

Proposition
for the Fiscal Council

Subject: Report on the Implementation of the year 2018 Action Plan of the
Fiscal Council

December 2018

I

The Fiscal Council (hereinafter referred to: Council/FC) is an organisation supporting the activities of the National Assembly – in harmony with the stipulations of Article 44 of the Fundamental Law of Hungary – that pays particular attention to evaluating the grounding of the central budget and the effectiveness of the government debt rule. Apart from the Fundamental Law its tasks are defined by Act CXCIV of 2011 on the Economic Stability of Hungary (henceforward: Stability Act). In harmony with this the FC shall

- formulate an opinion
 - on the draft of the central budget bill, the draft bill on the amendment of the budget bill included, and within this¹ about the degree of the budget deficit and its compliance with Indent (2) § 3/A of the Stability Act,²
 - every six months on the state of the execution of the central budget bill and the expected trend of the government debt,
- in harmony with Indent (3) Article 44 of the Fundamental Law decide on granting its preliminary consent prior to the final voting on the uniform budget bill and the uniform proposal on the amendment of the central budget bill.

The report of the Chairman of the Council on the implementation of the 2018 Action Plan of the FC shall summarise

- the collective verdicts of the Council presented in 2018,

¹ This rule was registered in the Stability Act on 26th of July 2018 by § 59 of Act XL of 2018, thus reinforcing the FC's practice followed so far.

² This means the harmony of the governmental sector with the medium range budget as well as the purpose that its deficit shall not exceed the 3 % of the gross domestic product (GDP).

- the activities of the FC Chairman in the framework of the international cooperation of the independent fiscal institutions ensuring compliance with the „fiscal frame” (fiscal council type organisations), and additionally
- those activities that are directly and indirectly related to the organising of the Council’s work the grounding of the FC’s decisions and the sphere of activities of the Council’s Chairman and the FC Secretariat.

II

Execution of the Council's 2018 Action Plan

1. In harmony with Act CXCIV of 2011 on the Economic Stability of Hungary (henceforward: Stability Act) the Council **completed its annual mandatory tasks as described by its Action Plan.** To this order – similarly to the previous year – as a result of the further improvement of the planning practice and the ever strengthening fiscal stability – four board meetings were necessary.

a) *Meetings related to Point f) Indent (1) § 23. of the Stability Act*

At its **first meeting** (11th January 2018) the FC discussed and **approved its report** on the implementation of its 2017 annual Action Plan and on the Chairman's cycle of the 2012 – 2017 period (**Resolution 1/2018.01.11.**) and accepted the body's 2018 **Action Plan**, the research plan of experts assisting the formulation of the FC's opinions, resolutions included. (**Resolution 2/2018.01.11.**)

b) *Tasks in harmony with Point a)b) Indent (1) § 23 and Indent (1) § 25 of the Stability Act*

ba) At the **second meeting** of the Council (June 7 2018) two resolutions were accepted.

ba/1. **In its Opinion 3/2018.06.07. formulated about the draft of the 2019 Central Budget Bill of Hungary** the Council found that „*the revenue and expenditure appropriation of the draft document were in harmony with the basis expected for year 2018 and the macroeconomic processes planned for 2019. To the implementation of the revenue expenditures it is necessary that the expected macroeconomic course should be met. The plan was calculating realistically with the expenditures*”, [...] additionally, *the reserves cover the handling of the macroeconomic risks*”.

In its Opinion the Council recorded also that *„the GDP proportionate 2019 deficit, calculated by the EU methodology (ESA 2010) of 1, 8 percent is viable by taking into consideration the reserves. The targeted deficit is in harmony with the Maastrich criteria and the same – 3 percent – degree stipulated by Point b) Indent (2) of Paragraph 3/A of the Stability Act.”* At the same time, the FC pointed out that the structural balance continues to *„differ from the medium range targeted value, reaching of what measures not endangering the economic growth are necessary”*. With respect to the risks and in the interest of the safe delivery of the targeted fiscal deficit, the FC supported the planned amount of the Country Protection Fund. In its Opinion the Council also expressed that *„the trend depicted in the draft bill as regards the 2018 debt indicator (72,9 percent of the GDP) and the 2019 debt indicator (70,3 percent) calculated at constant exchange rate, in harmony with the respective stipulations of the Stability Act, is in accordance with the planned and expected macroeconomic and fiscal processes of years 2018 and 2019 and fulfils the requirement stipulated by Indent (5) Article 36 of the Fundamental Law (government debt rule)”*. The planned measure of the mitigation of the debt rate also corresponds with the prescription of the European Union concerning government debt.

