

CHAIRMAN OF THE FISCAL COUNCIL

Presentation
For the Fiscal Council

Subject: Report on the Implementation of the Year 2019 Action Plan of the Fiscal Council

January 2020

I

According to the stipulations of Article 44 of the Fundamental Law of Hungary, the Fiscal Council (henceforward: the Council/FC) is an organisation supporting the activities of the National Assembly that, in particular, evaluates the justification of the central budget and the effectiveness of the government debt rule. Apart from the Fundamental Law, Act CXCIV of 2012 on the Economic Stability of Hungary (henceforward: Stability Act) is defining the FC's tasks. Accordingly, the Fiscal Council

- delivers its opinion
 - o on the draft central budget bill, the amendment of the budget act included and within this, about the degree of the budget deficit¹ and the decrease of the government debt indicator²,
 - o every six month on the execution of the central budget act and the expected trend of the government debt³,
- decides about granting its consent, prior to the final voting of the uniform budget bill and the amendment of the budget bill, as stipulated by Indent (3) Article 44 of the Fundamental Law.

¹ According to § 3/A of the Stability Act and in harmony with the respective law of the European Union, the decision as regards the balance of the governmental sector shall be in harmony with the stipulations of the aforementioned law. The balance of the governmental sector shall be defined so that it shall be in harmony with the achievement of the medium term fiscal target and so that its deficit shall not exceed the 3 percent of the gross national product calculated according to the regulation of Point b) Indent (1) § 2. The minister responsible for public finance shall publish the method of the calculation of the balance following from the Fundamental Law and the Law of the European Union – with special regard to the calculation of the structural balance – together with the necessary parameters on the website of the ministry led by him.

² According to Article 36 of the Fundamental Law, as long as the government debt is exceeding half of the total of the gross domestic product, the National Assembly may adopt only such a central budget bill that contains the decrease of the government debt ratio to the gross national product. According to § 4 of the Stability Act the central budget act shall have to determine the degree of the government debt planned for the last day of the fiscal year. In harmony with the rules in force in 2019, in case the foreseen real growth rate of both the inflation and the gross national product equally are exceeding 3 percent, the growth rate compared to the government debt of the previous year shall not exceed the difference of half of the real growth rate of the inflation and the gross domestic product forecasted for the given fiscal year. In case from among the real growth rate of the forecasted inflation and the gross national product as least one does not exceed 3 percent, the decrease of the government debt indicator shall be at least 0, 1 percent. According to the amendment of the Stability Act in force from 1st January 2010 - to be considered both in the course of the preparation and adoption of the 2021 central budget bill - the value of the government debt indicator shall be defined so that the decrease of the government debt indicator compared to the reference year shall be minimum 0, 1 percent, apart from the enforcement of the EU regulations regarding the government debt decrease.

³ According to Point c) Indent (1) § 23 of the Stability Act

The report on the Council's Chairman about the realisation of the 2019 Action Plan of the FC summarises

- the college rulings of the Council in 2019,
- the work of the FC Chairman in the international cooperation of the independent fiscal institutions (organisations of the type of fiscal councils) overseeing the observance of the „fiscal framework” as well as
- the activities that are directly and indirectly related to the responsibilities of the Chairman of the Council and the Secretariat of the FC in the course of organising the work of the Council, and the laying of the foundations of the body's decisions.

II

The execution of the 2019 Action Plan of the Council

1. In harmony with the stipulations of Act CXCV of 2011 on the Economic Stability of Hungary the Council **completed its compulsory tasks.** To this end it needed four board meetings – similarly to the previous year – thanks to the further improving governmental planning practices and the ever strengthening fiscal stability.

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

At the **first meeting** of the FC (January 8, 2019) the Council discussed and **approved its report** (about the implementation of its 2018 Action Plan (**Resolution 2/2019.01.08.**) and adopted its 2019 **Action Plan**, together with the FC's research plan (**Resolution 1/2019.01.08.**) about the contribution of experts to facilitate the Council in formulating its opinion and supporting the laying of the foundations for the FC resolutions.

b) ***Tasks related to formulating opinions in harmony with Points a)-c) Indent (1) § 23. and Indent (1) § 25. of the Stability Act***

ba) At its **second meeting** the Council adopted two resolutions (**June 3, 2019**).

ba/1. At this meeting – as the first point of the agenda - the FC evaluated **the state of the execution of the year 2018 central budget and the trend of the government debt. In its Opinion 3/2019.06.03.** the Council established that „*in 2018 the cash deficit of the public finance central system was HUF 1 445 billion [...] that exceeded only slightly the amount of the cash deficit targeted by the budget law, i.e. HUF 1 361 billion. On the whole the revenues of the central subsystem of the public finance were more favourable than the budgetary allocations as well, in comparison to the result of the previous year.*” The FC also laid it down that „*in total the expenditures turned out to be higher as well but were founded by the additional revenues and gave an opportunity to finance major priorities like the six-year wage agreement, the home creation programme or the advance payments for the EU supports*”. On the basis of the available macroeconomic and fiscal data the Council saw that „*both the EU and domestic stipulations as regards the accrual based public finance deficit were met in 2018, just like in the previous years*”. At the same time „*in 2018 the structural deficit*

exceeded again the 1, 5 percent stipulated by Point a) Indent (2) 3/A of the Stability Act". Based on the EDP Report dated April 2019, the Council also found that *„the GDP proportionate government debt at the end of 2018 was 70, 8 percent*⁴. Additionally, the FC also stated that *„first of all it was the significant economic growth as well as the low net financing need that contributed, respectively supported*" the significant - 2, 6 percent – decrease of the debt rate compared to the previous year and *„this is in harmony with the criteria stipulated by the Fundamental Law of Hungary and the Stability Act.*" Beyond the above in its Opinion the Council emphasized that the 2018 measures of the Government aiming the control of public finance (further tightening the regulations concerning future EU advance payments, the establishing of the Central Clearing Fund) have contributed indirectly to the implementation of the balance requirements.

