/FC) is an organisation supporting the activities of the National Assembly and primarily examines the enforcement of the validity of the central budget, the public finance deficit development as well as the enforcement of the government debt rule. Apart from the Fundamental Law, the FC tasks are defined by Act CXCIV of 2011 on the Economic Stability of Hungary (henceforward: Stability Act). Accordingly, the Council shall

- a) **formulate its opinion** about the draft of the central budget bill (the draft bill of the amendment/s of the budget act included) and, in this context, the degree of the public finance deficit¹ as well as the decrease² of the government debt indicator³. Additionally, the Council shall examine every six month the state of the execution of the central budget and the expected evolution of the government debt⁴,
- b) **decide** about granting its preliminary consent – in harmony with Indent (3) Article 44 of the Fundamental Law – prior to the final voting on the uniform budget bill draft as well as the uniform resolution about the amendment of the budget act,
- c) **may deliver its opinion** – in harmony with the stipulations of Points d)-e) Indent (1) § 23 of the Stability Act – about the law amendments laying the foundations for the central budget or any other issues related to the planning and the execution of the budget or any other utilisation of public money.

The account of the Chairman of the Council about the realisation of the year 2020 action plan of the FC summarises the

- year 2020 college decisions of the Council,
- the work of the Chairman of the FC in the frame of the independent fiscal institutions guarding the „fiscal framework” in international cooperation (fiscal council type organisations) as well as

¹ According to § 3/A of the Stability Act the public finance (more precisely, the governmental sector) balance shall be decided in harmony with the Fundamental Law and the EU laws, by observing the stipulations of the aforementioned laws.

² According to Article 36 of the Fundamental Law, as long as the government debt is exceeding half of the total gross national product, the National Assembly shall adopt only such central budget act that contains the decreasing of the government debt in proportion of the total of the gross national product. According to § 4 of the Stability Act the central budget act shall contain the degree of the government debt planned for the last day of the budget year. This degree shall be decided so that the decrease of the government debt indicator in proportion to the basis year would reach at least 0, 1 percent while also enforcing the respective EU regulations.

³ According to Indents (4)-(5) and Indents (2)-(3) of Article 36 of the Fundamental law the government debt indicator is a rounded quotient expressed in percentage up to one decimal place that is referred to the following values:

- in its numerator listing the value of the government debt,
- in its denominator the gross national product calculated by the stipulations of the Council of Europe regulation concerning the national and regional accounts, as stated by the budget act (§ 2 of the Stability Act).

⁴ According to Point c) Indent (1) § 23 of the Stability Act the Council shall formulate its opinion every six months about the state of the execution of the central budget and the expected evolution of the government debt.

- the activities that are related directly or indirectly to the organising of the Council's work, to laying the foundations for the decisions of the FC and the responsibilities of the chairman of the Council and the FC Secretariat.

II

The Execution of the Year 2020 Action Plan of the Council

1. The Council executed its mandatory tasks regarding year 2020 – in harmony with the stipulations of Act CXCIV of 2011 on the Economic Stability of Hungary. To this end the FC needed four **board meetings**. (Beyond these, there was an additional case when the Council summarised its opinion as regards the effects of the coronavirus pandemic on public finance via online conciliation.)

Members of the Council, as well as the teams supporting their work, have maintained ongoing relations in between the FC meetings, followed the public finance processes and formulated their opinions regarding the inquiries, statistical and other information and forecasts.

- a) Meeting related to Point f) Indent (1) § 23 of the Stability Act

According to the FC Order of Business, at its first meeting (held on 9th of January, 2020) the Council discussed and approved its report on the realisation of the FC's year 2019 Action Plan and adopted its year 2020 Action Plan, the research/analysis plan of experts assisting the Council's work included ((Resolution 1/2020,01,09).

- b) The opinion formulating tasks stipulated by Point a)-c) Indent (1) § 23⁵ and Indent (1) of § 25⁶ of the Stability Act

ba) At its second meeting (**21st of May, 2020**) the Council adopted two resolutions.

