Resolution of the Fiscal Council on Granting its Consent to Submit the Bill of the Year 2023 Central Budget of Hungary for Final Voting

I

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

Pursuant to § 25 of Act XCXIV of 2021 on the Economic Stability of Hungary (henceforward: Stability Act), the Fiscal Council (henceforward: the Council, FC) formulates its prior consent required by Indent (3) Article 44 of the Fundamental Law of Hungary, to submit the bill to the National Assembly for final voting. In the course of formulating the above opinion, the Council examines if the bill is in compliance with the stipulation of Indent (5) Article 36 of the Fundamental Law that prescribes the requirement to decrease the degree of the government debt indicator.

In its Opinion 2/2022.06.03. on the draft bill of Hungary's year 2023 central budget the Council established that „the draft budget bill is calculating with a 4, 1 percent economic growth that fits in the band predicted by domestic and international forecasts based on the available data at the time of the preparation of the bill (i.e. April-May 2022) through the additional growth of the already record-high employment, the rapid growth of earnings, the growing household consumption, the substantial expansion of fixed capital formation and the improvement of productivity." Additionally, the Council indicated that in their opinion „the expected economic growth is viable in case the epidemic does not return, the effects of the conflict of war remain within the limits of the band known at the time of the planning and the further deterioration of foreign trade balance shall be avoidable." The FC supported the endeavours to improve the balance and decrease the government debt in the share of the GDP and the deficit. Additionally, the Council saw that „the revenue side measures represented a significant share in creating balance – especially thanks to the windfall taxes – while, in the meantime, the measures concerning the expenditure side could contribute to improving the balance in a more lasting and efficient way." At the same time, the Council also noted that „the execution of the measures concerning the expenditure side - without cutting the revenues of the families - is imperative for the authentic and substantiated execution of stabilisation."

The FC regarded it a good step that „in 2023 the accrual-based (ESA) deficit of the governmental sector shall mitigate to 3, 5 percent, i.e. close to the Maastricht criteria while, the cash deficit of the public finance shall decrease to 3, 3 percent." At the same time the Council acknowledged that both the EU and domestic regulations allow a public finance deficit exceeding 3 percent also in 2023 however „ the FC encourages reaching the 3 percent deficit as soon as possible, in case the economic circumstances allow it."

In its Opinion the Council also pointed out that „the draft bill of the year 2023 central budget is in compliance with the government debt rule stipulated by the Fundamental Law and Indent (2a) § 4 of the Stability Act." Additionally, the FC laid it down that „in harmony with the stipulations of the Fundamental law the decreasing trend of the government debt indicator remains steady and its degree shall mitigate from the 76, 1 percent at the end of 2022 to 73, 8 percent by the end of 2023." Based on the trajectory of the macroeconomic and fiscal course [elaborated in April and May of 2022] in the FC's opinion reaching this degree is viable. In its Opinion the Fiscal Council also appreciated that „the government debt management wishes to preserve the favourable structure achieved during the previous years also in 2023, together with maintaining of the share of foreign currency denominated debt – with a slight increase – the expansion of domestic investors thus, the increasing of the participation of the public in financing government debt, as well as the increasing of the maturity date of government debt."

The attachment of the submitted bill T/152A contains the response of the Government to the Fiscal Council's Opinion 2/2022.06.03. formulated about the year 2023 central budget bill. Based on the authorisation of the Council, the Chairman of the FC touched upon this when giving his oral presentation at the beginning of the general debate of the bill.

Compared to the draft bill the FC had formulated its opinion on, taking into consideration the changes presented by bill T/152 that contained the increase of both the revenue and expenditure grand totals of the bill – thus affecting neither the cash deficit, nor the government debt indicator – the findings of the Council as regards the submitted bill were also relevant.

The Speaker of the National Assembly forwarded the unified budget bill T/152/471, adopted by the National Assembly to the Fiscal Council in his letter OE-42/291-1/2022 dated 12th of July, 2022, asking for the Council's opinion regarding the compliance of the bill with § 25 of the Stability Act concerning the government debt rule and the FC's prior agreement to submit the bill for final voting, as stipulated by Indent (3) Article 44 of the Fundamental Law of Hungary.