Ba/2. At this same meeting, in the frame of a separate agenda, in its **Opinion 4/2019.06.03. about the draft bill of the 2020 central budget of Hungary** the **FC stated** that *„the revenue and expenditure appropriations of the draft document were fundamentally in harmony with the preliminary factual data of year 2018 and the data expected for year 2019, as well as the macroeconomic and public finance processes planned for year 2020.*" At the same time, the Council was of the opinion that in order to realise the revenue appropriations – beyond the implementation of the macroeconomic course – it was necessary that the Government implemented additional measures to whiten the economy. Additionally, the FC laid it down that *„the level of reserves [...] amounting to 1 percent of the GDP, that is higher than the proportion of the reserves in previous years, is creating appropriate guarantee to offbeat those external circumstances, risks and unexpected expenses that might represent danger to the fiscal balance*". This being the case, the Council valued positively *„those steps that were aiming the increase of revenues and – on fields not narrowing the economic growth – the steps restraining expenditures, as a result of what steps the deficit course might significantly decline*". In its Opinion the Council fixed that – *by taking into consideration the safety reserves as well – it finds the 1 percent targeted deficit calculated by the 2020 EU methodology (ESA 2010) grounded and achievable.*

⁴ On the basis of the October 2019 EDP report the end of year 2018 government debt rate declined to 70, 2 percent, as a result of the revisions.

On the whole this complies with the Maastricht criteria and the similar stipulation of the 3 percent requirement depicted by Point b) Indent (2) § 3/A of the Stability Act.” At the same time the FC indicated that „in 2020 the structural deficit shall not reach the targeted 1, 0 percent goal however, it is close to it thus it would be reasonable to ponder the alignment of these numbers”. In its Opinion the Council also set out that „the trend of the 2019 debt indicator stipulated by the Stability Act and calculated with constant exchange rate (68, 6 percent of the GDP) and that of the 2020 debt indicator (65, 5 percent) referred to by the draft bill is in harmony with the planned and expected macroeconomic and fiscal processes of years 2019 and 2020 and it meets the requirement stipulated by Indent (5) Article 36 of the Fundamental Law (government debt rule)”. The planned measure of the debt rate decrease is also in harmony with the respective stipulations of the EU regulation concerning government debt (the so-called „one-twentieth rule”). Beyond the above the Council also „found it justified to introduce those productivity and efficiency improving measures by what the economic growth exceeding the average of the European Union, shall be sustainable not only in 2020 but also in the medium term”.

*bb) At its **third meeting** (July 10, 2018) the FC **examined the compliance of the budget bill T/6322/846. about the 2020 central budget and the government debt rule and granted its prior consent by its resolution 5/2019.07.10.** to submit the bill for final vote (the antecedent of this step was the resolution 4/2019.06.03. **mentioned in sub point ba/2**). In its Opinion the Council stated that „the measure of the government debt rule planned for December 31, 2020 by Indent (3) § 3, according to the uniform budget bill T/6322/846 about the year 2020 central budget is valid and was established according to the respective stipulations of the Stability Act...” Justifying its Opinion the FC elaborated that „it was on the opinion that the planned decrease of the government debt indicator was realistic, substantiated and was in harmony with the expected macroeconomic and public finance processes. As the degree of the government debt indicator foreseen for the end of 2020 is less by 3, 1 percent than the degree expected for the end of 2019, the stipulation of Indent (5) § 36 of the Fundamental Law shall be met. In the justification of its resolution the FC also pointed out that „on the basis of the uniform budget bill T/6322/846. its view as regards meeting*

the stipulations of the government debt rule - even in case of unexpected external conditions, events negatively affecting the factors of economic growth – remain unchanged". In order to maintain safe and favourable public finance processes the Council deems following responsible fiscal management justified also in the future.

bc) At its **fourth board meeting** (10th September 2019) the FC **evaluated the state of the execution of the year 2019 Central Budget Act and formulated its opinion on the basis of the processes of the first six months (resolution 6/2019.09.10.)**. On the basis of the macroeconomic processes of the first half of the year the Council considered that *„according to the latest governmental expectations and that of the analysers, the economic growth – for the whole year – might exceed the planned 4, 1 percent*". At the same time, the Council also called the attention to the possibility that despite the still favourable external and internal conditions the well-known circumstances that are posing threats and mean risks for the growth of the domestic economic growth still represent danger. As regards the trend of the public finance deficit in the first half of 2019 *„the accrual based public finance data were showing surplus*", additionally, that *„the cash deficit of the central subsystem amounted to HUF 390 billion, that was merely 39, 1 percent of the planned appropriation*". Compared to the factual data of the same period of the previous year the balance turned out to be more favourable by HUF 1.030, 5 billion. Concerning the fiscal balance expected for the whole of the year the Council found that it *„considered the accrual based annual targeted deficit representing 1, 8 percent of the GDP achievable*". The FC also added that *„contrary to the accrual based surplus of the first half of the year, as regards the second half of the year the balance might significantly approach the targeted deficit*". According to the FC the targeted cash deficit was basically achievable although it pointed out that in case of specific appropriation a two-way risk existed. (For example, in case of the EU programmes, overachievement and leeway were equally possible. As regards the consumption tax revenues there was a chance of surplus while in case of certain expenditures they might exceed the appropriation). In its Opinion the Council also laid it down that *„the degree of gross government debt in proportion to the gross national product has declined from the 2018 end of the year 70, 8 percent to 68, 7 percent in the course of six*

months [...]”⁵, that was the result of the low accrual based deficit and the rapid GDP growth. Finally, the Council reached the conclusion that „thanks to the unchanging and vigorous economic growth as well as the strict fiscal policy the degree of the GDP proportionate government debt [...] might decline further”. Having in mind the favourable economic environment the FC supported „that the government debt rate should decline to a degree exceeding the domestic and EU stipulations”.