ba/2. At the same meeting – in the frame of a separate agenda - **the Council evaluated the situation of the execution of the 2017 central budget act and the trend of government debt.** In its **Opinion 4/2018.06.07.** the Council recorded that *„in harmony with the amended appropriations, the tax and contribution revenues were met in 2017 [...], on the other hand the cash flow revenues originating from the EU supports fell short from the appropriations. The increase of the expenditures compared to the original appropriation was*

caused mostly by the payments of the higher than planned EU advances that concerned the accrual deficit only to a lesser degree". On the basis of the macroeconomic and fiscal data at its disposal the FC was on the opinion that *„in 2017 the EU and domestic stipulations concerning the accrual based deficit of public finance were met, just like in the previous years, and the targeted deficit calculated by EU methodology was lower than the planned GDP proportionate 2, 4 percent, thus was 2 percent".* By the end of 2017 the GDP proportionate government debt continued to decrease (compared to the previous year by 2, 4 percent to 73, 6 percent) that *„was in harmony with the criteria stipulated by both the Fundamental Law and the Stability Act".* Beyond this the Council took a positive view on the fact that within the proportion of the government debt denominated in foreign currency decreased, the internal financing gained strength as these factors have significantly mitigated the external vulnerability of the country.

bb) At its **third meeting** (July 17 2018) the FC **examined the compliance of the uniform budget bill T/503/854. with the government debt rule and granted its preliminary consent (in its resolution (5/2018.07.17.)** to submit the bill for final voting (**the background** of this was the resolution 3/2018.06.07. **mentioned under point ba/1**). The FC stated that – identically with the draft bill, what the Council had formulated its Opinion on – the degree of the government debt rule in the budget bill was well grounded and in harmony with the respective stipulations of the Stability Act as well as the macroeconomic and fiscal processes that served as a basis for the bill. As „the measure of the government debt indicator calculated for the end of year 2019 was lower by 2, 6 percent than the indicator expected for the end of 2018, the requirement of Indent (5) § 36. of the Fundamental Law shall be met as

well”. In the Justification section of the FC’s resolution they pointed out that *„it is expected from the Government to implement disciplined economic management also in 2019 to realise the targeted deficit and government debt indicator and – resorting to the opportunities presented by the growing leeway as a result of the previous years – they should compensate appropriately the possible growth of expenditures or the decreasing revenues that might arise due to the possible changing of macro conditions”*.

Meeting related to Point c) Indent (1) § 23. of the Stability Act

At its **fourth board meeting** (September 18 2018) the FC **evaluated the state of the execution of the year 2018 central budget act and formulated its opinion on the basis of the processes of the first half of 2018 (Resolution 6/2018.09.18.)**. On the basis of the macroeconomic and fiscal processes of the first half of the year *„the Council sees the 2, 4 percent annual ESA targeted deficit – calculated by the EU methodology – viable”* however, to this end *„it is necessary to have a strong control of the expenditures, especially in case of the central fiscal organisations”*. At the same time the FC pinpointed considerable risks as regards the viability of the targeted annual cash flow deficit. The high cash flow deficit in the first year resulted mostly from the backlog in the revenues of the endorsed EU programmes amounting to HUF 800 billion, compared to the pro rata temporis revenues, as well as the expenditures of the fiscal organisations as regards the chapter managed appropriations that exceeded the pro rata temporis amount. In the Council’s opinion *„the accrual based targeted deficit defined by the central budget act is viable only in case the influx of EU cash flow revenues speeded up in the second half of the year and, in case of the expenditures – especially as regards the fiscal chapters – financial control would be even stricter*. According to the Council, by the

end of 2018 the size of the GDP proportionate government debt might decrease in harmony with the stipulations of the Fundamental Law and the Stability Act and „*the estimated level of the GDP proportionate government debt calculated by the EU methodology very likely shall meet the so-called one-twentieth rule as well*”. The FC had a positive view as regards the fact that the exposure of the central budget via the government debt kept decreasing further, thanks to the mitigation of the foreign currency denominated debt to 20 percent. Additionally the Council deemed the planned and implemented governmental measures (requiring the local governments and public companies as well to handle their respective EU support advances on treasury accounts) to keep the indebtedness of public finance under control as progressive steps.