In the course of elaborating its present resolution, the Council was building on the analyses prepared by the State Audit Office of Hungary and evaluations prepared by the experts of the Central Bank of Hungary.

II
The Resolution of the Fiscal Council

On the 14th of July 2022, based on the examining of the compliance of the uniform budget bill T/152/471 – pursuant the respective stipulation of § 25 of the Stability Act – the Council established the following:

1. The Council ascertains that the recommended amendments of the uniform budget bill shall not change the planned cash deficit as the changes offset completely the increasing of certain expenditure appropriations by the decreasing of other expenditure cuts and, especially, by increasing the value added tax revenues. As a result, the planned amount of government debt shall not change either.
2. The Council acknowledges the degree of the government debt indicator planned for 31st of December 2023 pursuant to Indent (1) § 3 of the uniform budget bill T/152/471 on the year 2023 central budget. This degree has been established in harmony with the stipulations of the Stability Act as well as, with the macroeconomic and public finance processes existing at the time of the preparation of the bill that served as a basis for the bill. As the value of the government debt indicator calculated for the end of 2023 is lower by 2, 3 percent than the indicator expected for the end of 2022, according to the bill, the requirement of Indent (3) Article 36 of the Fundamental Law is also fulfilled.

3. Pursuant Indent (3) § 44 of the Fundamental Law, the Council gives its prior consent to submit uniform budget bill T/152/471 for final voting.
4. The Council calls the attention to the increased macroeconomic risks having emerged since the beginning of the planning of the budget from among of what, the higher than expected rate of inflation, the slowing down of world economic growth, the consequences of the Russian-Ukrainian war (energy crisis, etc.) as well as the continuance of the agreement with the European Union, are especially affecting the execution of the budget. These factors altogether increase the risk of the formation of the higher than planned deficit and government debt. At the time of granting its consent the Council considered that the bill envisages a 2, 3 percent improvement of the end of 2023 government debt indicator – compared to the 0, 1 percent prescribed as a minimum by the Stability Act – thus, even in case of a more unfavourable evolution of the macroeconomic trajectory, the government debt rule can be fulfilled. Tax measures and those affecting the reduction of public utility charges taken during the past few days shall mitigate the risks concerning public finance balance. The latter measures are also contributing to the improvement of the external balance. The negative risks may further increase in the second half of 2022 and through 2023 thus, it is reasonable to prepare for managing this.
5. The Council continues to call for reaching the 3 percent deficit level as soon as possible, in case the economic circumstances will allow it. This is why the FC welcomes the undertaking included in the budget bill namely, that in case the real growth in 2023 exceeds 4, 1 percent, with an amount equalling the accrual-based annual tax and parafiscal charges due to the higher real growth, minus the payable pension premium, the deficit of the governmental sector needs to be reduced.
6. The FC authorises its chairman to inform the Speaker of the National Assembly about this Resolution and present it at the plenary session of the National Assembly prior to the final voting.

III

Justification of the Council's Resolution

In relation to the contents of the submitted resolution under file number T/152, the changes in the approved by the National Assembly appropriations increase equally the revenue and expenditure grand totals of the central subsystem's year 2023 annual budget (by HUF 97, 4 billion). Within this the operational expenditures and revenues shall increase by HUF 105, 3 billion and the accumulation expenditures and revenues by HUF 7, 9 billion. Thus, as a result of the amendments the cash deficit of the central subsystem shall not change, neither shall the amount of the government debt. The public finance deficit calculated by EU methodology also remains the same.

The accepted amendments altogether appropriate an additional expenditure amounting to HUF 170, 6 billion. The source of this amount is the higher than expected consumption tax revenues due to the expanding consuming, together with the increasing of other items (in the amount of HUF 97, 4 billion) and, on the other hand, from the decrease of certain operational and investment-related (investment encouraging) appropriations (in the amount of HUF 73, 2 billion). According to the approved amendments, the following items show the biggest expenditure increase: ensuring additional resources necessary for performing the tasks of the civil intelligence services in the amount of HUF 44, 8 billion, HUF 26, 3 billion for tasks related to governmental communication and consultations, HUF 26,3 billion to support competitive sports and the related professional tasks, HUF 16, 7 billion for investments related to protecting cultural values, HUF 6, 9 billion for the local governments' public educational, social, child welfare tasks and provisions for meals for children, HUF 5, 6 billion for the supporting of non-profit, social, civic organisations and public bodies.