⁵ The Council

- according to Indent (2) Article 44 of the Fundamental law, shall formulate its opinion about the draft of the central budget bill; examine the degree of public finance deficit – i.e. it shall not exceed 3 % of the gross national product (GDP) – as well as the harmony of the governmental sector and the medium term targeted budget. Based on § 25 of the Stability Act the FC shall concurrently examine the compliance of the stipulations of Indent (4)-(5) of Article 36 of the Fundamental Law – the government debt rule – and § 4 of the Stability Act that is concretising this compliance,
- shall decide of granting the FC's preliminary consent,
- shall formulate its opinion every six months about the state of the execution of the budget act and the expected evolution of the government debt.

⁶ In the course of discussing the central budget bill and, according to the regulations of the Speaker of the National Assembly in the House Rules shall examine the compliance with the government debt rule also in the uniform budget bill.

ba/1. At this meeting the FC **formulated its evaluation of the draft of the year 2021 central budget bill. In its Opinion 3/2020.05.21.** – while noting the expected evolvement of the year 2020 macroeconomic and public finance processes – the Council found that „from the aspect of the planning of the year 2021 central budget the spreading of the coronavirus pandemic was a decisive factor, the consequences of what have changed fundamentally the year 2021 outlook of both the global and the Hungarian economy”. At the same time, the FC also expressed that „the year 2021 budget was built on the concept that, following a transitory setback, the Hungarian economy will grow (by 4, 8 percent) and the performance of the 2021 economy shall exceed the level of 2019”. Additionally, the Council found that „the revenue appropriations of the draft are in harmony with the contents of the forecasts serving as the foundation of the draft document. At the same time, due to the uncertainties of the economic forecasts they are posing risks as well”. In its Opinion the FC also elaborated that „additional economic stimulation is required, together with measures promoting job saving and creation of new jobs. The Economy Protection Fund (within it the Economy Protection Employment Fund, created from the National Employment Fund) offers a cover. The Health Insurance and Disease Prevention Fund is ensuring the resources required for the operation of the health care system (by incorporating the Healthcare Fund)”. As regards the „achieving of the targeted deficit, the FC identified some risks, as well”, additionally, it pointed out that „the structural balance shall not reach even in 2021 the targeted 1, 0 percent goal” [...]. At the same time „as of 2021, by returning to the fast paced growth path and by continuing the economic recovery programmes promoting sustainability, the criteria of the structural deficit shall be viable in the foreseeable future, as well”. Furthermore, the Council also expressed that „the shifting of the macroeconomic path shall affect significantly the degree of the government debt indicator of 2020, as well. Hence, the FC acknowledges that the decreasing trend of the GDP proportionate gross government debt in the period of 2011 – 2019 is very likely expected to take a turn in 2020: according to the draft budget bill the degree of the government debt indicator shall grow to 72, 6 percent”. Furthermore, the Council also stated that „the decreasing trend of the government debt indicator shall return – following its temporary growth in 2020 – and by the end of 2021 it shall decrease to 69, 3 percent. The planned decrease of 3, 3 percent offers adequate room for manoeuvre to meet the stipulations of the government debt rule stipulated by the Fundamental Law and by Indent (2a) § 4 of the Stability Act, even if either the government debt or the GDP turn out to be slightly less favourable². The Council also called the attention to the fact that the free reserves – amounting to nearly 0, 5 percent of the GDP – are able to handle the „budgetary risks only partly”.