2. Beyond its meetings related to the FC’s obligatory tasks detailed by the Action Plan the Council also held an **informal, orienting meeting** on April 24, 2018 where they had not issued any resolutions. Two experts’ consultations, initiated by the Chairman of the Council served the basis for this meeting, namely at the Directorate of the Office of the President of the Republic responsible for Sustainable Environment [henceforward: KEH KFI] on 15th February 2018 and at the National Council of Sustainable Development [henceforward: NFFT] on 20th of March 2018. Following the introductory presentation, those attending the enlarged meeting, dr. Csaba Kőrösi Director of KEH KFI, dr. Katalin Szili, Honorary Chair of NFFT and dr. Gábor Bartus, Secretary of NFFT reviewed the contents of sustainable development and its major strategic relations. They analysed the tendencies and characteristic features of the fundamental elements of long-term development (population, resources, education, strategies, limits, etc.) as well as the relations of the sustainability of the economics and competitiveness. Mr. László Domokos President of the SAO and his colleague, Ms. Kriszta Kádár analysed the

factors affecting the trend of activity rate (the changes and consequences of the fluctuating population, level of education, employment, etc.) in a ten year overview together with the possible ways to maintain the sustainability of the activity rate (training, health status, improving productivity, investment, intensive development of human resources). Mr. Gergely Baksay Fiscal Director (Central Bank of Hungary - MNB) then gave an overview from the aspect of sustainable budgeting about the three interlinked factors, i.e. economic recovery – crisis – fiscal intervention with regard to issues of growth and debt decreasing as well as the long-term forecast of the MNB.

Those present were in accord that, as regards sustainability as a criterion and research subject should be incorporated in the annual research programme of the FC.

The Chairman and the Secretariat of the FC asked for **additional information from the governmental organisations** on several occasions, characteristically from the Ministry of Finance. From among these occasions the request submitted on 14th of November 2018 is worth of mentioning that was seeking information on the possible changes affecting the 2019 tax revenues in the budget as a result of the shift of the macroeconomic processes. In his answer the Minister of Finance indicated that as regards the origins of both the positive and negative risks arising from this year and the next year the tax revenue appropriations of the 2019 central budget can be maintained.

- 3. The Resolutions of the Council** (together with the related justifications) were published at the **FC's website** – as usual. These documents together with the Council's other documents, their respective English versions, and the research documents were downloaded in 2018 in **2084 cases** (most of the

time the FC resolutions – 1534 times, while the research documents were downloaded 550 times).

Downloading of FC documents

Year	FC resolutions	Research documents	Total
2015	4815	3685	8500
2016	2430	1708	4138
2017	1150	880	2030
2018	1534	550	2084

The reason for the continuous decline of downloads was that as a result of the dynamic economic growth, the strengthening of fiscal discipline, the soundness of public finance and the predictability of the processes the assumption of „steadiness” gained ground and the interest became more and more professional.

Press relations concerning the work done by the Council belong to the sphere of responsibility of the Chairman, according to the rules of procedure. From among these the on-the-spot and studio interviews he made at the time of the formulation of the FC Opinion on the 2019 central budget bill and following his expose delivered at the beginning of the debate of the budget in the National Assembly that were broadcasted on several channels can be emphasised. Due to the significant interest the Chairman of the Council evaluated the interim year macroeconomic and public finance processes of 2018 on several occasions and within this, the reality of social expectations,

the trend of the government debt rate, the sustainability of growth and its possible risks as well as the utilisation of EU resources. From among these evaluations the most significant was the publishing of the FC Opinion formulated on the state of the execution of the budget act in the first half of the year for the broader public. The fact that the Chairman of the body was approached often to give interviews and presentations – not only in close relation to the FC resolutions – is an indication of the existing interest in the work of the Council. Thanks to the growing interest the number of media appearances has been showing a rising tendency (In 2015 this number was 60; in 2016 it was 70 while in 2017 it reached 100). Beyond the **media appearances**, not independently from his being a university professor and educator as well as the honorary president of the Hungarian Economic Association, the Chairman of the Council has held **close to 30 lectures** at various fora. **His articles were** published in various publications, periodicals (Világgazdaság – World Economy, Pénzügyi Almanach - Public Finance Quarterly, Magyar Idők – Hungarian Times, Medicina Évkönyv – Medicina Yearbook, IME Interdiszciplináris Magyar Egészségügy – IME Interdisciplinary Hungarian Healthcare, etc.) just like in county, town and university papers. FC documents are often quoted and referred to by various publications, together with the Chairman’s comments. The number of **phone calls and letters** addressed to the FC kept growing in 2018. In these cases citizens looked for and received information from the Chairman of the Council to their questions concerning the macro economy and public finance.

