

Chairman of the Fiscal Council

Presentation
for the Fiscal Council

Subject: Report on the Execution of the Year 2022 Action Plan of the
Fiscal Council

8th of December 2022

I.

Pursuant Article 44 of the Fundamental Law of Hungary, the Fiscal Council (henceforward: Council/FC) is an organisation supporting the activities of the National Assembly, examining in particular the functioning of the validity of the central budget, the evolution of the public finance deficit and the enforcement of the government debt rule. Apart from the Fundamental Law, the tasks of the FC are determined by Act CXCV of 2011 on Hungary's Economic Stability (henceforth: Stability Act). Accordingly, the Council shall

- a) **deliver an opinion** on the draft of the central budget bill (this applies also to the draft of the amendment of the budget act) and, in that context, about the degree of the government debt¹, as well as the degree of the government debt indicator's² decrease³. In addition, the FC evaluates the state of the execution of the central budget act every six months as well as the expected evolution of the government debt⁴,
- b) **decide** on granting its prior consent – pursuant Section (3) Article 44 of the Fundamental Law – to forward the uniform budget bill and the uniform bill on the amendment of the budget for final vote,
- c) **may formulate an opinion** – pursuant Points d)-e) Section (1) § 23 of the Stability Act – on the amendment of laws that serve as the foundation of the central budget or, any other issues related to the planning, the execution and, any other use of public funds.

The report of the Chairman of the Council about the implementation of the year 2022 Action Plan of the FC summarised

- the board decisions of the Council in 2022,

¹Pursuant § 3/A of the Stability Act the decision regarding the public finance balance (to be precise: the balance of the governmental sector) shall be made in harmony with the respective provisions of the Fundamental Law and the EU Law.

²In the course of executing the regulations of Indents (4)-(5) Article 36 as well as the stipulations of Indent (2)-(3) of Article 37 of the Fundamental Law the ratio expressed as a percentage shall be taken into consideration [...], rounded to one decimal place that contains

- in its numerator the value of public debt,
- in its denominator the value of the gross national product calculated as prescribed in the EU resolution concerning the European system of the national and regional accounts (Budget Act) and stipulated by § 2 of the Stability Act.

³Pursuant Article 36 of the Fundamental Law as long as the public debt is exceeding half of the gross national product the National Assembly may accept only such central budget law that contains the decrease of the share of public debt to the gross national product. In harmony with the stipulation of § 4 of the Stability Act the central budget act shall determine the degree of the public debt indicator planned for the last day of the budget year. This degree shall be determined so that the decrease of the public debt indicator compared to the reference year shall reach at least 0, 1 percent, beyond the implementation of the EU regulations concerning the public debt decrease.

⁴ Pursuant Point c) Section (1) of § 23 of the Stability Act the Council shall formulate an opinion on the state of the execution of the central budget and the expected evolution of the government debt.

- the work of the FC Chairman carried out in the frame of the international cooperation of the independent fiscal institutions (fiscal council-type institutions) ensuring compliance with the „fiscal framework” and,
- the activities that are directly or indirectly related to the organising the work of the Council, the responsibilities of the Chairman of the Council and the FC Secretariat.

II

Implementation of the year 2022 Action Plan of the Council

1. The Council completed its year 2022 mandatory tasks in harmony with the stipulations of Act CXCV of 2011 on the Economic Stability of Hungary. To this end it needs to hold **four board meetings**. Members of the Council and the apparatuses supporting the FC in performing its tasks maintained continuous working relations, were monitoring the processes of public finance and formulated opinions concerning the related requests, statistical and other information, and forecasts.
 - a) Meeting related to Point f) Section (1) § 23 of the Stability Act
In accordance with its Rules of Procedures the FC **discussed and approved its report (Resolution 8/2021.12.07.) already on 7th of December 2021 about the implementation of the Council’s year 2021 Action Plan**, within it the experts’ **research/analyses plan** that assisted the FC in formulating its opinion and the grounding of its decisions. **(Resolution 9/2021.12.07.)**.
 - b) Opinion providing duties according to Points a) – c)⁵ Section (1) -§ 23 and Section (1)⁶ § 25 of the Stability Act.
 - ba) At its **first meeting in 2022 (21st of April, 2022)** the Council **evaluated the state of the execution of the year 2021 Central Budget Act and the evolution of the government debt. In its Opinion 1/2021.04.21.** the FC established that compared to the previous year „the March 2020 outbreak of the coronavirus epidemic affected the Hungarian economy and public finance less in 2021. Thanks to the

⁵ The Council

- pursuant to Section (2) Article 44 of the Fundamental Law shall formulate its opinion on the draft of the central budget bill, examines the degree of public finance deficit – that it would not exceed 3 % of the gross national product (GDP) – as well as the harmony with the medium term fiscal goal of the government sector. Based on § 25 of the Stability Act, at the same time the FC shall examine the compliance to Sections (4)-(5) of Article 36 of the Fundamental Law – the government debt rule – and the provision of § 4 of the Stability Act concretising this,
- shall decide on granting its prior consent, in harmony with Section (3) of Article 44 of the Fundamental Law,
- shall formulate its opinion on the state of the execution of the budget act and the expected evolution of the government debt, every six month,

⁶ When discussing the central budget bill the Council shall also examine the compliance of the uniform budget bill to the government debt rule, based on the information provided by the Speaker of the National Assembly pursuant the stipulation of the House Rules.

strong resilience of the economy and the measures introduced by the government and the Central Bank, Hungary was successful in protecting the nation from the economic consequences of the epidemic". The FC also fixed that „the accrual-based (ESA) deficit of the public finance (government sector) in 2021 reached 6, 8 percent of the GDP⁷ based on the data of the Spring 2022 EDP report", that „was less than the 7, 5 percent stipulated by the amended budget act of Hungary's year 2021 central budget's targeted deficit". In the Council's opinion „the lower deficit is primarily the result of the significantly more favourable economic growth vs the forecasted level, as well as the expenditure decreasing measures introduced at the end of the year". However, the deficit stipulated by the amendment of the budget law equals to HUF 3 390 billion cash deficit compared to what „the actual cash deficit turned out to be more by HUF 1.111,5 billion [...]". In this context the FC pointed out that „despite the end-of-year expenditure decreasing measures the deficit growth was outstanding in the fourth quarter"; however, „the cash expenditures remained partly within the government sector or became external for this sector by contributing to the increase of the financial assets of the government hence, the accrual-based deficit of the government sector is lower [...] than the cash deficit of the central subsystem".