2. In connection with their tasks the Chairman of the FC and his Secretariat **asked additional information from governmental organisations** on several occasions, first of all from the Ministry of Finance. Beyond this, it **monitored the amendments** of the provisions concerning the debt rule **of the Stability Act** as well.
3. In harmony with the practice **the resolutions of the Council** (together with the related justifications) were published **on the FC website**. These documents, their English versions and the research documents were **downloaded on 2870 occasions** in 2019 (the most sought after documents were the FC resolutions - on 2035 occasions - while the research materials on 835 occasions).

Downloads of FC documents

Year	FC resolutions	Research documents	Together
01/01/2017-31/12	1150	1708	2858
01/01/2018-31/12	1534	550	2084
01/01/2019-31/12	2035	835	2870

The number of downloads concerning the research materials has fallen back in 2018. In 2019 however a dynamic growth was detected both as regards these materials and the FC resolutions marking that professional interest in the FC activities is strong.

According to the order of business the **press relations** of the Council belong to the responsibilities of the Chairman. On-site and studio reports following the exposes of the Chairman delivered at the plenary sessions of the National Assembly both at presenting

⁵ According to the recently published and revised data the degree of the gross government debt in proportion of the gross domestic product decreased from the 70, 2 percent at the end of 2018 to 68, 2 percent in six months.

the FC Opinion on the 2020 draft budget bill and at the beginning of the general debate of the bill in the National Assembly were outstanding news on several channels of the media. Due to the significant interest the Chairman of the Council evaluated the interim macroeconomic and public finance processes of year 2019 several times. Within this he talked about the trend of the government debt rate, the sustainability of growth, its possible risks and the utilisation of the EU resources. In line of these evaluations the orientation of the public regarding the FC Opinion about the execution of the budget act in the first half of the year was the most significant. The fact that the Chairman of the FC was approached several times to give interviews or deliver lectures – not only in direct relation to the FC decisions – indicates the interest in the work of the Council. Thanks to the increasing interest the **number of media appearances** was 100 in 2017, 80 in 2018 and as high as 123 again in 2019. Thanks to his being a university professor and inseparably from his position as lifetime president of the Hungarian Economic Association the Chairman held **close to 45 lectures** at various fora. **His articles** related to the sphere of activities and responsibilities of the FC are published in various publications, periodicals (Világgazdaság, Pénzügyi Almanach, Medicina Évkönyv, Pénzügyi Szemle, Közgazdasági Szemle, Polgári Szemle, etc.) just like in county and university papers. Various news sites often mention and refer to the FC documents and manifestations of the body's Chairman. In 2019 the number of **written and phone requests** kept growing when citizens were seeking and received answers from the Chairman of the FC to their questions concerning macro economy and public finance.

4. The Council participated in the ever expanding **international cooperation** also in 2019. The communication hub of the fiscal council-type organisations that started with the support of the OECD in 2013 has expanded under the aegis of the EU. The multilateral meetings contributed to the common understanding of the EU purposes and goals as well as the strengthening of professional contacts. FC has participated in this joint work from the very beginning.

a) *Multilateral meetings*

- The European Commission (EC) organised a professional workshop on **January 24 – 25, 2019** for the independent fiscal institutions of the EU member states and the European Fiscal Board (EFB). In the seminar held on the first day of the workshop, representatives of OECD, EB, IMF, EKB held orientation about the

general situation in Europe and the experiences of priority countries (Germany, France, Italy and Spain) as regards managing government debt. (In this part of the meeting representatives of civilian organisations and national governments also participated.) On the second day of the workshop the talks continued in two blocs and several sections about the recent activities of IFIs and the role of communication in domestic decision-making. Following this Mr. Niel Thygesen, head of EFB gave an account about the activities of the organisation in the second year of the organisation's existence. He concluded that contrary to the promises nothing happened yet regarding the comprehensive supervision of the provisions of the Stability and Growth Pact (SGP). He mentioned that they were planning to discard the earlier corrections and proposals concerning SGP and will recommend a completely new and simpler set of rules. Afterwards staff member of the EC, Ms. Cristiana B Manescu described the result of the refreshing of the database based on the voluntary data reporting of IFIs. Following this report, heads of two fellow institutions (United Kingdom and Spain), Messrs. Robert Chote and José Luis Escrivá delivered lectures about the experiences and positive results of the inspection of IFIs by external analysers. In the remaining part of the workshop Mr. Gilles Mourre, staff member of the EC gave a presentation about the problems he had to face when examining the „half-flexibility” and the fiscal discipline of member states in case of unexpected central revenues (on what basis can be predicted the one-off character of the item to be examined). Finally, Mr. László Jankovics, member of the EFB held a presentation about the long-term sustainability of the relations of IFIs. He emphasized that examining the sustainability has to encompass as long a period as possible and that in his opinion the IFIs are especially suitable to carry out such reviews.

