Adopted by the Council's Resolution
5/2019.07.10. KVT/42-2/2019

Opinion of the Fiscal Council

for the Final Voting on the 2020 Central Budget of Hungary

I

Antecedents, Legal Basis and Publicity of the Opinion

In harmony with § 25 of Act CXCIV of 2011 on the Economic Stability of Hungary (henceforward: Stability Act), the Fiscal Council (henceforward: the Council or FC) shall formulate its standpoint as regards its prior consent to adopt the budget bill, required by Indent (3) Article 44 of the Fundamental Law of Hungary. In the course of this process the Council shall examine whether the bill is in harmony with the requirement prescribing the degree of decreasing government debt as stipulated by Indent (5) Article 36 of the Fundamental Law.

In its Opinion 4/2019.06.03. formulated as regards the draft of the 2020 central budget bill of Hungary (henceforward: the draft) the Council stated that „the trend of the 2019 debt indicator (68, 6 percent of the GDP) and debt indicator for year 2020 (65, 5 percent of the GDP) – both calculated with constant exchange rate – was in harmony with the expected and planned macaroeconomic and fiscal processes in 2019 and 2020 and shall meet the stipulation of Indent (5) Article 36 of the Fundamental Law of Hungary (government debt rule").

In the justification section of its Opinion the FC stressed that „looking forward the dynamic mitigation of the debt rate shall continue thus the stipulaltions of the EU (the one-twentieth rule) also shall be met safely". Additionally, the Council also laid it down that „the sustaining of the economic reconvery and the fact that the cash deficit […] of the central subsystem shall be significantly lower in 2020, compared to year 2019, are supporting the accelerating decrease of the debt indicator". That said, the FC deemed it favourable that „within the debt of the central budget the share of foreign currency deonomitated debt shall fall further from the 17, 2 percent in 2019 to 14, 4 percent in 2020 […] and this shall contribute significantly to the further moderation of the external vulnerability of the country".

As regards the budgetary risks, in its Opinion the FC laid down that „in case the revenues shall not reach the appropriations throughout the year the reserves set higher than in the previous years, i.e. in 1 percent of the GDP, shall offer an adequate cover (Country Protection Fund, Appropriation for Extraordinary Government Measures). At the same time, the high level of these reserves offer adequated security against external circumstances threatening the balance of the budget, as well as for unexpected expenditures".

During the evaluation time of the draft, on the 30th of May the Government announced its Economy Protection Action Plan. Some of the elements of the Action Plan were not listed yet in the draft. Thus, in its Opinion, the Council deemed it necessary to note that „the daft bill to be presented to the National Assembly should contain the effects of all the measures concerned".

The bill submitted under file number T/6322 contains the response of the Government to the Opinion 4/2019/06.03. of the Council formulated on the draft of the 2020 central budget bill of Hungary. Upon the authorisation of the Council, the Chairman of the Council clarified in detail the FC's viewpoints in the frame of the general debate of the bill when presenting his oral response, at the beginning of the debate.

Compared to the draft the Council had formulated its Opinion on, the bill T/6322 was already containing the full effect of the Economy Protection Action Plan announced on the 30th of May, together with other minor amendments – in harmony with the call of the Council. Considering the changes that increased both the revenue and expenditure totals by HUF 113 billion equally – thus won't concerne the cash deficit and the government debt indicator – the findings of the Council as regards the draft bill applied to the submitted bill as well. In his expose delivered at the beginning of the general debate of the bill, the Chairman of the Council praised the increase of the budget reserves due to the risks.

The Speaker of the National Assembly forwarded to the Chairman of the Council the uniform budget bill No. T/6322 of the 2020 central budget bill of Hungary with his letter OE-41/775-1/2019 dated the 8th of July, 2019 containing also the amendments adopted by the National Assembly. In his above letter, the Speaker of the House asked for the opinion of the FC pursuant to § 25 of the Stability Act as regards the bill's compliance with the government debt rule and the preliminary consent of the Fiscal Council to submit the bill for final voting, in harmony with the stipulations of Indent (3) Article 44 of the Fundamental Law of Hungary.