In its Opinion the FC emphasised that „the revenues have increased more vigorously compared to those of last year than the expenditures" thus „thanks to the developing economic background in case of taxes and contributions, representing a pivotal role as regards the evolution of the public finance central subsystem's revenues, the revenue growth compared to the previous year amounted to HUF 1.740 billion (10, 8 percent)." The FC established that „the budget ensured the resources for the expenditures arising from the re-starting of the economy and those, related to the epidemic control also in 2021." The Council also assessed positively the fact that significant social-welfare expenditures and wage increases took place as well. Additionally, „business and tourism developing investments, flagship projects in transport, the Modern Cities' Programme and the Hungarian Village Programme received significant supports." According to the FC evaluation „due to the missing deadlines regarding a considerable part of the EU revenues planned in the budget appropriations and intended to finance operative programmes, the burdens of the domestic budget have increase and this contributed to the increasing cash deficit and the amount of government debt" as Hungary in 2021 did not benefit from the appropriated HUF 326 billion advance in the frame of the Recovery and Resilience Facility as, in lack of the positive evaluation of the European Commission, the Council of the European Union did not approve the Hungarian recovery plan".

In its Opinion the FC laid it down that „as a combined consequence of the mitigating cash deficit and the powerful economic growth, the share of gross government debt in the GDP fell from the end of 2020's 79, 6 percent at to 76, 8

⁷ According to the latest KSH (Central Statistical Office) the accrual-based deficit of the government sector in 2021 was 7, 1 percent.

percent, according to the EDP report.” Beyond this, the FC indicated that „within the debt of the central budget in 2021, the share of the foreign currency denominated debt increased to 20, 6 percent from the 19, 9 percent of the year 2020.” According to the Council’s opinion „the budgetary management of the year 2021 budget – harmonised with the monetary measures – altogether ensured adequate background for handling the exceptional circumstances created by the coronavirus pandemic and for restoring the growth trajectory of the economy.” The FC called the attention that „it considers the stability results of year 2021 decisive, especially in light of the fact that the Russian aggression against Ukraine that started in February 2022 and the economic consequences of the sanctions in response, have rewritten the trajectory of the year 2022 Hungarian economy as well.” The FC considered it especially important to indicate that „the result of the year 2021 restoration is also valuable because it represent a solid foundation to handle the new challenges”. At the same time, it also warned that „certain elements of the macroeconomic trajectory taken into consideration in the year 2022 budget – the GDP and the inflation rate – are going to be different compared to the forecast.”

bb) At its **second meeting (held on 3rd of June 2022)** when they formulated **their Opinion 2/2022.06.03. about the bill on Hungary’s year 2023 central budget**, the Council established that „the draft of the budget bill has been calculating with a 4, 1 percent economic growth that fit in the band of the known at the time [March and April, 2022] domestic and international forecasts, thanks to the further increase of the record high employment rate, the rapid growth of earnings, the significant expansion of household consumption and fixed capital formation, as well as due to the improving productivity”. The Council also indicated that „it considers that the expected economic growth may consist in case the epidemic does not return, the consequences of the military conflict remain within the band known at the time of the planning and the further deterioration of the foreign trade balance can be avoided”. In its Opinion the FC welcomed the endeavour to decrease government debt and deficit. Additionally, they believed that „the revenue side measures are representing significant role in establishing balance – especially thanks to the windfall taxes – while the measures on the revenue side can contribute to the improving of the balances in a more lasting and efficient way”. At the same time, the FC indicated that „the execution of the expenditure side measures – without decreasing the revenues of the families – is essential for the authentic and substantial implementation of stability”.

The FC considered it a right step that „in 2023 the accrual-based (ESA) deficit of the government sector will decrease to a level approaching the Maastricht criteria, i.e. 3, 5 percent, while the cash deficit of public finance will decline to 3, 3 percent”. At the same time the Council acknowledged that both the EU and domestic regulations make it possible also in 2023 to have a public finance deficit exceeding 3 percent however, the FC was urging to reach the 3 percent

deficit as soon as possible, supposing the economic circumstances allow this. In its Opinion the Council pointed out that „the draft of the year 2023 budget bill is in compliance with the government debt rule stipulated by the Fundamental Law and the provision of Section (2a) § 4 of the Stability Act”. The FC also established that „in harmony with the respective stipulation of the Fundamental Law the decreasing trend of the government debt indicator shall remain lasting and its degree shall decrease from the 76, 1 percent at the end of year 2022 to 73, 8 percent by the end of 2023.” Based on the macroeconomic and fiscal trajectory [that was prepared in March and April 2022 and served as the basis for the calculations of the draft of the budget bill] the FC deemed the forecast viable. In its Opinion the Council appreciated that „the government debt management intends to maintain the favourable structure established in the previous years, also in 2023, i.e. – despite a slight increase – keeping the share of the foreign currency denominated debt on a low level; expand the range of domestic investors, thus the increasing of the share of public participation in financing government debt and the extending of the maturity date of government debt.”

- bc) At its **third meeting (held of 14th of July 2022) examined the compliance of the uniform budget bill T/152/471. on the year 2023 central budget with the government debt rule and granted the body’s consent to submit the bill for final vote (in FC Resolution 3/2022.07.14.)**. See the background of this resolution in the Opinion under the file number 2/2022.06.03. mentioned in sub point bb) above. The Council decided that it “acknowledges the degree of the government debt indicator planned for 31st of December 2023 as stated in Section (1) § 3 of the uniform budget bill T/152/471. on Hungary’s year 2023 central budget bill. This degree was established according to the stipulations of the Stability Act, in compliance with the macroeconomic and public finance processes existing at the time of the preparation of the bill and that served as the basis of the said bill. As the value of the indicator calculated for the end of 2023 is less by 2, 3 percent than the value expected for the end of 2022, the requirement of Section (5) Article 36 of the Fundamental Law is also being met”.