This meeting in Brussels also offered an opportunity for the Chairman of FC to conduct discussion with the representatives of the fellow institutions of the United Kingdom and Croatia present. Croatia is expecting major changes as regards public financial control. In the United Kingdom there is uncertainty concerning the delay of Brexit. **(File number of the trip report: VT/1-2/2019.)**

On February 4 – 5, 2019 OECD organised a workshop in Lisbon for fiscal officials of various parliaments and the heads of IFIs. The meeting took place in the offices

of the Parliamentary Budget Office of Portugal and the Portuguese Parliament. The keynote speaker was Mr. Paul de Grauwe, Vice-President of the Portuguese Public Finance Council about the finite capacity of market coordination. Following his speech the participants listened to various presentations, among others about taxation. It was mentioned that when evaluating macroeconomic measures the taxation related changes on micro level are evaluated only rarely or not at all and their effects on household consumption and balance indicators are not examined sufficiently. The ensuing presentations and comments were seeking solutions and methodology tools for this problem. In the afternoon on the first day of the workshop the Parliamentary Budget Office of New South Wales (Australia) and the National Budget Office of Argentina introduced themselves as new members. Following this representatives of individual institutions gave information about their respective positive experiences, like for example the Dutch fellow institution about its new service, assisting members of the parliament concerning tools of responsible public finance planning, execution and control. The final agenda of the first day offered an opportunity for those presents to review long-term outlooks. Within this they were introduced to the OECD's year 2060 forecasts regarding world economy. The agenda of the second day was focusing on the importance of the social media as an important tool of raising the interest for public finance responsibility. The question arose, how and to what extent the individual countries can rely on different media to forward their respective messages to the audience. Following this the work continued in different sections. One was dealing with the pricing of the promises of election platforms. Since 2017 this has not been solely the task of the Dutch and Australian fellow institutions but several others have expanded their responsibilities with this issue. The other section put on its agenda the issue of the EU fiscal frame and its possible and expected changes. The meeting turned the attention to the importance of communication with the concerned individual institutions, organisations (treasury, ministries, statistical and international organisations) by referring to the experiences of Portugal and the United Kingdom. Representatives of the USA and Lithuania shared their experiences regarding the role and usefulness of external experts and advisory bodies in the work of the IFIs. Finally, members of the OECD gave a presentation about the events of the bygone year and future tasks. Afterwards representatives of the European Independent Fiscal Institutions gathered for a brief meeting where they reviewed the alternatives of the continuing work of

the network secretariat. They agreed that it would be worth to organise the activities supporting the secretariat next to the incumbent president and they will continue their work to find operational ways to this end.

The two-day workshop offered an opportunity for the FC Chairman to carry on a number of informal meetings with those interested in Hungary. It was remarkable that there were significant changes in the managements of individual IFIs. **(File number of the trip report: KVT/6-2/2019.)**

- **On 28 February 2019** the European Fiscal Board hosted a workshop in Brussels for the independent fiscal institutions of the EU member states that representatives of individual national ministries of finance and international organisations (ECA, IMF, ECB, and OECD) also attended. The first topic of the workshop was dedicated to reviewing the current fiscal rules. According to the keynote speaker, economist Mr. Charles Wyplosz, the rules have become extremely complicated and in order to avoid future crises it is necessary to have a significant review and simplification of the said rules. Additionally, the respective rules shall have to be adequately flexible to avoid any semblance of „bailouts”. Later the workshop addressed the IFIs and the necessity of their coordination on EU level. In that connection, IMF rapporteur Mr. Xavier Debrun delineated the current coordination mechanisms then the participants discussed the relations of EU regulations and the pro-cyclic fiscal practices. In this connection they agreed that the re-definition of medium and long terms and the expansion of the time horizon of specific forecasts were important. Afterwards the participants were seeking answers to how the position of IFIs can be further increased – on the basis of the experiences of those Italian, Spanish and French institutions fulfilling the role of fiscal councils. Following this they were focusing on the discussion of the evaluation of election programmes. The presenters of this issue emphasized that within the EU only three countries (Latvia, the Netherlands and Belgium) had prepared such type of analyses so far. The last but one agenda was dedicated to the analysis of the Swedish Fiscal Policy Council. The question was if the Swedish institution was the best in Europe? The background: depressing government debt took place prior to the establishment of the Council and it has not increase significantly ever since. The budget of the Swedish institution is relatively high however, their secretariat is having a fairly small budget but they have the option to purchase the best researches and analyses. The participants agreed that the

successful consolidation is not to the credit of the institution, rather the result of the cooperation of the supportive fiscal institutions (treasury, statistical office, central bank, ministry, etc.) The last point of the agenda was a presentation of the changes of the latest plans regarding the Spanish financial regulations according to what they would separate the expenditures according to items that can be controlled by the government and those that fall outside the jurisdiction of the government. **(File number of the trip report: KVT/12-12/2019.)**