II

The Fiscal Council's Opinion

At its meeting held on the 10th of July 2019, the Council formulated the following Opinion concerning the analysis of the uniform budget bill T/6322/846. about the 2020 central budget of Hungary, carried out on in harmony with the stipulation of § 25 of the Stability Act.

1) The Council finds that the planned rate of the government debt foreseen for 31st December 2019 and presented by Indent (3) § 3 of the uniform budget bill No. T/6322/846 is well founded, was established in harmony with the macroeconomic and public finance processes that served as the basis of the bill. As the rate of the government debt indicator calculated for the end of year 2020 is less by 3, 1 percent than the indicator expected for the end of 2019 the requirement stipulated by Indent (5) Article 36 of the Fundamental Law also shall be met.

2) As a consequence, the Council is granting its consent to submit the uniform budget bill No. T/6322/84 for final voting, in harmony with the stipulations of Indent (3) Article 44. of the Fundamental Law.

3) In the interest of sustaining the safe and favourable public finance processes, the Council continues to recommend responsible fiscal management.

4) The Council authorises its Chairman to inform the Speaker of the National Assembly about the Opinion with no delay and to present it before the National Assembly prior to the final voting.

III

Justification of the Council's Opinion

Bill No T/6322. fixed the revenue grand total of the public finance central subsystem in HUF 21.424,7 billion while the grand total of expenditures in HUF 21.791,7 billion. Compared to the bill, the changes approved by the National Assemby as regards the appropriations increased the revenue and expenditure balance of the central budget by equal amounts (HUF 1, 25 – 1, 25 billion each). As a result the revenue and expenditure grand totals of the central budget were amended to HUF 21.426,0 billion, respectively to HUF 21.793,0 billion. Thus, the cash deficit of the central subsystem did not change as a result of the amendments. The public finance deficit calculated by EU methodology did not change either.

The reseves set aside for extraordinary expenditures, just like the appropriation of the Country Protection Fund also remained unchanged. Thus, according to the FC, there are appropriate reserves to counter-balance the possible risks (the incidental slowing down of the economic output, the unexpected narrowing of our room for monouvre as regards foreign markets, the strentgthening of the well known geopolitical and commercial tensions, etc.).

Similarly to the draft bill the FC had formulated its opinion on, the government debt indicator shall decline from 68, 6 percent to 65, 5 percent by the end of 2020, according to the uniform budget bill. According to the Council the planned decrease of the debt indicator is realistic and well founded and is in harmony with the processes of the public finance. In the Council's view it is also a favourable sign that the foreign currency denominated debt of the central budget might decrease from the 50 percent in year 2011 to 14, 4 percent by the end of 2020 and it is expected that this trend shall prevail also in the coming years. Thanks to the new government securities issued in 2019, debt financing is strongly relying on domestic savings. As a result, the exposure to external effects shall decrease significantly.

In the Justification part of its Opinion No. 4/2019.06.03. the Council expounded that on the basis of the uniform budget bill No. T/6322/846 its view has not changed and considers that the government debt rule shall be met even if circumstances, events negatively affecting the economic growth emerge.

The FC welcomed the fact that the 2020 budget bill is in harmony not only with the stipulations of the European Union as regards public finance deficit and sovereign debt but also, it is very close to meeting the regulation concerning structural balance.

Just like in case of formulating its opinion on the draft bill No. T/6322. the Council formulated its opinion as regards the meeting of the government debt rule regulated by § 25 of the Stability Act, by taking into consideration the evaluations prepared by the State Audit Office of Hungary and the Central Bank of Hungary.

Against this background the Council hereby grants its consent to submint the uniform budget bill No. T/6322/846. for final voting.

Budapest,10th of July 2019

Domokos László

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Kovács Árpád

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