4. The FC participated in the ever widening **international cooperation** also in 2018. The professional relations of fiscal council type organisations that started in 2013 with the support of OECD have expanded under the aegis of the European Union. Multilateral meetings have promoted the joint interpretation of the EU purposes and regulations and the strengthening of

professional relations. The FC has participated in this joint work from the very beginning.

a) *Multilateral meetings*

- **On 1st of February 2018** the European Commission (EC) organised a day workshop with the participation of the independent fiscal institutions (IFI) of the EU member-states and the European Fiscal Board (EFB). Mr. Niel Thygesen, head of EFB presented a report on the activities of the Board in the first year. He emphasized that in the course of the application of the preventive branch of the Stability and Growth Pact, the flexible interpretation of certain macroeconomic indicators by the different countries was still more advantageous in their opinion than the total negligence of the respective stipulations or utilisation of those indicators without any flexibility. Afterwards, Mr. Stefan Ciobanu, member of the DG ECFIN (Directorate General of the Economic and Financial Affairs) reviewed the position of the Commission as regards elevating the Fiscal Pact to the rank of a legal provision. (In the short run this document shall not become a legal provision.) In his presentation Mr. Massimo Suardi, staff member of the Vice-President's Cabinet talked about the operation of a European Monetary Fund built on stability mechanisms and the concept of having a European ministerial position responsible for common economic and fiscal matters (Package of Proposals of the EU of 6th of December 2018). Ms. Malgorzata Szczesna-Rundberg, staff member of Eurostat talked about the statistical indicators and risks concerning the financial situation of the individual countries. She also presented the Eurostat views the results of the annual data acquisition of the independent fiscal institutions and issues concerning communication.

The meeting in Brussels presented also an opportunity for the Chairman of the Fiscal Council to have a conversation with Mr. Francois Moniet,

President of the French SAO and the related independent fiscal institution as well as with the Chairman of the Fiscal Council of Slovakia, Mr. Ivan Sramko and Mr. Ante Zigman, Head of the Croatian IFI. **(Trip report: KVT/11-1/2018.)**

- OECD organised a workshop for parliamentary fiscal organisations and independent fiscal institutions (IFI) in Seoul on **July 2 and 3, 2018**. This was the 10th jubilee meeting hosted by the Korean National Assembly Budget Office. Nearly all member-states of OECD were represented at the event, apart from a number of international financial institutions, universities, economic journals, periodicals. Participants listened to presentations about the efficient division of the responsibilities of the legislative and executive powers, the creation of a central budget and its respective executions from representatives of the USA, Germany and the United Kingdom. By reviewing the methodologies employed by OECD, the International Monetary Fund and the EU Commission the participants were focusing on the sustainability of the government debt of nation states and the various approaches of this aspect. Those, attending the workshop could gain information on the various analysing methods that are taking into account demographic and social tendencies and that might promote financial sustainability, apart from the wealth of the population. Apart from the above the attendees also got a detailed picture on the expected development possibilities of Asia and South Korea and the expected economic course of the region. Following the technical blocks the new organisations (from the Czech Republic, Slovenia, Brazil and Peru) introduced themselves and were discussing issues concerning the flow of information, communication and network expansion. The European independent fiscal institutions held a meeting where they declared: for

the time being they shall not express any opinion as regards the expected transformation of the EU fiscal framework.

The two-day workshop offered an opportunity for the Chairman of the FC to have several, informal meetings with partners interested in Hungary. He met with Ms. Eva Zamrazilova, head of the IFI of the Czech Republic, with Mr. Robert Chote, his British counterpart, Mr. Helmut Berger, head of the IFI of Austria and Echard Janeba, his partner from the IFI of Germany. **(Trip report: KVT/47-1/2018.)**

- The network of the European Union Independent Fiscal Institutions (EUIFI)³ held its outstanding workshop on **November 23**, 2018 in Bratislava.