In its Resolution the FC deemed it justified to call the attention „to the macroeconomic risks that have strengthened since the beginning of the planning process; from among of what the higher than expected inflation, the slowing world economy, the consequences of the Russian-Ukrainian war (energy crisis, etc.) and the delay in the agreement with the European Union are the most emphatic factors affecting the execution of the budget”. In the Council’s opinion the above factors altogether have been increasing the risk of the development of a higher than planned deficit and government debt. In the justification section of its Resolution the Council indicated that in its opinion the government measures announced in the meantime regarding the quantitative limits set to maintain standing charges, shall mitigate the risks

concerning public finance balance. The FC continues to encourage „reaching the 3 percent deficit level as soon as possible in case the economic circumstances allow this”.

bd) At its **fourth board meeting (on 27th of September 2022)** the Council prepared its evaluation and formulated the body’s opinion on the **mid-year state of the execution of Hungary’s year 2022 central budget act and its expected evolution (Opinion 4/2022.09.27.)** In its Opinion the FC established that „the state of the Hungarian public finance have been heavily affected by the world economic processes in the years of 2020 – 2022”; additionally, „following the epidemic the fragmentation of the global value chains have continued in a lasting manner and raw material prices have increased significantly, followed by the rising of energy prices, beginning with the summer of 2021. These processes have slowed down economic growth and increased inflation all over the world.” The FC also added that „the outbreak of the Russian-Ukrainian war that started on 24th of February 2022 has expanded and deepened the existing problems and posed challenges for the world economy not experienced for several decades”. The Council laid it down that „following the coronavirus pandemic, the Hungarian economy was restored rapidly thanks to the fact that the performance of domestic GDP improved by 7, 3 percent in the first half of the year, compared to the result of the same period in the previous year, also thanks to the economy restarting programmes.” This was also supported to a great extent by the increasing employment and wages. In this regard, in its opinion the FC also mentioned that „the short term outlooks are less promising. Due to the slowing down of world economy, the EU sanctions, the high inflation, the outstanding energy prices and the extreme draught, the growth rate is expected to be more moderate.”

In its evaluation the Council explained that „the end-of-the-year cash deficit will be significantly higher than planned – based on the processes that have taken place so far. The year 2022 budget act determined the cash deficit of the public finance central subsystem in HUF 3.152, 7 billion. By reaching 91, 7 percent of this amount by the end of the first six months of the year, this amount was HUF 2.892, 2 billion. Measures increasing the revenues of specific groups of the population introduced in the first quarter (reimbursing personal income tax to families, payment of the 13th month’s pension and the gun-money for law enforcement staff) amounted to approximately HUF 1.300 billion. Via tax revenues part of the above expenditures contributed to the increase of the budget.”

In its Opinion the FC emphasised that „the evolution of the cash deficit is of significant importance also from the aspect of the decrease of the government debt indicator. Namely, the increase of the government debt indicator in the first half of the year – from 76, 8 percent at the end of 2021 to 77, 5 percent –

was primarily the result of the high cash deficit, the increase of liquidity and the revaluation of the foreign currency denominated debt.”

The Council established that during 2022 the Government introduced „several measures to handle the consequences” of the extraordinary processes of the world economy. In its Opinion the Council expounded that „the jumping energy prices demand significant additional public finance expenditures, together with the increasing inflation, the increasing interest rate of the sovereign debts and maintaining security that only partially compensate the additional revenues originating from the more rapid than expected economic growth and the higher inflation.” Beyond the above the FC welcomed that „comprehensive consolidation steps were taken beginning with May 2022 the emphatic part of what consisted of introducing windfall tax [...] and the considerable cutbacks of budget expenditures, primarily of investments”.

In its Opinion the Council laid it down that as regards the targeted deficit calculated by ESA methodology „it was increased by the Government to 6, 1 percent in September 2022, as a result of accumulating the natural gas reserves financed by the Hungarian Hydrocarbon Stockpiling Association (classified in the government sector) from syndicate loan, by state guarantee.” The FC established that „most of the additional expenditures originating from the sharp rise of raw materials and, especially, of the energy prices shall appear in the second half of 2022. At the same time these factors will also cause the worsening of our foreign trade balance. Thus, the Council considers it important to gradually improve not only the budget deficit but also the foreign trade balance, in order to mitigate the twin deficit.”

- be) At its fifth meeting (on 27th of December 2022) the FC examined „**the compliance of the draft resolution of the Government ...2022. (XII....) on different rules of Hungary’s year 2023 central budget concerning the state of emergency with the government debt rule and granted its prior consent to publicise the draft resolution by its Resolution 7/2022.12.27.**

In its Resolution the Council established that the draft resolution „is calculating with a 1, 5 percent economic growth in 2023, instead of the originally stated 4, 1 percent, as a result of the lingering effect of the war and the energy crisis, the slowdown of global growth and the real revenue mitigating effect of the inflation.” The FC indicated that in their opinion “the modestly planned economic growth, compared to the forecasts of international organisations, can be realised if the effects of the war conflict won’t get worse and other risks won’t grow.”

In its Resolution the Council underlined that „the draft resolution continues to ensure the realisation of the major goals listed in the original budget, like maintaining the standing charges up to average consumption, supporting the families, protecting the elderly population, etc. and also establishes the possibility of increasing pensions in harmony with the higher than predicted

inflation rate, the partial compensation of the sharp rise of energy prices for institutions with public service mission, as well as financing the higher interest rates related to government debt.”

The FC acknowledged that according to the draft resolution „the accrual based (ESA) deficit of the government sector in the share of the GDP will change to 3, 9 percent, while the public finance cash deficit will change to 4, 5 percent in 2023”. The Council established that the planned ESA deficit and its derivation are not mentioned in the draft resolution, whereas the 3, 9 percent deficit represents the increase of the year 2023 targeted deficit. The FC acknowledged that „in case the GDP grows by more than 1, 5 percent in 2023, the additional revenue shall have to be used to decrease the deficit.” The body indicated that „the viability of the revenue and expenditure appropriation of the draft resolution carries risks.” They underlined that „thanks to the rapid growth rate of the nominal GDP – 16, 6 percent – the decrease of the government debt indicator continues also in 2023” and its value shall decline from 74 percent to 70, 2 percent by the end of 2023. This means that the government debt rule shall be met even if „the macroeconomic conditions get significantly worse than the forecast of the Government.” Hence, the FC granted its prior consent to announce the draft resolution, pursuant Point b) Section (2) § 4 of Government Decree 504/2022 (XII. 08).

