KVT/28-2/2021.

Resolution of the Fiscal Council

on its consent to submit the year 2022 central budget bill of Hungary for final voting

I

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

In harmony with § 25 of Act CXCIV of 2011 on the economic stability of Hungary (henceforth: Stability Act) the Fiscal Council (henceforward: the Council, FC) shall formulate its position regarding the FC's preliminary consent prescribed by Indent (3) Article 44 of the Fundamental Law of Hungary for the adoption of the central budget bill. In doing so, the Council shall examine the compliance of the bill with the stipulation of the decreasing obligation of Indent (5) Article 36 of the Fundamental Law

In its Opinion 5/2021.04.27 formulated on the draft bill of Hungary's year 2022 central budget the Council stated that „the draft budget bill is counting with a high, 5, 2 percent economic growth that is close to the upper limit of the well-known domestic and international forecasts, by means of the significant expansion of wages and employment, household consumption and fix capital formation." In the justification section of its Opinion the FC indicated that „the Council considers that the expected economic expansion might be realised in case the epidemic shall die off in harmony with the expectations, and no unforeseen dissentions occur in the world economy." The Council preferred that compared to the 7, 5 percent in 2021, the GDP proportionate public finance deficit should decrease however; it considered the 5, 9 percent degree too high. Namely, according to the Council the expected rapid economic reconstruction offers adequate basis for a more pronounced decreasing of the year 2022 annual deficit and this would serve as a collateral for the restoration of the balance and sustainable catching-up."

According to the FC „in harmony with the stipulations of the Fundamental Law – following the temporary increase in 2020 – the decreasing trend of government debt indicator shall remain lasting and in harmony with the draft budget bill, its degree shall decline from the 79, 9 percent of year 2021 to 79, 3 percent by the end of 2022." The Council laid it down that „the year 2022 budget bill complies with the government debt rule prescribed by the Fundamental Law" and meets the stipulation of Indent (2a) § 4 of the Stability Act that requires that the end-of-the-year degree of the government debt indicator shall be defined in such a way that the decline of the government debt indicator reached at least 0, 1 percent, beyond the enforcement of the EU regulations concerning the decreasing of the government debt.” Despite this and in harmony with its notion concerning the targeted deficit, the Council did not consider the 0, 6 percent decrease of the debt indicator for 2022 adequate and pointed out that „the economic restoration starting with 2021 allows a greater degree of debt indicator decrease and this would be necessary to carry on with the decrease even in case of the possible occurrence of risks.” Additionally, the FC also pointed out that „the degree of the reserves serving the purpose of ensuring the security of fiscal management is merely 0, 4 percent of the GDP and is lagging behind the low level planned for 2021 (0, 5 percent of the GDP) as well.” In its Opinion the Council identified that „government debt management intends to keep the favourable structure of the debt built up during the past years also in 2022, together with the maintaining of the low level of the share of foreign currency denominated debt, the increasing of the participation of the population in financing public debt, together with the increasing of the maturity dates of the government debt.”

The attachment to the bill submitted under the file number T/16118 contains the response of the government to the No. 5/2021.04.27. Opinion of the Council about the draft of the year 2022 central budget bill of Hungary. Upon the authorisation of the Council the FC Chairman addressed the above in the frame of his oral presentation at the beginning of the general debate of the bill.

Taking into consideration the changes of the bill no. T/16118. submitted to the National Assembly and compared to the draft which the FC formulated its opinion on, both the revenue and expenditure totals were increased equally by HUF 99 billion however; these did not concern the cash deficit and the government debt indicator and the findings of the Council on the draft bill were valid for the submitted bill as well.

On 8th of June, 2021 attached to his letter OE-41/360-1/2021. the Speaker of the National Assembly forwarded to the Council the uniform budget bill No. T/16118/1179. about Hungary’s year 2022 annual budget that also contained the amendments adopted by the National Assembly, asking the Council for its Opinion about the compliance of the bill with the government debt rule as stipulated by § 25 of the Stability Act and, in harmony with Indent (3) Article 44 of the Fundamental Law, asking for the FC’s preliminary consent to submit the bill for final voting, When making the decision on the present FC resolution – just like in the course of formulating its opinion of the draft bill No. T/16118. the Council took into consideration the evaluations prepared by the State Audit Office and the Central Bank of Hungary.