From among the decreasing of expenditure appropriations under the title of „Other, mixed expenditures" from HUF 24, 7 billion to HUF 9, 7 billion carries risks as it means the cutting of an open-top appropriation.

Among the revenues the forthcoming increase of the appropriation of the value added tax (HUF 52, 4 billion) together with the excise duty (HUF 10 billion) is decisive. The FC deems the increased tax revenue appropriations viable as the pro rata temporis realisation of the above two taxes in 2022 have increased since the submission of the budget bill.

Beyond the above, the payment obligation of the central budgetary organisations will increase significantly (by HUF 35 billion).

Several proposals concern the central reserves: the appropriation of Investment Preparation Fund was cut from HUF 3, 0 billion to HUF 2, 0 billion while, the total amount of the Overhead Protection Fund of HUF 670 billion is mentioned as reserves.

Altogether the amendments included in the uniform budget bill T/152/471. did not necessitate the reviewing of the findings of the FC Opinion 2/2022.06.03. as regards the effectiveness of the government debt rule.

In view of the above, the Council set out its opinion in its Resolution about the viability of the enforcement of the government debt rule, pursuant § 25 of the Stability Act, regarding the uniform budget bill and gives its consent to submit the uniform budget bill T/152/141. for final voting.

Based on the year 2022 macroeconomic processes, in its Resolution the Council deems it necessary to call the attention to several risks threatening the year 2023 budget. From among these risks the evolution of the economic growth and inflation – as far as it can be predicted now - deserve to be highlighted, fundamentally because of the world economic processes and, especially, the indirect effects of the war, as these are more unfavourable than the outlooks regarding the macroeconomic baseline of the budget taken into consideration three months ago, i.e. at the time of the preparation of the bill. Beyond this, the Council calls the attention to the fact that the budget is also counting with the cohesion and recovery resources of the EU 2021 – 2027 fiscal cycle to be available, calling of what is pendant on the acceptance of the EU Partnership Agreement submitted in December 2021, as well as the acceptance of the specific operative programmes and the Hungarian Recovery and Resilience Plan. Thus, the Council considers the forward looking governmental steps toward the agreement regarding the EU resources favourable.

At the time of formulating its standpoint, the Council considered to what extent the changes regarding Hungary and the Hungarian economic environment that have taken place since the submission of the budget bill, concern the viability of the government debt rule. The greater than expected slowdown of economic growth and the greater than expected rate of inflation (and via this of the GDP deflator) are directly affecting the government debt indicator. At the same time, the effects are not unidirectional: the slowing economic growth is mitigating, while the higher inflation is increasing the amount of the nominal GDP in the denominator of the government debt indicator. The lower exchange rate of the Forint is increasing the Forint amount of the foreign currency denominated government debt thus, also the government debt itself. However, as a result of the renewing debt strategy of the past decade the foreign currency denominated government debt of the public finance central subsystem is merely about 20 percent and so, the exchange rate sensitivity of the government debt has decreased significantly.

Despite the growing risks the fact that the budget bill waiting for adoption contains implicit reserves beside the reserve appropriations, is assisting the compliance with the government debt rule. Implicit reserves mean that the budget bill envisages a 2, 3 percent improvement of the government debt indicator as opposed by the 0, 1 percent legal minimum thus, even by the worsening of the foreseen macroeconomic processes, the decreasing of the government debt indicator may be realised.

According to the Council the amendment of the law regarding the itemised tax of small taxpayers amended during the past few days, together with the announcement of governmental measures regarding the introduction of quantitative limits set with the aim of sustaining the reduction of public utility charges, shall mitigate the risks concerning public finance balance. As regards the latter, it is expected that energy efficiency shall improve and this will contribute also to the improving of the external balance.

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