³ The Network was established in autumn 2015. The network is an umbrella organisation bringing together the independent fiscal institutions of the EU and offers an opportunity for the institutions guarding public finance responsibility to exchange opinions, experiences, joint advocacy and organising workshops.

At the meeting the national institutions provided opinions concerning the additional work of the Network, ways of rendering technical support, i.e. the future work of the secretariats. (The survey on the future of the abilities was helping the discussing of the agenda.) Based on this discussion the concept of having permanent organisational units for the deployment of the organisational role of the secretariats was supported. Seven national institutions – among them the Hungarian – indicated their interest, following a domestic consultation in this matter. Although no final decision was made yet, it was felt that members of the Network were willing to consider the deployment of the secretarial work to Budapest and indicated interest in having further discussions in this matter. Mr. José Luis Escriva, present Chairman of the Network indicated that he planned visiting Budapest to clarify the options.

This meeting also offered opportunities for informal meetings. Among them the meetings of the FC Chairman with the head of the Italian IFI, Mr. Guiseppe Pisauro and head of the Office of the Budget Responsibility of the UK, Mr. Robert Chote are worth of mentioning. **(Trip report: KVT/72-1/2018.)**

b) Other relations

- On **23rd January, 2018** Ms. Haruna Saeki and Mr. Toshihiko Naito, on behalf of the Japan Credit Rating Agency Ltd. paid an introductory visit to the Chairman of the FC. The delegation was looking for and was provided with detailed information on the antecedents of establishing the Fiscal Council of Hungary, its rules of operation, role in the adoption of the central budget, its powers and relations with the EU and OECD. The visitors were especially interested in the steps followed by the FC when formulating its opinion on the central budget bill, the stages of the plenary parliamentary debate as well as what type of data

the FC can obtain during its work and the trend of the observance of the government debt rule.

- As a member of the Hungarian group of the Trilateral Commission the Chairman of the Fiscal Council attended the organisation's annual plenary session held in Singapore from **March 23 to 25, 2018**. The keynote speaker was Singapore's Deputy Prime Minister who expounded his views on the realities of the East Asian economic growth and the fragility of the balances. The major issues of the subsequent panel discussions encompassed the changing of the Asian force field and the security concerns related to the growing economic and military expansion of China, without any ideological messages. Another group of issues of the workshop was related to the political development of Europe and the USA and to the global governing of the world. No definite worldview evolved as a result of the talks and debate. The possible negative consequences of the IT developments, or the dangers presented by artificial intelligence – that at the moment are hardly recognisable yet – as well as the threats of the „IT splitting” of the world were also discussed. The whole of the meeting was characterised by the uncertainty as regards, which path the world should follow. However, the declarations concerning world economy, respectively the different regions of the world were presuming a moderate, sustainable growth for the next few years; unchanging raw material and energy prices and the political uncertainties seem not to change the economic-development outlooks in a negative direction.

This conference also offered an opportunity to carry on informal talks. In this framework the FC Chairman talked with the Deputy Director of the Beijing Foreign Institute, Mr. Xing Susu, who recently visited

Hungary when preparing the last visit of the delegation of the Chinese government in Budapest. (**Trip report: KVT-18-1/2018.**)

- **On May 10th, 2018** in the course of its first supervision of the year the Chairman of the Council received the representatives of Moody's Investors Service (Messrs. Evan Wohlmann and Steffen Wolf Dyck). The representatives of the international credit rating agency received information about the trend of the macroeconomic expectations (according to the forecast of the government economic growth remains high and this was also supported by other analysers as well; macroeconomics were basically balanced, consumption was gaining momentum, borrowing was careful and low, issues concerning sustainability came into the focus of the Council's work as well as the role of the rule based budget). Responding to questions the Chairman of the FC addressed the transformation of the educational system by emphasising quality, the delay in receiving the EU supports and the ensuing consequences concerning cash flow deficit and the expected trend of the debt course (in connection with the MNB foundations and the settlement dispute between Eximbank and Eurostat).
- **On June 21, 2018** the Chairman of the FC met the delegation of IMF (Ms. Borislava Mircheva Messrs. Khaled Sakr and Kamil Dybczak) who carried on economic consultations in Hungary, in harmony with IMF's Article IV. The Chairman informed the participants about the state of the annual budget act, the expected macroeconomic and public finance processes on the basis of the available pro rata temporis data, then reviewed the issues of sustainability, balance, competitiveness, the challenges of improving competitiveness, the utilisation of EU supports, the expected government debt trend and the sustainability of the deficit numbers. The parties agreed that in the short run the environmental

effects are more supporting growth and sustainability although, there are some negative factors as well.