II

Resolution of the Fiscal Council

At its meeting held on 10th of June, 2021 – based on its examination of the uniform budget bill No. T/16118/1179. in harmony with the respective stipulation of § 25 of the Stability Act – the Council took the following Resolution:

1) The Council establishes that the amendments proposed by the uniform budget bill shall not change the planned cash deficit as the increase of individual expenditure amendments are fully compensated by the decrease of other expenditure appropriations and the increase of revenue appropriations. As a consequence, the planned amount of government debt shall not change either.
2) In the Council's opinion the degree of the government debt indicator planned by Indent (1) § 3 of the uniform budget bill No. T/16118/1179. planned for 31st of December 2022 is viable; it was calculated according to the respective regulations of the Stability Act and is in harmony with the macroeconomic and public finance processes that served as the basis for the bill. As the degree of the government debt indicator calculated for the end of 2022 is lower by 0, 6 percent than the degree expected for the end of 2021, the respective stipulation of Indent (5) Article 36 of the Fundamental Law is also being met.
3) On this basis the FC shall grant its preliminary consent – as stipulated by Indent (3) Article 44 of the Fundamental Law – to submit the uniform budget bill No. T/16118/1179. for final voting.
4) The Council herby authorises its Chairman to immediately inform the Speaker of the National Assembly about its Resolution and delineate it before the plenary session of the National Assembly prior to the final voting.

III

Justification of the Council's Resolution

Compared to the contents of the submitted bill No. T/16118. the appropriations that had been adopted by the National Assembly were amended equally (by HUF 41, 3 billion) as regards the revenue and expenditure totals thus, as a result of the amendments, the cash deficit of the central subsystem shall not change and consequently, neither does the amount of the government debt. The deficit of the public finance calculated by EU methodology shall not change either.

The increase of the expenditure total by HUF 41, 3 billion is the result of the fact that the adopted amendments are increasing individual expenditures, in total by about HUF 102, 8 billion while other expenditures were cut by HUF 61, 5 billion. The following areas shall receive additional support: tourism development (HUF 41 billion), public service contribution to media services and modernisation of government agencies (HUF 10 – 10 billion), wage development of higher educational institutions changing their model (HUF 8, 1 billion), the new programmes and developments of the Hungarian Academy of Sciences (HUF 7, 3 billion), faith and ethical education (HUF 6 billion), hospital reconstruction in the capital (HUF 5, 8 billion), national municipalities of nationalities (HUF 1, 5 billion).

The major part of the resources of the additional expenditure appropriations shall be compensated by cutting the appropriation of other, mixed expenditures (HUF 55, 2 billion) while the smaller part shall be covered by the increasing of the appropriation of the value added tax (HUF 43, 1 billion). The FC deems the increased revenue expenditure viable. The decreasing of the other, mixed expenditure appropriation is also viable.

Altogether, the contents of the T/16118/1179. uniform budget bill did not make it necessary to review the findings of the Council's Opinion No. 5/2021.04.27. concerning the enforcement of the government debt rule.

In its Opinion No. 5/2021.04.27. concerning the draft budget bill, the Council made a proposal to decrease the planned GDP proportionate deficit and, in harmony with this, to decrease to a greater degree the government debt indicator. The FC thinks that as a result of a favourable shift in the growth expectations, i.e. the GDP growth in the first quarter surpassing the expectations, the level of the nominal GDP both in 2021 and in 2022 might significantly exceed the level that served as a basis when planning the budget and this shall result in the growth of the tax bases and the budget revenues. This improves the viability of the targeted deficit and the realisation of the government debt indicator planned by the bill. In other words, it mitigates the risk of non-realisation and, at the same time, strengthens the justification of a lower deficit and government debt indicator in 2022, as proposed for consideration by the Council.

The Council laid down its Resolution concerning the realisation of the government debt rule of the uniform budget bill with regard to the above and in harmony with the stipulation of § 25 of the Stability Act and hereby grants its consent to submit the T/16118/1179. uniform budget bill for final voting.

Budapest, 10th of July, 2021

Domokos László
Member of the Fiscal Council

Matolcsy György
Member of the Fiscal Council

Kovács Árpád
Chairman of the Fiscal Council