- **On 12 July, 2019** - upon the request of the civilian opposition that is gaining increasing influence in opposition to the Algerian government - the Algerian, the Czech, the Polish and Hungarian delegations organised an economic forum in the Algerian capital with the participation of about 160 – 170 economists and politicians. A number of heads of delegations of European countries and the representative of the US embassy also attended the forum. History: the past decades have not succeeded in solving the tensions in the country and the changing the political and economic regime has been on the agenda. The focus of the forum's interest was the development of the concept of a peaceful social-economic transition, the establishing of political stability and getting familiar with the experiences of the Visegrád countries during the change of regime. Representing the Hungarian party the Chairman of the FC gave a well-illustrated by diagrams outlook on the economic law-making process of the Hungarian change of regime, the experiences and methods of privatisation, the importance of control and organisation and the course of the Hungarian economy and public finance that was stabilised during the past nine years. Following the presentations and answering the many questions, the presenters pointed out the identities and differences of seeking ways for the economy, the role of the technical solutions of privatisation and the different types of investors' interests. The programme offered an opportunity for a number of private conversations and thus the Chairman of the FC received information – among others – about the measure of Chinese investments in the region, about the strengthening of Islam and the fear from the growing gaining of influence of the big economic powers. The diplomats in attendance praised the impersonal professionalism of the Hungarian presentation and the evidence related to the topic, substantiated by data. **(File number of the trip report: KTV/13-2/2019.)**

- **On 27 June 2019** the EU Independent Fiscal Institutions Network (EUIFI) hosted in Madrid a workshop for the independent fiscal institutions participating in the Network. The participants of the meeting elected Mr. Seamus Coffey (Chair of the Irish Fiscal Advisory Council) to be the new Chair, and Mr. Sander van Veildhuizen (Programme Manager Public Finance at CPB Netherlands Bureau for Economic Policy Analysis) to the post of the Vice-Chair. Afterwards they decided that as of 2020 the Centre for European Policy Studies (CEPS) shall provide the background for the activities of the Network's Secretariat. CEPS shall contract a permanent staff member under a tendering procedure to continue the tasks of the Secretariat so far and the individual national fiscal institutions would provide the necessary financial cover (EUR 40 thousand annually) by voluntary payments starting with 2020. According to the decision, the national institutions that have significant resources and capacities offered to bear the major part of the annual costs. The annual contribution of the FC shall amount to EUR 320. After agreeing upon this the participants of the Network discussed the topics of a joint conference to be organised together with the European Fiscal Board at the beginning of 2020 (identifying the common, minimum expectations towards IFIs and the evaluation of meeting those expectations, etc.). As regards this process the diversity of the organisation levels might impose a serious obstacle. The participants also addressed the aspect of evaluating the efficiency of the individual institutions as it is in everybody's interest that IFIs served the public finance accountability and stability as best as possible. Following this exchange of ideas the head of the Spanish IFI gave a presentation about the work they've completed regarding the financial management of public funds in the field of education and healthcare. Ms. Harriet Price, member of the British institution reviewed their communication strategies and how they are sending their messages to the citizens. **(File number of the trip report: KVT/18-2/2019.)**

- **On 17 September 2019** the Directorate General for Economic and Financial Affairs of the European Commission hosted a workshop in Brussels with the participation of the independent fiscal institutions of the member states. In the first half of the conference Mr. Niels Thygesen, head of the European Fiscal Board delineated the analysis of the Board about the enforcement of the EU fiscal rules. According to his opinion the picture as regards fiscal sustainability is mixed, the enforcement of anti-cyclical stabilisation did not succeed and following 2014 in most of the member states they wasted opportunities. Certain rules did not contribute to the improvement of the

quality of public finances thus revising the stipulations of the Stability and Growth Pact is unavoidable. He suggested the use of a single financial indicator (government debt amounting to the 60 percent of the GDP as the upper limit), a single practical indicator and a sole exception to the rule, on the basis of what differs from the regulations. Afterward Mr. Gilles Mourre, member of the DG-ECFIN talked about the topicalities of the controls related to the observance of SNP. The next agenda was the presentation delivered by Ms. Elva Bova on behalf of DG-ECFIN about the characteristic features of the individual national expenditure rules. It is a positive sign that half of the member states have expenditure rules and those are observed however, the fact that many are not calculating significant expenditures (pension expenditures) in the indicators, is casting a shadow on the positive picture. In the second half of the conference Mr. László Jankovics, staff member of DG-ECFIN talked about the present state of the database summarising the characteristics of the IFIs, followed by Mr. Stefan Ciobanu from DG-ECFIN who held a presentation about the various form of cooperation between the national statistical offices and the IFIs. **(File number of the trip report: KVT-44-2/2019.)**

- **On 18 September 2019** the International Monetary Fund hosted a conference in Brussels for the IFIs of the member states about the role of the tools of fiscal policies in a changing world. The presentations were delivered by representatives of the European Commission, the International Monetary Fund and independent institutions, universities. They were looking into the characteristic features of international taxation, the effects of tax optimizing in the current regulatory environment and finding that the gravity and role of individual taxpayers have undergone a significant change, the presently in force regulations were made prior to the digital information revolution and by these days they are dysfunctional. Analysing the fiscal costs of corruption the next subject was reaching the conclusion that the efficiency of the initiatives so far can be questioned and there is an urgent need to make additional steps in this direction both on national and EU levels. In the second half of the conference the participants were dealing with the analysis of the relation of financial crises and government debt. They agreed that certain steps were already taken to establish a warning system concerning crises however, the differences of the macroeconomic levels of the individual countries have not made unequivocal the proof of such relations (countries having higher government debt usually are facing more difficulties in getting through a crisis). Finally,

the participants were focusing on the issue of establishing guidelines for the fiscal policy followed by individual countries. According to the ensuing debate it was impossible to identify the relation between the size of government debt and the definition of the necessary intervention in the given macroeconomic environment. **(File number of the trip report: KVT/44-2/2019.)**