ba/2. At the same meeting, under separate agenda, the Council **evaluated the state of the execution of the year 2019 central budget act and the evolution of the government debt. In its Opinion 4/2020.05.21.** the FC stated that „the economic policy followed during the past decade has maintained the macroeconomic balance of our country, significantly decrease the nation’s external and internal vulnerability. In 2019 the fundamentals of Hungarian economy grew stronger. The fact that despite the less favourable external environment [...] it grew by 4, 9 percent, affected favourably the public finance processes in 2019”. Beyond this the FC also noted that „despite the favourable performance data of 2019, thanks to the coronavirus, the slowing down of the growth appears to be unavoidable”. Additionally, the Council found that altogether, the revenues of the public finance central subsystem exceeded by 9, 5 percent the budgetary allocation (and by 7, 6 percent the revenues of the previous year). Altogether, the expenditures exceeded the appropriation by more than the revenues – i.e. by 10, 1 percent. The favourable trend of the revenues made the continuation of the important social goals, first of all the home creation programme, extending it with the rural family home creating programme. [...] Wages have significantly increased in several fields and those serving in armed forces received a one-time allowance. Expenditures for the investments of the Modern Cities Programme and the Village Programme, the modernisation of public roads and the railway network, together with those spent for improving the competitiveness of businesses represented a significant amount”. In its Opinion the FC recorded that „the ESA deficit of the governmental sector in 2019 amounted to 2, 0 percent⁷ of the GDP that was higher than the 1, 8 percent stipulated by the budget act however, lower than that in year 2018”. At the same time the Council also indicated that „despite the exceeding of the targeted deficit the EU stipulation regarding the accrual based public finance deficit – together with the respective domestic regulation – has been met for the eighth consecutive year. At the same time, the structural deficit turned out to be bigger also in 2019 than the 1, 5 percent stipulated as the medium range goal for the years 2017 – 2019 in the Convergence Programme thus, this stipulation of the Stability Act has not been realised”. Additionally, the Council found that „according to the available data, the government debt rate calculated on the basis of the total debt of the governmental sector reached 66, 3 percent⁸ at the end of 2019 by contrast to the end of 2018 70, 2 percent⁹ [...]”. The dynamic economic growth contributed to this result primarily, also in 2019 while the role of the fiscal policy was also a decisive factor”. The Council also expressed that „the decrease of the debt ratio [...] was in harmony both

⁷ Due to revisions was amended, at present the known degree is 2, 1 percent.

⁸ Due to revisions was amended, at present the known degree is 65, 4 percent.

⁹ Due to revisions was amended, at present the known degree is 69, 1 percent.

with the respective regulations of the Fundamental Law and the Stability Act, as well as the EU criteria concerning the decrease of government debt”.

- bb) At its third meeting (**1st of July, 2020**) the FC examined the **compliance of the year 2021 uniform central budget bill T/10710/839 with the government debt rule and granted its preliminary consent (resolution 5/2020.07.01.) to submit the bill for final voting** (the background of this resolution was the Opinion no. 3/2020.05.21. mentioned in sub point ba/1). The Council said that it found that „the degree of the government debt indicator planned for 31st December 2021, stated by Indent (1) § 3 of the uniform budget bill T/10710/839 valid, determined in harmony with the stipulations of the Stability Act and is in harmony with the macroeconomic and public finance processes that are serving as the basis of the bill”. Beyond this, the FC also laid it down that „as the government debt indicator calculated for the end of 2021 is smaller by 3, 3 percent than the indicator expected by the end of 2020, the stipulation of Indent (5) Article 36 of the Fundamental Law is being met, as well”. In the Justification section of its resolution, the Council expounded that „according to its judgement, the risks endangering the performance of the targeted deficit (the possible less favourable economic situation due to the renewal of the coronavirus pandemic, the ensuing, considerably higher amount spent on crisis management, etc.) might affect also the trend of the government debt”. Thus, in order to maintain the safe public finance processes, the Council considered it important the consistent application of provident and responsible practice of fiscal management.
- bc) At its fourth board meeting (**20th of September 2020**) the Council evaluated the **state of the execution of the year 2020 central budget act of Hungary and formulated its opinion on the performance of the first six months of 2020, together with that of the months of July and August (Opinion 6/2020.09.20.)** Based on the evaluation of the macroeconomic processes of the first six months of the year the FC considered that „the coronavirus pandemic was the factor the effects of what had affected considerably the Hungarian economy and the central budget. [...] The effects of the pandemic had completely rewritten the earlier foreseen economic path. [...] The Council agreed that „under these circumstances the amendment of fiscal goals became necessary thus giving a wider room for manoeuvre for the Government to control the pandemic and softening the economic downturn”. In its Opinion the FC also indicated that „the escape clauses coming into effect both in the European and the domestic fiscal framework to temporarily replace the regulations concerning the exceeding of the Maastricht criterion made exceeding possible”. As regards the evolution of the public finance deficit acknowledged that „as a result primarily of the increase of expenditures required for managing the economic consequences due to the state of emergency because of the pandemic and, on the other hand, as a result of the downturn of tax revenues from April – thanks to the economic recession, the mitigation of employment