- **On September 18, 2018** the Chairman of the FC met Mr. Manfred Bergmann, the new director of the EU DG-ECFIN who is responsible for Hungary. Mr. Bergmann was accompanied by Mr. Dino Pinelli, Ms. Hana Genorio, Messrs Iván Csaba and Gábor Márk Pellényi. In the course of the business lunch the parties reviewed the issues related to public finance balance, economic and fiscal processes, growth outlooks and sustainability for the years 2018 and 2019.
- **On October 25, 2018** the Chairman of the FC met again the representatives of Moody's Investors Service, Dr. Heiko Peters and Mr. Steffen Wolf Dick, who arrived for the second supervision of Hungary in 2018. At the meeting the Chairman of the FC informed the visitors about the growth expectations for the remainder of year 2018 and for 2019, indicating that this shall ensure the decreasing of the balance indicators belonging to the competency of the Fiscal Council. It is foreseeable that the majority of the EU supports might arrive towards the end of the cycle. Up to that point the system of prefinancing can function that, on the other hand, is negatively affecting the cash flow deficit – that also affects the government debt. Hungarian economy is on a growth course; nearly 60 percent of the EU supports are being used for economic development according to the purpose of the Government, macro financial stability is adequate however, productivity and efficiency need to be improved. The visitors were interested in the appropriateness and the improvement of the education level and how this might affect economic growth. The Chairman of the FC explained that the level of the education is differentiated. As to the risks concerning the year 2019 central budget the Chairman mentioned that

he did not see any risks as regards „governmental expenditure” and the strict fiscal discipline remains a requirement.

- Between **November 18 and 22, 2018** the Chairman of the FC, as a member of the Hungarian group of the Trilateral Commission, attended the 42nd meeting of the European section of the organisation held in Ljubljana. The main topic of the conference were democracy, liberalism, the relations of Europe and the USA, the migration, the probability of a possible crisis and – additionally – the place and future of Europe in light of the various processes in the world, Brexit included. In the respective panel discussion former prime ministers, like Messrs. Mario Monti, Alain Juppe and Janez Jansa participated. The work in the different sections as well as the debates were characterised by a certain distance, refraining from stark statements and a wish to maintain balance.

The regional meeting offered an opportunity for a number of informal talks and more people than ever before expressed interest in exchanging ideas with the Chairman of the FC. It is worth mentioning that among others, Mr. Mario Monti, former Prime Minister of Italy started conversation with the Chairman. (**Trip report: KVT/69-1/2018.**)

The National Assembly, the concerned government members and members of the Council received regular information about the international workshops and consultations (the discussed issues and viewpoints) by receiving the trip reports.

5. As members of the Fiscal Council both the **Governor of the Central Bank of Hungary** and the **President of the State Audit Office of Hungary** - in harmony with the stipulation of Indent (2) § 23 of the Stability Act – supplied the Council also in 2018 with the **analyses**, studies prepared by

their respective institutions concerning the issues the FC had on its agenda, thus promoting the Council's work. By supplying a reasonable basis for the opinion formulating work of the FC these studies helped the body's work regarding the following topics:

a) SAO Analyses

- Aspects for the Fiscal Council for formulating its opinion on the draft of the year 2019 central budget bill of Hungary
- Opinion on the 2019 central budget bill of Hungary
- Aspects for the Fiscal Council to formulate its opinion for the final vote on the 2019 central budget of Hungary
- Analysis for the Fiscal Council on the fiscal processes of the first half of 2018

b) MNB analyses

- Fiscal reports
 - Analysis of the draft of the year 2019 central budget
 - Analysis of the half-yearly public finance processes
- Monthly MNB analyses
- Other analyses prepared by MNB

Apart for the analyses by experts the liaison officers of the two institutions have rendered continuous assistance and opportunities for consultations for the FC Secretariat to prepare the draft work documents to be presented to the Council.