2. The Chairman and the Secretariat of the Council asked for and received **additional information** from government agencies, primarily from the Ministry of Finance – related to the Council’s duties. It was monitoring the evolution of the public finance indicators and, additionally, the changes in the rules concerning its expenditures and revenues. The Fiscal Council received continuously information regarding the monthly revenue and expenditure data.
3. Following the usual practice, the **FC Resolution** (together with the respective justifications) was published on the **Council’s website**. The interest shown for other documents of the Council, their English versions and the research documents remained significant also in 2022. During the previous five years, from 2017 to 2021, the **number of downloads** altogether amounted to 94 711 and from this, close to 83 percent concerned the research materials. Taking into consideration the average data, throughout 2022 the FC Resolutions (together with the justifications) were downloaded presumably on two and a half thousand occasions, while the number of downloads of research materials have reached approximately five hundred.

The traditional **workshops** organised jointly by the Hungarian Economic Association and the Fiscal Council have increased the interest of the professional public opinion for years now regarding the activities (Opinion) of the Fiscal Council and the presentation of the background researches. The effect of the collection of studies available online and in printed form, both in Hungarian and English languages for the first time at the end of 2020

– also in the cooperation of the HEA and the FC - was tangible. Based on this success the practice of organising the workshop and the publishing of the collection of studies continued also in 2022 (see Point 7 of this report).

Pursuant its order of business, the **press relations** regarding the work of the Council fall under the responsibility of the Chairman. Although the FC Secretariat itself does not monitor the press, it does get information about the media appearances of the Council. According to the available data the interest of the written and electronic media was prevalent primarily on the following occasions: commenting on the draft bill of the year 2023 central budget bill, following the Chairman's exposé delivered at the beginning of the debate of the bill in the National Assembly – in the form of on site and studio reports, at several media channels (in Kossuth Radio's „Jó reggelt Magyarország” (Good Morning Hungary), „Ütköző” (Buffer) and other debates, on the channels of MTV1, Hír TV, InfoRádió, Karc FM). Practically all the reports on the activities of the Council related to the budget were also transformed to news by the radio and TV channels.

The number of **media appearances** amounted to around 100 (also) in 2022, thanks to the interest and similar to the average of the previous years. Relating to the changes of world economy and geopolitics – within this, primarily to the intensifying raw material and energy crisis, etc. – the Chairman of the Council also evaluated the mid-year and the expected evolution of public finance processes, the government debt and the public finance deficit on several occasions. Apart from the FC website the charts the texts of the presentations were published on various other websites as well. The interest shown for the Council's work was also expressed by the fact that through 2022 the Chairman of the body was invited to hold **presentations** about issues that concerned not only the FC decisions directly but also issues regarding the revenues and expenditures of public finance, as well as public services and within that the healthcare system.

Related to his university professorship and lifetime honorary presidency of the Hungarian Economic Association, the Chairman of the Council held several presentations at a number of universities, (Corvinus University Budapest, National University of Public Service, the universities of Szeged, Sopron, Kecskemét and Debrecen –in case of the latter at its branch departments as well) and at various professional fora. Related also to the functions and powers of the FC, his **papers** were published in the printed and online press (Figyelő, Index, Világgazdaság, Portfolio.hu, Medicina, AzÜzlet, Növekedés.hu etc.) just like in county and local publications. In case of issues concerning the economy and the budget the FC documents or the Chairman's statements are often **cited and referred to** by the various news agencies. The number of **written and phone inquiries** has not changed in 2022, when citizens approached the FC Chairman with questions and received answers regarding macroeconomics, public finance or their respective situation.

The FC was participating in the widening **international cooperation** also in 2022 as it has been part of the joint work from the beginnings (from 2013). The multilateral talks contributed to the joint understanding of intentions and the EU regulations, as well as the widening and strengthening of the professional relations.

a) Multilateral meetings

- **From 4th to 6th of May** the Irish Fiscal Advisory Council (IFAC) and OECD convened a conference for the various parliamentary fiscal organisations and the independent fiscal institutions (IFI). The Irish Parliament hosted the event. The opening lecture was focusing on global uncertainties and the economic and political consequences thereof. They evaluated the Russian-Ukrainian war mostly as a supply side economic shock and, accordingly, they termed the as precise as possible economic performance, appropriate stocking, respectively the political management of the inflation of the energy prices, as the most appropriate tools to offset the above effects. In the first part of the meeting they discussed the green-sustainable fiscal processes related to the spreading of vehicles with electric drive. In the second part of the conference they presented the synergies of the cooperation between fiscal and climate councils via the example of Ireland and the Netherlands, noting that sustainability and green investments inevitably involve government revenues and labour markets as well. The rest of the meeting was focusing on the estimation of the effects of specific government measures, election promises and programmes on the budget, while the fourth block was dedicated to discussing the dynamic scoring system⁸.
- The first topic on the second day of the conference examined the relation of the independent fiscal institutions and the press and established that the IFIs should be present in public discussions and – relying on the experiences gained by the US Congressional Budget Office - they agreed that a more effective communication strategy is needed. Afterwards the participants discussed the state of institutional communication, noting that the introduction of new methods to reach the public is also necessary. Following this part, the conference carried on in two parallel sections. In order to (re)create the more efficient role of parliaments, in the first section a working group discussed the document titled „OECD’s best practices for parliaments regarding the budget planning” while the other section – relying on the good practices of OECD principles concerning international financial institutions and the already available new data of the OECD 2021 IFI database - presented the preliminary indicators regarding the four dimensions required for the good performance of IFIs.

The Dublin meeting also offered an opportunity for informal talks thus, the FC Chairman discussed issues concerning the Austrian government debt with Prof. Dr Christof Badelt, President of the Austrian Fiscal Advisory Council, with Mr. Rui Nuno Baleiras executive member of the Portuguese Public Finance Council about the outlook of economic growth while, with Mr. Jan Ragnar Blöndal Head, Budgeting and Public Expenditures of OECD about issues concerning the trajectory of Hungarian public finance. **(Trip report: KVT/20-1/2022.)**

⁸ In the simplest and less contested formula dynamic scoring describes the idea that when appraising the fiscal effects of policies the economic effects evoked by the policy change shall be also considered.