and the targeted tax reliefs – the cash deficit of the public finance central subsystem amounted to HUF 1 837 billion in the first half of the year”. This was essentially higher than the targeted deficit stipulated by the year 2020 budget act. The accrual based budget balance in the first half of 2020 altogether amounted to HUF 1 246 BILLION (based on the preliminary financial accounts published by the MNB). Additionally, the FC established that, making use of the empowerment ensuing from the state of emergency, the Government „amended the budget act in the spring and, among others, created the Central Reserve for Disease Control as well as the Economy Protection Fund and increased the targeted deficit to 3, 8 percent”. In August, the financial government significantly increased its annual deficit forecast to 7 – 9 percent of the GDP. The Council judged that „in magnitude such a deficit gives room for manoeuvre to introduce new economy protection measures that – in case of appropriate targets – would be acceptable according to the FC, in order to avoid further economic recession”. As regards the evolution of the government debt the Council laid it down that „in the course of six months, the degree of the gross government debt to the gross national product grew from 66, 4 percent¹⁰ at the end of 2019 to 71, 9 percent¹¹ thanks to the necessary additional issuing due to the high cash flow deficit as well as to the decreasing GDP”. The Council acknowledged that, as a result of the necessity of issuing sovereign debt to thus finance the bigger cash flow deficit as well as the possible decrease of the nominal GDP, the government debt indicator might grow to around 77 percent by the end of the year”. The Council also laid it down that „in the course of the past years the risk tolerance ability of the country has improved” and „the growing government debt is safely financeable”. Finally, the FC noted that „restoring the economy to a growth path continuously requires significant, targeted fiscal measures while keeping in mind the necessity to align the lagging regions too”.

2. In its transcript (no. 7865/2020.) of 8th of April the financial government informed the Fiscal Council about its budget related measures due to the economic consequences of the Covid-19 pandemic. Following this – with regard to the extraordinary conditions – the FC formulated its evaluation by conferring online with the State Audit Office of Hungary and taking into consideration the SAO’s statement published on 6th of April 2020 as well as the Central Bank of Hungary’ opinion and additional experts’ analyses. The Council published its **Opinion 2/2020.04.16.** the same day. The FC agreed with the Government that „the reaction to the coronavirus required quick and massive reaction in every corner of the globe” and, additionally that [...] the intervention should encompass three significant fields: „managing the healthcare challenge, the compensation of the negative consequences accompanying the unavoidably slowing down of the economy and, following the state of emergency, the restart of the economy”. With regard to the existing situation, furthermore,

¹⁰ Due to revisions was amended; the presently known value is 65, 4 percent.

¹¹ Due to revisions was amended; the presently known value is 70, 3 percent.

the Council agreed that it was necessary to prepare a new budget plan and also, acknowledged the governmental measures concerning the establishment of new funds required to control the pandemic.

The Chairman and the Secretariat of the Council applied for and received **additional information** from the governmental agencies, primarily from the Ministry of Finance – in harmony with the functions of the FC. Beyond this, the body followed with attention the evolving of the public finance indicators, the legal changes affecting the public finance revenues and expenditures as well as the government’s resolutions passed in the state of emergency.

3. The **FC resolutions** (together with the respective justifications) are available **on the Council’s website** – following the traditional practice. These and other documents of the Council, the English language versions of the respective materials and research documents were downloaded **altogether 4 574** cases by 30th of November 2020 (FC resolution downloads 3847 times, while the research documents by 727 times).

Downloads of FC documents

Year	FC Resolution	Research documents	All
2017	1150	1708	2858
2018	1534	550	2084
2019	2035	835	2870
2020	3847	727	4574

Source: FC Secretariat

The **number of downloads in case of research documents has declined** by 14 percent, compared to the previous year. However, in case of **the downloads of FC resolutions there was approximately 89 percent increase** indicating the **growing interest** of the professional public opinion **regarding the activities (Opinion) of the Council**. The somewhat declining interest for the professional documents is partly attributable to the fact that due to the pandemic, the traditional, joint conference of the Hungarian Economic Association and the Fiscal Council presenting the results of the background researches had to be cancelled respectively, it was held only mid-December and online. The effect of the set of documents¹² published in Hungarian and English for the first time in 2020 – again as

¹² The decision to publish the volume in printing and online was born at the 22nd of September 2020 meeting of the FC.

a joint venture of the HEC and the FC will be detectable indirectly in 2021, beyond the professional news related to the event of the appearance of the volume¹³.