b) Other relations

- **On January 22, 2019** - in harmony with the agreement reached at the orienting, informal FC meeting held on April 24, 2018 – the Chairman of FC initiated a consultation with Dr Csaba Kőrösi, director of the Directorate for Environmental Sustainability of the Office of the President of the Republic to further discuss the relations of economic and fiscal sustainability and competitiveness and to promote mutual information. The Chairman of FC informed Dr Kőrösi that with its resolution, the Fiscal Council emphasized that „analyses supporting the establishment of the conditions and system of tools affecting globally sustainable development” were important. Thus, this vision gets „built in” in the work attitude of FC and the year 2019 FC Action Plan already contained the analysis of the relations of sustainable development and public finance. At the meeting the participants agreed that the effects of „spending” shall have to be analysed from the aspect the logic of sustainability and that new ways to think, new approach and methodology is needed to this work. The work and informing each other should be pursued. There are no segments of life that cannot be analysed from the aspect of sustainability.
- **On 20 March 2019** the Chairman of FC received Mr. Manfred Bergmann, Director for "Economies of the Member States I" in the Directorate General for "Economic and Financial Affairs" of the European Commission (DG-ECFIN): Mr. Bergman was accompanied by Ms. Barbara Bernardi, staff member of the Directorate General of ECFIN at European Commission and Mr. Gábor Pellényi, analyst of the Directorate General's unit responsible for Hungary. The FC Chairman gave brief information about the growth rate of the previous year and the growth expectations for starting year 2019, the favourable fiscal and, first of all, about the tax revenues that shall ensure the realisation of the balance indicators belonging to the sphere of examinations carried out by the Fiscal Council. In the followings he also mentioned

the risk bearing factors (the slow growth rate of the EU economy, the weakening of Germany, the tensions related to migration, Brexit, etc.). He added that it was obvious from the annual budget that Hungary's aim remained the same, i.e. assisting the growth, sustaining stability and keeping the balance. According to Mr. Bergmann Hungarian growth is sensitive to risks as regards the external conditions, is in a situation of economic dependence and that domestic economy might have reached its growth peak, especially as regards the automobile industry. In his opinion to maintain and especially, to improve this position a vigorous diversification would be advisable. Based on the signs so far, (there is growth, there are many new investments, the household consumption is high, etc.) the FC Chairman was expecting a good year from economic point of view and according to his opinion in the years of 2022 – 2024 the realisation of the Maastrich criteria as regards government debt was realistic.

- From **14-16 June 2019** as member of the Hungarian group the Chairman of FC attended the annual plenary session of the Trilateral Commission. The participants listened to the presentations of Mr. Jean-Ives Le Dian, foreign minister and Mr. Edouard Philippe, Prime Minister about the topical state of affairs of Europe and the world, from French aspect. The presentation appeared to be a summary of the dilemmas of the fear from changes. One of the topic of the ensuing panel discussions was „In the middle of high power games Europe is the stake?” while the other bore the title „Are the interests of the USA and China basically irreconcilable?”. The keynote speaker of the former presentation was Mr. Wolfgang Schauble, President of the Bundestag, who was joined by Mr. Carl Bildt, former Prime Minister of Sweden and others. From the questions and comments the picture of the weakening role of Germany as a leading power in the EU took shape and having in mind that the United Kingdom is leaving the Union, no potential countries can be found to fulfil this role (the French-German axis does not work anymore). The moderator of the panel dealing with the USA – China relations was Mr. Gideon Rachman, foreign commentator of the Financial Times. According to Mr. Graham Allison, professor at the Harvard University today's economic conflict is about obtaining the leading positions of the world but it may lead to military confrontation as well. Those participating in the work of the panel were counting with the increase

of the conflict (the question is: in this case why is the USA fighting its natural allies, its European partners?).

At the conference – similarly to the previous ones – the participants got a picture of additional scenarios evoking new fears from a professional aspect concerning the dangers related to information revolution, the appearance of artificial intelligence that are difficult to identify yet these days. Participants of the panel discussions pointed out the various forms of known and unknown threats and their respective, self-generating processes.

The conference once again offered an opportunity for a number of informal talks. In this respect the FC Chairman carried on talks with participants delegated by the British Conservative Party – Lord John Kerr, former Secretary of State for Foreign Affairs and Lord Francis Maude, former cabinet minister who had not excluded the possibility of cancelling Brexit. Lord Maude praised Hungarian politics and the country's economic performance. (**File number of the trip report: KVT-13-2/2019.**)

- **On June 20 – 21, 2019** OECD organised in Paris an informal forum discussion, joint thinking on traditional human values and ethical issues in response to the deep changes undergoing in the society as a consequence of globalisation and digitalisation. The participants addressed the issue of how digital transformation might contribute to growth and improve the well-being of the people. The forum debates were focusing emphatically on the future of labour, education included. Beyond these topics they analysed the potency of new technologies, the possibilities of solutions for the most difficult social and environmental problems, the ethical dimensions and risks involved. The forum opened the floor for the debate dealing with taxation and the discussion concerning the need for global coordination as regards competition and commerce as well. They reached a consensus on the issue that the challenges presented by globalisation, technological changes, the climate change and immigration required responsibility from both the governments and the partners.
- **On September 26, 2019** the Chairman of FC met with Mr. Manfred Bergmann, Director for Economic and Financial Affairs of the European Commission (DG-ECFIN) responsible for Hungary (who was accompanied by his staff: Ms. Júlia Lendvai, Ms. Barbara Bernardi, Mr. Gábor Pellényi and Zoltán Gyenes).

During the working lunch the parties reviewed issues related to fiscal sustainability in Hungary, the role of reserves in economic stability, the economic and fiscal processes influencing budgetary processes, the chances of further decreasing fiscal deficit, the possibilities of a zero budget, the trend of government debt burdens, the effect of the German economy on domestic growth and the development possibilities. The parties agreed that the present direction of development was sustainable however; strengthening competitiveness represents a great challenge for the economic development of our country.