- **On 10th and 11th of May 2022** the French National Audit Office (Court des Comptes) and the EU Independent Fiscal Institutions Network organised a workshop in Paris. The main agenda of this meeting was „Possibilities of re-thinking fiscal regulations in a changing economic environment”. In the first part of the meeting the rapporteurs of the topic delineated the present framework (details of the EU 2 and 6 packages, the Maastricht criteria that is considered the „golden rule”) followed by a round table discussion where participants included the head of the French treasury, the Chairman of the European Parliament Committee on Budgets, the present head of the Network of European Independent Fiscal Institutions from the Netherlands and the deputy head of the Spanish Treasury.

In the second part of the workshop in a round-table discussion they discussed the possibility of re-thinking the present regulations, with the participation of the Head of the Amundi Institute, the Head of the French National Audit Office, the deputy director general of the credit rating company Moody’s and the Head of the European Stability Mechanism. The participants agreed that the new regulations should be simple and flexible however, as regards the method the opinions they differed. Uncertainty was perceptible thus, based on the debate, no mature proposals were made. The meeting offered an opportunity for the FC Chairman to have informal and cordial discussions with Mr. Niels Thygesen Chairman of the European Fiscal Board (**Trip report: KVT/20-1/2022.**)

From 10th to 12th of June 2022 the Chairman of FC, as member of the Hungarian group of the Trilateral Commission, attended the annual plenary session of the organisation in Washington DC. A point of curiosity that the introductory presentation of a leading politician from the host country – that has been the practice of the former meetings – was cancelled; instead Ms. Meghan O’ Sullivan, professor of the Harvard Kennedy School was moderating a debate between Mr. Fareed Zakaria, CNN’s political commentator and Mr. Ian Bremmen, the founder of a digital platform GZERO discussed the ways of building a „new world order” and the resolving of the „geopolitical recession”. From their presentation it became obvious that an additional new competitor entered the realm of the USA - considered so far to be relevant in shaping the world order - beside of the group of the Russia+China+BRICS countries promoting a world order built on states that represent regions organised from the bottom up. The endeavours of transnational companies attempting exclusive advocacy that try to overwrite any other intentions and, in fact, they are interested in the confrontation of traditional political-military blocks and groups of countries. They are building a world order without states and the digital switch-over in all fields is the precondition for this. The conference dedicated the next block to the idea of the renewing capitalism. The Head of the editorial board of the report addressing the plenary was Mr. Carl Bildt, the former prime minister of Sweden. The speeches in this block consistently referred to the fact that it is the Russian-Ukrainian conflict that determines the possibility of the renewal of capitalism as well. Participants of the panel discussion were: Ms. Heidi Crebo-Rediker, CEO International Capital

Strategies, Mr. Bark Taeho, ex-minister from South Korea. In the programme block titled 'Russian invasion and the future of Ukraine' the introduction presented an objective summary of the world food crisis resulting from the war. Editor of Times of India, Mr. Indrani Bangchi made it clear that, surrounded by nuclear powers, India is interested in peace and, in his opinion, the sanctions against Russia will be broken as a result of the resistance of developing countries and, essentially, will cause damages for the initiators. Ms Fiorana Hill, former CEO of the US National Security Council and Mr. Carl Bildt were less certain in such an outcome however, they were not univocal in their comments regarding the effectiveness of the sanctions. Otherwise, all participants echoed the familiar western narratives regarding the interpretation of the sanctions.

The next full day agenda block was devoted to issues of globalisation with the participation of Mr. Oli Reinhold, Governor of the Central Bank of Finland and Mr. Michael Greenwald, CEO of Amazon. They addressed the comprehensive consequences of the pandemic, the Russia-Ukrainian conflict, the business outlook, the degradation of the value chains, the raw material-energy crisis, the new fronts of the economy, the money of the future, etc. Summing up the programme Mr. Axel Weber, former Governor of the German Federal Bank expounded that in his opinion, the slowdown of the globalisation represents perspective the biggest risk for the European and developing countries while, for the USA the threat is the increasing protectionism. Increasing protectionism hurts the chances of market corrections, increases the losses of primary stock exchanges and the war related risks „cannot be priced” today. Henry Kissinger, the political icon of the USA also joined the work of this block and explained that it is impossible to find military solutions to answer the big issues of the world and we need to parlay, taking into consideration the security concerns of Russia and, especially, of China.

The plenary session of the Trilateral Commission was closed with a podium discussion with Mr. Colin Kahl, undersecretary for defence policy of the USA. He made it clear that the USA steadily continues the execution of its national security strategy announced in March 2021 and within it, they are going to place the American perception of democracy on new foundations.

The conference offered again an opportunity for a number of informal consultations.
(Trip report: KVT/25-1/2022.)

- **From 15th to the 18th of September 2022** FC Chairman, Árpád Kovács participated as a panel rapporteur at an international workshop jointly organised by Mr. Lukasz Hardt, Deputy President of the Polish Economic Society, and the Warsaw Stock Exchange, titled “Great Project Foundation”. The workshop that attracted close to two hundred participants and, as rapporteurs, prominent representatives from the EU and OECD, foreign and Polish university lecturers, professional leaders representing banks and the ministry of finance, political and economy analysts, was searching for answers to issues concerning new, Polish generations. Titled: „Geopolitics and economy at

crossroads in the 21st century” the first panel let the world be seen fundamentally from the geopolitical aspect of Poland, ascribing a decisive (leading, European) role to the country in the future.

The rapporteurs, those putting questions and the commentators were especially optimistic when outlining the perspectives for the next generation from Polish and EU aspects by hardly referring to the world economic processes (essentially a political approach was domineering). The second panel titled „Financial policies in tough times” addressed in general the inflation phenomena, the expenditure items of the budgets prompted by the COVID pandemic and the ongoing war however, there was no reference to the present policies of sanctions or the financing difficulties brought on by globalisation. The third panel bore the title „Public expenditure decisions” and was dedicated in reality to the issue of establishing the fiscal council of Poland. The Chairman of the Hungarian FC moderated this panel jointly with Professor Lukasz Hardt. In his introduction Árpád Kovács was summing up the principles and technical-procedural rules of the operation of rule-based budget system, the political decisions introduced in order to maintain financial stability and the role of the institution watching over the compliance with the above, as well as the public law authorisations of the operation of this body in Hungary. Afterwards Mr. Richard van Zwol, Chairman of the Dutch Fiscal Council talked about the regulations and the functioning of the Dutch institution. Following his presentation Mr. Michael Mozdzen, professor of the Cracow University of Economics explained in his presentation that a fiscal council should implement the needs of the civil society against the government. In response, Árpád Kovács explained that the rule-based practice and the institution overseeing this should watch over the stability of the given country’s budget as a whole because „if there is stability, there is everything” and a fiscal council should deal with distribution and policies solely from this aspect. Finally, the fourth section was discussing energy and environmental protection issues and within it, the rapporteurs of this panel correctly outlined the conflicting interests and values, for clarity purposes. (**Trip report: KVT/34-2/2022.**)