The press relations of the Council belong to the sphere of responsibility of the chairman – according to the FC order of business. Although the FC Secretariat does not carry out special news clipping services, it does follow with attention the Council’s presence in the press. According to the available data the Council was referred to, both in the printed and the electronic press, primarily at the time of publishing the FC Opinion on the draft of the year 2021 central budget bill as well as following the expose of the chairman at the beginning of the National Assembly debate on the bill in the form of on-the-spot reports and studio interviews in various channels of the media (Radio Kossuth: „Good morning Hungary”, Buffer” and other debates. The radio and tv-channels also published a significant part of the interviews and the reports about the FC activities and related to the budget – practically all of them – as news. Thanks to the great interest **the number of media appearances** was 100 in 2017, 80 in 2018, 123 in 2019 and in 2020 it was 113 – slightly more than the average of the previous years. In conjunction with the effects of the coronavirus pandemic, the chairman of the Council evaluated on several occasions the trends of the year 2020 macroeconomic and public finance processes, the mid-year and the expected evolution of the government debt and the public finance deficit, the risks and the conditions and options of the recovery from the crisis. The increasing interest experienced in the second, third and fourth quarters was fundamentally related to the economic effects of the COVID-19 pandemic. Another indicator of the interest for the work of the Council was that the chairman of the FC was often invited to give **lectures** that were not directly related to the resolutions of the Council. Due to his being a university lecturer and president for life of the Hungarian Economic Society, the chairman of the Council held close to 30 lectures at several universities (BCE, universities of Szeged, Sopron, Debrecen and Miskolc) as well as at a variety of professional fora. **His publications** were available in various publications – not in the least related to the tasks and responsibilities of the FC ((Figyelő, Index, Világgazdaság, Portfolio.hu, Medicina, etc.) as well as in **county and local papers**. In case of issues, questions related to the economy and the budget the chairman is often **quoted**, the **FC documents** are frequently referred to by various **news channels**. The number of **inquiries by letter or phone calls** has not changed in 2020, when the citizens asked the FC chairman about macroeconomic, public finance issues and those, directly concerning their individual lives and received his response.

4. The Council continued its participation in **international cooperation** also in 2020. The relations of fiscal council-type organisations (Independent Fiscal Institutions-IFIs) became full under the aegis of the EU. The explosion of the coronavirus and its lingering presence affected negatively the practice of the multilateral relations of these organisations.

¹³ The printed publication titled: “Macro Economy, Public Finance in the times of the Coronavirus” was distributed among domestic and foreign partners of the FC, the competent persons of the National Assembly and the Government, members of the HEC presidium, heads of departments, other professionals and members of the specialised press. It is also available online at the website of the FC for other professionals and lay persons interested.

Thus, the number of direct professional discussions for the IFIs was rare (if any, it was held in the first quarter of the year), so – with a few exceptions – the concerned parties held their professional coordination, consultations concerning the joint work online.

Multilateral consultations

- On **29th of January 2020** the Directorate-General for Economic and Financial Affairs of the European Commission (DG-ECFIN) organised a workshop (in Brussels) with the participation of the independent fiscal institutions (IFI) of the EU member states, the European Fiscal Board (EFB) and the European Central Bank (ECB). At the beginning of the workshop the participants informed those present about the major changes in their individual institutions and personal changes. After this they discussed the medium term forecasts and the adoption of the said forecast prepared by the IFIs, in harmony with the regulations termed „package two”. They established that in the countries where IFIs are functioning, their respective role was clearly positive regarding maintaining public finance stability: financial planning and forecasts became more thorough, the forecasts more reliable and precise, and thanks to the monitoring of the processes the discipline of executing the budget also improved. The work done by these organisations also contributed to the fact that government debt decreased in ten EU countries. The formulated cooperation agreement between the ministry of finance of a given country and its own IFI might assist these favourable processes. The representative of EFB noted that his institution considered IFIs important partners in the responsible public finance processes. In the second part of the meeting the third year report of EFB was on the agenda. In doing so it was mentioned that the modernisation of the Stability and Growth Pact (SGP) should continue to be an important field for the EFB, with special regard to creating a simpler „golden rule”. Next the participants of the workshop were informed about the actual state of the ECFIN network. Finally those present listened to the report of the European Court of Audit (ECA) about the individual public finance framework. The participants also expressed their wish to get acquainted with those methodologies and data that laid the foundations for the individual resolutions of the Commission; even at expert level.
- On **28th of February 2020** the Irish Fiscal Advisory Council (IFAC) hosted a conference (for the fourth time) in Dublin for the fellow IFIs. In the first half of the forum the participants listened to a thorough and comprehensive presentation about climate change, the underlying causes, the possible managing mechanisms and the unavoidable consequences. The problem of raising sea level in Dublin, the announced Green Deal, tax possibilities; for example the optimising of coal tax considering tax and environmental protection aspects were discussed. Following this the presentation of the Central Bank of Ireland focusing on the relations of the financial intermediary system and climate change then, the representative of the Dutch IFI presented the elements of the Dutch climate change package. As a final step, invited speakers informed those present about the characteristically Irish problems, in the form of a round table debate.