- **On October 2, 2019** the Chairman of the FC received the delegation of IMF who visited Hungary in the framework of the economic-political consultation stipulated by Article IV of IMF (Mr. Khaled Ibrahim Sakr and his staff: Ms. Svetlana Vtyurina, Mr. Kamil Dybczak, and Mr. Szilárd Benk). The Chairman of the FC informed the delegation about the followings: the execution of the annual budget and the expected macroeconomic and public finance processes – based on the available data so far, the relations of the sustainability of growth in the period up to 2022. Afterwards the participants reviewed issues related to balance and the challenges of competitiveness, the utilisation of EU resources, the expected trend of government debt and the feasibility of deficit numbers. They agreed that the circumstances so far have been favourable thus, in the short term no drastic decline regarding the growth is expected however, the pace might slow down. The competitiveness of the country can be improved by harmonised structural reforms and by decreasing fiscal deficit, the room for manoeuvre of additional government measures to offbeat economic decline might expand. Reaching zero budget in the short run is a reality.
- **On November 22 – 24, 2019** the Chairman of FC as member of the Hungarian group of the Trilateral Commission attended the meeting of the European branch of the organisation held in Stockholm. The tone of the conference focusing on the problems of the world economy's outlook in a wide spectre was optimistic and was approaching the various issues from a Northern-European (liberal) perspective. Parallel with this, they agreed that major company reorganisations and the diversification of production should be implemented to thus urging technological development. Another section was focusing on issues related to European competitiveness with the participation of Ms. Muriel Penicaud, French Minister of

Labour, Mr. Jim Hageman Snabe, Chairman of Siemens AG and Mr. Carl-Henric Svanberg, Chairman of Volvo. They drew the attention to the fact that as a result of technological development and major company reorganisations structural shortage of labour will appear again in Europe.

In the block discussing issues of the commercial and technological war, the survival of Europe, respectively the continent's security, among others Ms. Cecilia Malmström, European Commissioner for Trade and Mr. Robert B. Zoellick, former president of the World Bank presented their thoughts. They discussed the subject of the relations of the USA and China, analysing also, how logical president Trump's steps were. It's very likely that the parties won't get to the stage of breaking the „duel” however; the slaps intended for each other will very likely hurt Europe. The evaluations of Russia by the participants of the panel discussion focusing on Russia (Mr. Sergey Guriev, former chief economist of EBRD, Mr. Andrey Kotrunov, director general of the Russian International Affairs Council, Mr. V. Usacks, former EU ambassador in Moscow) were „exalting and belittling” at the same time however, at the end it was not clear „where this huge country was heading for”. Even today, Russia is a significant world power and represents power. The opinions presented by participants of the programme addressing Brexit (Sir David Livingstone, former cabinet minister and Lord John Kerr, former Secretary of State for Foreign Affairs) strengthened the idea that the postponement of the exit was the recognition that it was not possible to exit the EU so that as regards economic advantages, the UK remained in the Union at the same time. The postponement shall definitely come to an end and the shock is unavoidable. The remaining question is the extent and the duration of the crisis. Beyond the above topics the conference paid attention to „green policy” and discussed the climate protection actions, the future of the use of plastics, all in the context of sustainability. **(File number of the trip report: KVT-54-1/2019.)**

By forwarding the respective trip reports the National Assembly, the concerned heads of the government as well as members of the Fiscal Council were informed about the international workshops and consultations (the discussed issues and standpoints).

5. **The Governor of the Central Bank of Hungary** and the **President of the State Audit Office of Hungary** – in their capacities as members of the Fiscal Council – and in harmony with Indent (2) § 23. of the Stability Act supplied the Council also with

analyses and studies elaborated by their respective institutions in 2019, thus supporting the FC's activities. These studies contributed to the opinion formulating tasks of the Council in the following topics:

a) Analyses prepared by SAO

- Aspects for the Fiscal Council to support the body's formulating an opinion about the draft 2020 central budget bill of Hungary
- Opinion about the 2020 central budget bill of Hungary
- Aspects for the Fiscal Council for formulating its opinion required to submit Hungary's 2020 central budget bill for final voting
- Analysis for the Fiscal Council of the budgetary processes of the second half of year 2018
- Sustainability of debt decreasing (analysis)
- Analysis for the Fiscal Council about the budgetary processes of the first half of year 2019
- Analysis of the macroeconomic relations of the year 2018 annual budgetary processes in connection with the audit of the discharge
- The role and importance of medium term fiscal planning
- Effects of decreasing the value added tax on the process of the sustainable whitening of the economy
- Possible tools of the planning and the execution of more flexible budget appropriations
- Structural changes of the budget with special respect to the cyclical nature of the EU resources
- Relations of gross external indebtedness and the financing of government debt
- Analysis of the factors influencing the balanced growth of the Hungarian economy
- Analysis of the possibilities of increasing the activity rate of social groups with low economic activity
- Can developments of publicly owned economic enterprises be used as tools of anti-cyclical economic policy?
- Sustainability and competitiveness relations of adjusting to climate change

b) Analyses prepared by MNB

- Budget reports
 - Analysis of the draft of the 2020 central budget
 - Half-year analysis of the public finance processes
- Monthly MNB analyses
- Other MNB analyses

Beyond the analyses prepared by experts, the experts of the two institutions – who'd been continuously in touch – kept assisting the work of the FC Secretariat and provided opportunities for consultations to facilitate the preparation of the draft working documents to be discussed by the Council.