- **On 20th of September 2022** the Directorate General Economic and Financial Affairs of the European Commission (DG ECFIN) convened a meeting in Brussels for the European Independent Fiscal Institutions (EUIFI). The United Kingdom, the European Fiscal Board (EFB) and OECD were also represented at this meeting. Keynote presentations were held in five sections. The first section – using the example of the Dutch fellow institution – presented the role that fiscal councils can play in establishing the medium-term fiscal framework. The second section evaluated the institutional environment, the available resources and the availability of information through the data service of member state IFIs. In the third section the representative of EFB delineated the fiscal standpoint considered correct and has not excluded that the „exemption provisions” may remain unchanged also in 2023. He also noted that during the autumn they’ll publish the documents of the supervision of the EU fiscal frame on the basis of what, fundamental changes in the present provisions may change

radically. At the end of the workshop the participants were summing up the experiences of IFIs regarding the coronavirus pandemic. Additionally, they analysed the compliance of human resources and financial framework of data service by IFIs. **(Trip report: KVT/29-2/2022.)**

- **On 21st of September 2022** the Network of the EU Independent Fiscal Institutions (EUIFI) convened in Brussels for a workshop for the participants of the Network. (The Centre for European Policy Studies that is also operating partially the activities of the Secretariat of the Network provided the infrastructural background of the workshop). The first section addressed the practical tasks of the Network; within this they reviewed the agenda of the half-yearly programme, the formal and content aspects of the questionnaires seeking data and the deadlines. Additionally, they addressed the topics the Chairman the Network should represent during his talks with the European Commission and the Fiscal Board of the EU and the standpoint to be represented by him. This was the section where members of the responsible working group reported on the course of the research related to the efficiency of fiscal councils. The second section was dealing with the lessons and the evaluation of the notions of the previous day's meeting to be followed by discussing the possible directions of the review and development of the fiscal frame while evaluating the effects of the COVID period on their work. In the third section, via the presentation of the Italian fellow institution, the participants gained access to the effects of inflation on the household and community „spendings”. The participants discussed specific national experiences as well. **(Trip report: KVT/29-2/2022.)**
- **From the 4th to the 5th of November 2022** the Chairman of the Fiscal Council – as member of the Hungarian group of the Trilateral Commission, attended the meeting of the European section of the organisation held in Athens. Following the technical introduction the conference that addressed the future and options of Europe in a wide spectre of economic and other tensions, the rapporteurs – Mr. A Popolexopoulou, Speaker of the Greek Parliament and Mr. Ignazio Cassis, President of the Swiss Confederation urged the importance of the conservation of European democracy and cooperation, as well as supporting the post-war rebuilding of Ukraine by a special financial fund.

In the blocs of „*The new Russian strategy of Europe*” respective „*Energy Crisis*” Messrs. Carl Bildt, former prime minister of Sweden, Sergei Guriev Provost, representing Sciences Po Paris and Andrei Kortunow (online) representing the Russian International Affairs Council made their views known regarding the reasons for the dangerous war conflict. The questions and responses regarding this panel strengthened the expectations of the prolongation of the war namely; that none of the parties can declare clear victory in this freezing crisis however, at the end, the „western world” will be the winner. According to the opinions provided there is no need for a new European strategy, the attitude of following – obviously for Europe – is the strategy itself. According to the participants of the discussion the sanctions represent the

central element of the above and shall exert their effect in a decade horizon. The presentation of Mr. Fatih Birol, Executive Director of the International Energy Agency in the module related to the above bloc about „*Europe's Seeking Ways and the Outlooks of the Energy Crisis*” also strengthened the continuation of the crisis. Afterwards, Messrs. Kyriakos Mitsotakis Prime Minister of Greece and Brad Smith, President of Microsoft were having an interesting conversation about the mega-trends of the world. From the discussion those present got a picture of the new synergies of the IT and globalisation alongside what they develop and how the interests of the „company states” prevail.

Mr. Sajid Javid, former Secretary of State for Health and Social Care conducted a panel discussion at the conference with the title „*Health and Security: Lessons of the Last Crises*” together with Mr. Jens Spahn, former Minister of Health and deputy head of CDU/CSU parliamentary group of Bundestag. The conference offered a frame also for the discussion of inflationary relations (within it the policy options of central banks - without outlining the hoped for consequences), where the conversationalist were Mr. Jean-Claude Trichet, former President of the European Central Bank and Mr. Olli Rehn, Governor of the Bank of Finland.

A separate section addressed the „what's next” issues of the post-election Europe and what steps should be taken to promote resilience in unpredictable times. The panel discussion (with the participation of former prime ministers, Messrs Carl Bildt from Sweden and Mario Monti from Italy together with Mr. Rosen Plevneliev former state president of Bulgaria) was describing the sustainability of the present status quo, the lack of further changes and thus, about the resilience of Europe against the economic-political endeavours of China and Russia, with very moderate optimism.

The professional programmes offered allowed futurological presentations as well; one such presentation was addressing the digital and microorganism related problems, the other presentation was dealing with the perspectives of hydrogen as an energy resource. Concerning the latter, in his comment the Chairman of the Hungarian FC described the presentation one-sided and missed that it had not touched the issue of comparing either nuclear energy or alternative energy sources. Afterwards the panel discussion titled „*The Dilemmas of Solving Energy Security*” took place (online) with Mr. Rob Jetten Minister for Climate and Energy Policy of the Netherlands who talked about his opinion regarding the issue of opening up new gas fields (this is going to be decided in light of the opinion of climate politicians). His opinion was met with the agreement of the audience. In the closing panel of the conference Mr. Mmusi Maimane, Leader of Build One South Africa political party expressed clear ideas about the goals of his movement: the creation of more liveable conditions, African cooperation, and self-determination.