- **On 2nd of March 2020** the European Central Bank convened a conference in the focus of what the evaluation of the current economic situation and preparations for the near future were the main issues. They reviewed the state of the EU fiscal regulations, evaluating the performance of the individual member states in this field. Following this they discussed issues related to the regulation known as package two and package six (experiences, the development of the existing regulation and issues concerning the simplification of the said regulation, etc.). In a different section the participants were dealing with the tasks to be solved regarding risk analysis and got acquainted with the methodologies followed by ECB and the Office of Budget Responsibility of the United Kingdom (OBR). In the remainder of the workshop issues concerning the estimation of output gap and regulations limiting public finance expenditures. The finishing part of the conference tried to identify the challenges of fiscal policy (aging societies, labour shortage, migration crisis, consequences of the global economic recession due to the coronavirus pandemic, etc.) and the possible answers.

The workshop offered again an opportunity for open and informal exchanges of experiences. Here we should mention the informative conversations with the heads and staff members of the Slovak, the Czech and the Finnish fiscal institutions. The chairman of the Council for Budget Responsibility of Slovakia informed us about „accommodating” of the previous year’s deficit that endangered the balance and made fulfilling of the new government’s promises difficult. The chairman of the Czech Fiscal Council talked about the effect of the minimal wage endangering fiscal balance while the expert from Finland expressed his worries regarding the pension expenditures and the expected surge of public finance deficit. The colleagues evaluated these factors as a threat for sustainability.

We prepared a joint travel report about the above three conferences.

(File number of the travel report: KVT/10-2/2020)

Other relations

- **On 11th of February 2020** – continuing the cooperation established through the previous years – the chairman of the FC initiated an expert consultancy at dr. Kőrösi Csaba, director of the Directorate of Environmental Sustainability of the Office of the President of the Republic with the intention to continue the analysing of the relations of the economic and fiscal sustainability respectively, the possibility of its expansion to a new field. The chairman of the Council provided information about the fact that the sustainability outlook and approach has been growing and was built into the working concept of the FC. The year 2020 FC research plan already contained the analysis of the interrelations of sustainable development and public finances, beyond competitiveness via the example of clean air. They also agreed that the relationship should continue and analyses regarding sustainability should be further assisted and expanded.

- **On 18th of February 2020** the FC Secretariat hosted a workshop together with representatives of the Blue Planet Foundation, the Central Bank of Hungary and the State Audit Office of Hungary. The participants coordinated the aspects of the research plan for 2020 bearing the title of „Microeconomic effects of sustainable development and public finances by the example of air quality”. The participants agreed that in the course of the research the focal point should be finding out what would be recoupable for the budget, from the aspect of air quality, additional revenues from the economic growth included as well. They agreed that as a result such a document of logical and economic perspective should be prepared that would serve as a basis for measures with concrete direction.