6. By building on the continuity of the year 2019 Action Plan of the FC – and beyond the support of the SAO and MNB - in order to strengthen the validity of the Council's opinion and resolutions concerning the planning and execution of the budget and the public finances, the trend of government debt, the balance of public finance and the judging of the sustainability of macroeconomic development, the Council expanded the topics of the **researches** by relying on the support of a wider circle of experts. Having in mind this idea in the subject year seven research workshops prepared **14 studies**:

- **„Macroeconomic and public finance situation picture and outlooks 2019-2022”** was the title of the analysis (outlook) prepared by Századvég Economic Research Inc., the Department of Mathematical Economics and Economic Analysis of the Faculty of Economics of the Budapest Corvinus University together with the OG Research Innovative Economic Solutions Inc., about the characteristic features of the macroeconomic processes of the current year as well as the tendencies and risks expected for the next year.
- The **KOPINT-TÁRKI Economic Research Institute Ltd.**, and the OG Research Innovative Economic Solutions Ltd. prepared an analysis and outlook about the expected trends the effects of the conditions of world economy on performance of the domestic economy and on the central budget with the title **„Possible effects of the world economy on the EU and within it on the economy and public finance of Hungary with special regard to Brexit”**.
- The Centre for Economic and Regional Studies of the Hungarian Academy of Sciences prepared a paper titled **„Tendencies of the labour market with special**

regard to the effect of outward migration and labour shortage on the economy and public finance". The paper analysed the tendencies of labour market and the relations of the effect of these factors on the economy and public finance.

- **Kopint-Tárki Institute for Economic Research Inc. and Századvég Economic Research Inc.** analysed the characteristic features of macroeconomic and public finance processes (and realisations) of the previous year and in the first half of 2019 in its paper titled **„Macroeconomic and public finance situation picture of 2018 and the first half of 2019”**.
- Századvég Economic Research Inc. prepared a study titled: **„Relations of the transformation of the healthcare system financed by public finance, public and private healthcare”** that was focusing on the present financing relations and unravelling the possible ways of the transformation as well.
- **„The effect of the wage agreements on economic growth and public finance balance”** was the title of the evaluation prepared by ECO-VISTA Economic Research Advisory Inc. about the relations of the 2016 wage agreement on growth rate and on the budget.
- Hétfá Research Inc. prepared a paper titled: **„Interactions of sustainable development and public finance on the example of water management”** presenting the relations of sustainability and public finance via the example of water management.
- ECO-VISTA Economic Advisory Inc. prepared a comprehensive analysis of the relations of the expected changes and sustainable development and the indexes and indicators facilitating the quantification of the effects of the measures required for the transformation of the foundations of competitiveness titled **„Measuring sustainable development”**.

The above papers (evaluations) have also been useful supports for the FC's work. They represent findings and conclusions worth of attention when formulating the FC Opinion every six months about the execution of the budget act and for the opinion of the budget for the next period, for assessing the sustainability of the public finance – macroeconomic processes and forecasting the possible risks.

7. Continuing the traditions of the earlier years, together with the Hungarian Economic Association, the Council organised a **workshop** on October 4, 2019 when lecturers of the

concerned institutions presented their views about the analyses prepared by the SAO and MNB to support the work of the FC as well as – in harmony with the above Point 6 – the results of the background analyses carried out by them. (Due to the later deadline for presenting the paper of ECO-VISTA Economic Research Ltd. bearing the title: „Measuring sustainable development” this presentation shall take place later.)

8. In most cases the dates of the Council’s meeting are fixed by the annual Action Plan and by taking into consideration the stipulations of the Stability Act. It might happen that as a result of the public finance processes (for example, the realisation of the debt rule) and **due to the constitutional role of the Council, the body should take position on topical issues** and formulate its opinion. This option was available throughout the year however; they did not have to resort to such an action due to witnessing the favourable trend of the processes. Nevertheless, this did not exclude the option that the Chairman of the FC issued the Council’s opinion – based on prior consultation with the FC members – like, for example, upon the request of the Ministry of Finance as regards the amendment of the laws and regulations concerning the tax reduction measures.

9. Realising the tasks detailed by point 5.3. and 5.4. of **Chapter 5. Tasks of international relations** of the FC’s 2019 annual Action Plan has become redundant following its coming into force. At the June 27, 2019 meeting of the European Network of Independent Fiscal Institutions - apart from renewing the management of the Network - the participants also made a decision that from 2020 the institutional background of the Network shall be ensured by delegating a permanent staff member to the independent Brussel organisation, the Centre for European Policy Studies. (See in more detail under Chapter **4. Multilateral meetings**, in the part dealing with the June 27, 2019 Madrid workshop of the Network).

History: the goal of the Network is to offer an opportunity for the participating independent fiscal institutions for exchanging opinions, experiences and joint representation. To assist the job of the Chairman of the Network a permanent secretariat was formed, attached to the staff of the Chairman of the Council for Budget Responsibility of Slovakia. At the Network’s meeting of the held on November 23, 2019 a permanent solution was approved concerning the setting up of the organisational work on secretarial level. Seven IFIs – among them the Hungarian – indicated their readiness to accommodate this task. The Chairman of the Hungarian FC also offered his assistance in examining the possibilities and the tasks of accommodating the secretarial work (both organisational and technical) to assist the networking of the participating IFIs.

III
Adoption of the Report

I ask the Fiscal Council to adopt the year 2019 annual report according to the attached proposal for decision.

9th January 2020

Kovács Árpád
Chairman of the Fiscal Council