Once more, the conference offered an opportunity again for Árpád Kovács for informal talks with colleagues whom he's been meeting year-to-year. (**Trip Report: KVT/36-1/2022.**)

b) Bilateral talks

On 6th of January 2022 an online meeting was held with representatives of **Fitch Ratings** international credit rating company (Mr. Arvind Ranakrishnan, Director, Sovereigns and Supranationals and Mr. Federico Barriga-Salazar, Director, Sovereigns, Emerging Europe. The Chairman of the Fiscal Council started the meeting with a brief review of the performance of the year 2021 budget and the work regarding the substantiation of the year 2022 budget. He mentioned that prior to the launching of the 2022 budget there were technical disputes about the viability of the targeted deficit, the focus of what concentrated on the effects of the investments. As prior to the coming into force of the budget considerable withdrawals (postponements) took place the targeted deficit can be lower and all the welfare programmes could remain untouched. The Chairman also indicated that there is still a debate between the Government and the European Commission regarding the acceptance of the agreement regulating the utilisation of the re-launch resources but the Government shall substitute the necessary resources from the money markets hoping, that following the EU parliamentary elections these suspended resources shall arrive. Additionally, the FC Chairman noted that the state of the economy was stable and, despite the resources held back by the EU, resources are available and the decreasing of the debt reduction might be dynamic. He also indicated that by the end of the year the fiscal deficit may decline to 4, 9 percent by the end of the year and this deficit shall be close to the EU limit in 2023. Talking about the inflation, he also mentioned that production costs are growing significantly (mostly thanks to the effect of the world economy). Furthermore, the situation is aggravated by the fact that Covid-19 still remains with us and there are still many logistic problems. He explained that the Government also introduced revenue improving measures affecting large sections of the society: minimum pay and minimum wage have increased significantly, just like doctors' salaries, the recognition of the scientific sector, etc. The Government continues to address investments important from economic and social aspects as priorities and continues its endeavour to harmonise the targeted budget deficit and the requirements of debt reduction. The conservative politics shall continue. The Chairman emphasised that these days there is a shortage of labour in Hungary. In response to a question he mentioned that only investments not properly prepared were cancelled. Additionally, the resources for social programmes remain available. The Chairman noted that the Maastricht criteria will very likely be suspended up to 2023 although, the vulnerability of some countries is high thus, it is expected that these regulations will change.

On 30th of June 2022 the FC Chairman had an online consultation with representatives of **Fitch Ratings** international credit rating company (Mr. Arvind Ramakrishnan, Director and Ms. Malgorzata Krzywicka, Associate Director. The representatives of the

credit rating company received information about the annual GDP growth that might be better than planned; according to the latest analyses, on annual level, it might evolve around 6 percent. Thus, following the 8, 2 percent growth in the first quarter, it might be around 6-7 percent in the second quarter, around 4 percent in the third quarter and 2-3 percent in the fourth quarter. Although this is indicating a slowing down however, from the aspect of tax revenues, it continues to remain favourable. At the same time due to the high wage growth, the personal income tax returns, etc. the budget deficit has already increased to 75 percent of the annual deficit. According to the opinion of the Council, the government debt shall decrease. Referring to the respective resolution of the FC he mentioned that the investments and consumption are overheated and 70 percent of the inflation can be related to external factors. He also indicated that based on the present data and knowledge, the domestic „price caps” on petrol, diesel oil, certain basic foods (flour, milk, sugar, etc.) will likely last for some time to come. There are several countries that follow the Hungarian practice; there is a war going on and it means restrictions, everybody is trying to adjust to the circumstances. Hungary also condemns the Russian aggression and there are robust protectionist measures all over the world. The direct consequence of the war is that many flee Ukraine to Hungary, few stay here but, as regards those who decide to remain, they are being taken care of completely. The Chairman also mentioned that in May the Government established an Overhead Fund and a Defence Fund to address the situation. At the same time, he noted that although he is hoping for a near balance state by the end of the year, it looks more likely that there will be a significant twin deficit that is hardly avoidable. Moving to next year’s budget the Chairman mentioned that following a tough first six months, the economic growth may get closer to 4-5 percent by the end of the year and the exemption from the Maastricht criteria might survive also in 2023. Referring to the FC resolution he added that the investment rate is about 28 percent and it wouldn’t be appropriate to launch new, big public investments. Additionally, he said that he was hoping that the country will receive the EU resources due to it however, he sees little chance for this as regards the HUF 2 500 billion worth, non-refundable RRF source this year. Afterwards, responding to questions, the Chairman informed the representatives of the credit rating company about the system and role of the separated public funds, mentioned the timing of the preparation of the budget (i.e. it was moved forward from the deadline defined by the respective law), the reason for the amending of the annual targeted deficit (postponing of investments) as well as the Hungarian regulations and practice defining the budget debate.

On 6th of September 2022 the Chairman of the Fiscal Council met representatives of **Moody’s Investors Service** (Mr. Heiko Peters, Ms. Ellen Kockom, Mr. Alejandro Olivio Villa) at the FC headquarters. In his introduction he mentioned that year 2022 started off well: from fiscal aspect the first half of the year was successful (the summer too) however, by the end of the year the growth rate will bring a steady slowdown. The annual expansion is expected between 4 to 5 percent. He added that even so, next year’s base figure might be high. In the Chairman’s opinion the ESA deficit of the budget could evolve on the planned level, as regards tax revenues a significant realisation is

expected however, the cash deficit of the budget will significantly increase the growth of expenditures. Regretfully, the favourable processes at the beginning of the year were broken by the Russian invasion of Ukraine on 24th of February and the out-of-control energy and raw material prices also have influenced this process negatively. Under such circumstances the utilisation of the margin for movement is difficult. According to the calculations known so far regarding next year's economic growth, it might be 2-3 percent. The Chairman expressed his hope that the country will receive the EU development funds (cohesion fund and RRF). As regards the latter it is all the more important because they are indispensable to solve the existing tensions in several sectors (education, healthcare, etc.). Responding to questions the Chairman mentioned that the FC is not merely an opinion formulating organisation but more than that, as it also has veto power. This year, based on the Opinion of the FC and its respective justification, the Government – thinking in alternatives - solved the overheating of the economy in a flexible way. Beyond this, the Chairman noted that there is no direct relationship between the Government and the Fiscal Council while the FC is practically in daily contact with the Ministry of Finance. He also mentioned that, according to his experiences, the Government takes into consideration the FC utterances. The Council is not dealing with issues of distribution policy. In his opinion the institution of the domestic „price caps” has been and is strongly criticised and maintaining it might affect the year 2023 targeted deficit as well. It should be taken into account that during the past decade the Government kept continuously increasing the incomes in the big sectors (education, healthcare. doctors, and specialist medical personnel). Everything cannot be solved in one step.