5. As members of the Fiscal Council, both the president of the Central Bank of Hungary and the president of the State Audit Office of Hungary supplied the Council also in 2020 with related analyses for the Council’s meetings – in harmony with Indent (2) § 23 of the Stability Act –, that had been prepared by their respective institutions, thus supporting the FC’s activities. These papers contributed to the validity of the Council’s opinion formulating work in the following topics:

a) SAO Analyses

About the topical issues of imposing taxes on the digital economy, evaluating analysis of the new EU tax regulations matching contemporary economy, with attention to the accountability of this field

The effect of EU supports on government debt and deficit

Public finance aspects of the expanding internet trading

About the financial vulnerability of the population

Analysis for the Fiscal Council of the budgetary processes in the second half of 2019

The effect of lending for small businesses on whitening the economy

Evaluation of the public finance effect of the COVID-19 pandemic

Aspects for the Fiscal Council assisting the formulating of the FC opinion on the year 2021 central budget bill of Hungary for the final voting of the bill

Effects of the economy protection action plan related to the pandemic on the labour market

Analysis of the budget from the aspect of sustainability

Analysis – Mitigating the vulnerability as regards government debt

The structural and volume changes of exports/imports and its effect on the changing of the GDP

The size of the state, the evolution of the centralisation rate and of the redistribution rate, the effect of the tax system carried out by the state on competitiveness and the evolution of the anti-cyclical economic policy

b) MNB analyses

- Budget reports
 - Opinion formulated about the year 2021 central budget bill
 - Half-yearly analyses about the public finance processes
- Monthly MNB analyses
- Other MNB analyses

Beyond the analyses prepared by expert liaison staff members of the two institutions offered continuous assistance and ensured opportunities for consultations for the FC Secretariat concerning the preparation of the draft work documents to be submitted to the Council.

6. Building on the continuity of its year 2020 task plan and beyond the support received from the SAO and MNB, in order to strengthen the validity of its Opinion and resolutions concerning the state of the public finances, the planning and execution of the budget, the evolution of government debt, the public finance balance and the sustainability of public finance, the Council expanded the themes of the researches. For this purpose, seven research institutions prepared 12 studies in 2020:

- **„Situational Picture of the Macroeconomic Public Finances in 2019”** Századvég Economic Research co. (Századvég Gazdaságkutató Zrt.), Kopint-Tárki Institute for Economic Research Co. (Kopint-Tárki Konjunktúrakutató Intézet Zrt.) and ECO-VISTA Economic Research Advisory Co. (ECO-VISTA Gazdaságkutató Tanácsadó Kft) analysed the characteristic features of the year 2019 macroeconomic and budgetary processes (and performances); additionally the perspectives of the spring 2020 situation of the world economy and the economy of the EU, as well as the governmental, fiscal and monetary measures taken to control the coronavirus pandemic, the estimated impact of these measures on the crisis on the basis of the data of the first quarter of 2020 and the expected risks and tendencies that would affect the year 2020 economic and public finance processes.
- **„Situational Picture of the Macroeconomics and Public Finances, Outlook for the years 2020- 2022”** was the title of the analysis prepared by OG Research Innovative Economic Solutions Co. (OG Research Innovatív Közgazdasági Megoldások Kft) and Századvég Economic Research Co. (Századvég Gazdaságkutató Zrt.) assisting the Council’s formulating its Opinion on the draft of the year 2021 central budget bill and prepared an analysis (outlook) of the characteristic features of the expected medium-

term macroeconomic processes and – based on the available data about the first quarter of 2020 – about the decisive tendencies and risks.

- **„Effects of the World Economy – with Special Regard to the EU and within it, the Economy and Public Finance of Hungary”** was the title of the analysis prepared by Kopint-Tárki Institute for Economic Research Co. (Kopint-Tárki Konjunktúrakutató Intézet Zrt.) about the expected effects of the changing world economy on the performance of the EU and on the domestic economy and public finance, with an emphasis on Brexit.
- **„Structural Characteristic Features of Economic Growth in the European Union”** was the title of the ambitious analysis prepared by the research group of BME (Budapest University of Technology and Economics) headed by professor Péter Halmai. The paper examined the quantitative relations of the actual and potential growth, the conditions of structurally sustainable performance of the economy with focusing on the EU economy and the effects of financial crises. They concluded the source of the Hungarian economic growth was the growing productivity.
- **„Emergence of Sustainability and Economic-Social Development in Productivity in Hungary”** was the title of the analysis prepared by the Research Group of NKE (University of Public Service) – headed by Professor Magdolna Csath – that examined the economic relations of sustainability with regard to competitiveness. Based on this analysis the research group draw conclusions concerning the system of relations of competitiveness and the human-social sustainability as well as the tasks of the state regarding the strengthening of sustainability (contemporary economic structure, adequate knowledge, increasing the quality and quantity of human assets).
- **„The Mutual Impacts of Sustainable Development and Public Finance by Example of Air Quality”** was the title of the analysis prepared by Hétfa Kutatóintézet (Hétfa Research Institute) assessed the mutual impacts of sustainable development and public finance by example of air quality. Based on existing analyses, data, governmental strategies, available statistics and measuring reviewed the domestic trends. The paper was analysing the costs that, directly or indirectly, affect the central budget.
- **„The Expected Evolution of Macro economy and Public Finance in 2020”** was the title of the analysis of ECO-VISTA Gazdaságkutató Tanácsadó Kft. (Economic Research Advisory Co.) that was examining the effects of the coronavirus pandemic that burst in the spring of 2020, the risk factors influencing the economic processes, the effectiveness of the governmental measures aiming at softening the effects of the crisis on protecting jobs and protecting the economy, the experiences gained in the course of managing the crisis and the expected evolution of the macroeconomic processes.
- **„International Economic Processes in a Slowing Global Environment – with Special Regard to Hungary”** was the title of the research carried on by Copint-Tárki Konjunktúrakutató Intézet Zrt. (Institute for Economic Research Co.) that introduced