6. By building on the continuity of the 2018 Action Plan of the FC and apart from the assistance of the SAO and MNB the Council expanded **the research** issues in order to be able to better judge the fiscal and public finance planning and execution, the trend of the government debt, as well as strengthening the solid grounding of its decision, by relying on a wider

expert background. Under the aegis of this endeavour seven research workshops prepared 12 **studies** in the subject year:

- **„Macroeconomic, Public Finance Situational Picture and Outlook 2018-2020”** was the title of the analysis (outlook) of Századvég Gazdaságkutató Zrt./Economic Research Inc, the Economic and Social Statistical Analysing and Research Institution of the Budapest Corvinus University of Economics and OG Research Innovative Economic Solutions Inc. completed analyses (outlook) about the characteristic features of the macroeconomic processes of the subject year and about the expected tendencies and risks of the next year for the FC.
- **„Conditions of the World Economy Influencing the Position of the Budget”** was the title of the analysis prepared by Kopint-Tárki Konjunktúrakutató Intézet Zrt./Research Inc., about the effect of the expected trends of the world economic conditions that would affect the state of the domestic budget.
- **„The Expected Trend of the 2018-2020 Labour Market Situation and their Effect on Growth and Public Finance”** was the title of the study prepared by the Economic and Regional Scientific Research Institution about the trend of the labour market, the relations of growth ability and public finance (their effect on revenues included).
- **„The Effect of the Change of the Statistical Methodology on the Trend of the Hungarian Macroeconomic Indicators, as a Consequence of the Country’s Entry into EU”** was the title of the analysis prepared by ECO-Vista Gazdasági Tanácsadó Kft. /Economic Consultant Inc., about the methodology changes and their effect.
- **„Effect of Modernising Health Care on Financing the Health Care System from Public Finance Resources and the Present and Expected Trend of Public Finance and Private Financing”** was the title of the study prepared by the Health Insurance Institute of the

Faculty of Health Sciences of the University of Pécs and Századvég Gazdaságkutató, Tanácsadó Zrt. /Economic Research and Consultancy Inc. The study was focusing of issues related to sustainability.

- „**Effect of Pre-Financing EU Supported Projects on the State of Public Finance and Economic Development**” was the title of the research carried out by Kopint-Tárki Konjunktúrakutató Intézet/ Economic Research Institution and Századvég Gazdaságkutató, Tanácsadó Zrt. / Economic Research and Consultancy Inc. about the relations of pre-financing and fiscal (public finance) balance indicators.
- „**Our Growth Potentials**” was the title of the evaluation carried out by ECO-VISTA Gazdaságkutató Tanácsadó Kft. /Economic Research and Consultancy Inc. about the relations determining the growth potential of the country and its economy as well as its effect of the budget.

The above studies (evaluations) were also very useful as regards the work of the Fiscal Council. These documents contained findings and conclusions that warrant attention when it comes to formulating the FC opinion on the half-year execution of the central budget and on the next fiscal period, the evaluation of the macroeconomic course and are also useful when giving prognosis on the risks.

7. Following the tradition of the previous years the Council organised a **workshop** on October 16 2018, together with the Hungarian Economic Association. In the framework of the workshop they presented the analyses prepared by the SAO and MNB as a way of supporting the Council’s work as well as the results of the background studies prepared in harmony with the stipulation of Point 6 of the FC’s Action Plan.

8. In most cases the annual Action Plan stipulates the dates of the Council's meetings – also with regards to the stipulations of the Stability Act. **Publishing the FC's current standpoint as a consequence of the constitutional status of the Council**, either in harmony with the FC Action Plan or due to the macroeconomic-public finance processes (the realisation of the government debt rule, for example) may be necessary. Such opportunities were ensured throughout the year but – thanks to the favourable trend of the processes – this necessity never arose.

III

Adoption of the Report

I hereby ask the Fiscal Council to please, accept the year 2018 report in harmony with the attached draft resolution.

8th January 2019

Kovács Árpád
Chairman of the Fiscal Council

Resolution 2/2019.01.08. of the Fiscal Council

Upon the proposal of the Chairman of the FC, at its meeting held on 8th January 2019, the Council discussed and adopted the Council's report on its activities in year 2018.

The FC draws the attention of the Chairman of the Council to forward the report to the Speaker of the National Assembly.

Deadline: with no delay

Responsible: The Chairman of the FC

January 8, 2019

Domokos László

Member of the Fiscal Council

Matolcsy György

Member of the Fiscal Council

Kovács Árpád

Chairman of the Fiscal Council