in detail the evolution of the international economic processes, the slowing down of the growth processes due to Covid-19 and the subsequent consequences, the characteristic features of the economy of the European Union, the growth tendencies of the countries of the Euro-zone, the consequences of the effects of the international environment and the world economy on Hungarian economy and public finance as well as the expected realisation.

- **„Effects of World Economy on the EU and in it on Hungary’s Economy and Public Finance - with special regard to Brexit”** was the title of the paper summing up the researches of OG Research Innovatív Megoldások Kft. (OG Research Innovative Economic Solutions Co.) about to the decisive trends of world economy related to the appearance of Covid-19 at the beginning of 2020 and analysing the effect of assumptions related to the international environment, especially in case of Hungary, on the variables. The research put the projections in scripts (3).
 - The prepared studies (evaluations) represented useful assistance for the FC in discharging its tasks, contained findings, evaluations and consequences worth of attention at the time of evaluating the execution of the budget act in the first half of the year as well as for formulating an opinion of next year’s (2021) budget, judging the sustainability of the public finance-macroeconomic processes and forecasting the risks.
7. So far the FC, together with the Hungarian Economic Association (HEC) the Council annually organised a workshop in the frame of what the results of the analyses supporting the FC by the SAO and MNB, as well as the results of the background studies prepared for the Council, in harmony with the stipulations of Point 6 were presented by the lecturers of the concerned institutions. Because of the Coronavirus pandemic this took place online and with a reduced programme. According to the decision of the Council the full range of the submitted papers was published both in Hungarian and English versions.
8. The schedule of the FC meetings is mostly fixed by the annual action plan – with regard to the respective regulations of the Stability Act. It may become necessary that in harmony with the Action Plan, or arising from the macroeconomic-public finance processes, that due to its constitutional standing, the Council should formulate an opinion. In harmony with this obligation the Council formulated its opinion for example about the governmental measures taken to soften the crisis caused by the coronavirus epidemic.
9. The tasks listed in Chapter 5” Tasks of International Relations „of the year 2020 Action Plan of the FC were partially realised due to the coronavirus pandemic. Altogether three workshops were organised in the first quarter, with the participation of the independent fiscal institutions (IFIs). The plenary session of the Trilateral Commission in Washington and the organisation’s regional meeting in Prague had to be cancelled.

III Approval of the draft resolution

Hereby I ask the Fiscal Council to kindly accept the enclosed year 2020 annual report, in harmony with the attached draft resolution.

Budapest, 14th January, 2021

Kovács Árpád

Resolution 1/2021.01.14. of the Fiscal Council

According to the presentation of the chairman, at its meeting held on 14th January 2021, the Fiscal Council discussed and adopted the report of the Council's report on the year 2020 activities of the body.

The Council hereby calls the Chairman to send the report to the Speaker of the National Assembly.

Deadline: immediately

Responsible: the Chairman of the Council

Budapest, 14th of January, 2021

Domokos László
Member of the Fiscal Council

Matolcsy György
Member of the Fiscal Council

Kovács Árpád
Chairman of the Fiscal Council