On 10th of November 2022 the FC Chairman negotiated with the delegation of **IMF** (Messrs Jean Francois Dauphin, Head of Delegation, Karim Foda, Augustin Roitman, Xuege Zhang) about the expected evolution of the year 2022 and 2023 macroeconomic and public finance processes. In his introduction the FC Chairman said that the year started from strong basis (7, 3 percent GDP growth in the first six months), to be followed by a downward indicating performance from quarter-to-quarter. The degree of the budget deficit is going to be higher than planned however; the government debt in the share of the GDP shall be smaller than last year. In the Chairman's opinion the performance could have been better alas, the Russian-Ukrainian war, the raw material, oil and gas prices having gone over the roof represent an obstacle. Also, he noted that the reimbursement of personal income tax to families and paying the 13th month's pensions created a strong initial position as regards the evolution of the expenditures. The fact that the budget deficit decreased by HUF 100 billion was a favourable result. On the issue of the EU resources the Chairman mentioned that the country received only the smaller portion of the money from the programmes of the previous period planned for this year however, nothing from RRF. He expressed his hope that upon the implementation of the 17 conditions imposed on Hungary and committed to by the Government, the „flow of EU money shall be opened”. Responding to a question he indicated that the lead time of the EU resources is an ongoing problem. It has to be considered that the world situation has drastically changed. Additionally, we should also

take into consideration what the degree of the fall is going to be and how the exchange rate shall evolve. Beyond this, he also mentioned that there are serious tensions in the society and these can be managed only at the expense of investments. In his opinion it would be desirable to decrease the twin deficit as well, the energy prices are out of control and the war implies significant costs. One million Ukrainian refugees arrived in the country – caring for them, providing assistance to them and ensuring transport for them consumes huge amounts. According to the Chairman's calculations the first quarter of next year is going to be tough, the economic performance shall start to grow around the middle of the year and the growth will be felt in 2024. Speaking about the inflation he emphasised that this year its annual degree is around 15 percent and this will remain also in 2023. Responding to additional questions he said that the growing raw material prices shall undoubtedly appear in the production costs and in Hungary it is the energy intensive industries are the most threatened.

5. Pursuant Section c) § 23 of the Stability Act, the **Governor of the Central Bank of Hungary (MNB) and the President of the State Audit Office of Hungary (ÁSZ/SAO)** – as members of the Fiscal Council – supplied the Council with related **analyses** and studies prepared by their respective institutions also in 2022, thus supporting the activities of the FC. These studies supported the merits of the Council’s work regarding the formulation of the body’s opinion on the following topics:

a) SAO analyses

Analyses related to concrete tasks of the FC

Analysis for the Fiscal Council about the processes of the second half year 2021

Aspects for the Fiscal Council for formulating the FC opinion on the draft of the year 2023 central budget of Hungary

Aspects for the Fiscal Council for formulating the FC opinion for the final voting on Hungary’s year 2023 central budget bill

Analysis for the Fiscal Council of the fiscal processes of the first half of 2022

Analyses relating to the general tasks of the FC

Protection of bank deposits and their public money relations

The role of NAV (National Tax and Customs) regarding the efficacy of a tax system based of tax declaration and tax payment

Analysis of energy supply

Contribution of agriculture to economic growth

What is a good size of state – a dynamically changing size of state?

Relation of medium-term fiscal range and annual budgets

Relations of the state and behaviour of market actors and economic reconstruction

The effect of monetary and fiscal policies on the economy in crisis management

Evolution and results, respectively the effect of exports-imports, current account and capital account on the changing GDP

Effective GDP production capacity

Summary of the analyses prepared by the State Audit Office of Hungary to assist the work of the Fiscal Council

Factors affecting the increase of the added value content of Hungarian export

MNB analyses

Budget reports

Analysis of the year 2023 annual budget bill

Half-yearly analyses about the public finance processes

Comprehensive study about the year 2022 budgetary processes for the volume of studies edited by Hungarian Economic Association and the Fiscal Council

„Macroeconomic and budget expenditures” – presentation for the joint conference of the Hungarian Economic Association and the Fiscal Council

Monthly analyses by MNB about the evolution of the January 2022 to December 2022 period

Other MNB analyses

Beyond the expert’s analyses the liaising professionals of both organisations offered continuous assistance for the FC Secretariat to prepare the draft working documents to be presented to the Council, ensured consultations regarding other issues, attended the Council’s meetings respectively, the fora organised by the FC.

6. Beyond the assistance of the ÁSZ and MNB the year 2022 Action Plan of the Fiscal Council was building on continuity and has further expanded the themes of the **researches** to thus strengthen the assessment of the public finance and budgetary planning, the implementation of the budget, the evolution of government debt, the public finance balance, the appreciation of the sustainability of macroeconomic development, the Council’s Opinion and the validity of the body’s decisions. In the subject year eight research institutions prepared 16 studies. These contributions were all delivered on time and in appropriate quality and set the foundation for the volume of studies⁹.

- **„Macroeconomic, public finance situational picture of 2021”** was the title of the thesis prepared by Századvég Gazdaságkutató Zrt., the Kopint-Tárki Konjunktúrakutató Intézet Zrt. and the ECO-VISTA Gazdaságkutató Tanácsadó Kft. analysing the characteristic features of the implementation of the previous year’s budget act and the evolution of government debt, to facilitate the evaluation of the FC. Within this they assessed the effects of global boom and of the international processes in-depth. Additionally, they focused on the production and utilisation components of domestic GDP, their respective relations, the indicators of the balance of payment and the labour market, the characteristics of the fiscal and monetary processes and the effect of governmental and monetary measures.
- The Századvég Gazdaságkutató Zrt., the Kopint-Tárki Konjunktúrakutató Intézet Zrt. and the ECO-VISTA Gazdaságkutató Tanácsadó Kft. carried out a joint analysis (outlook) for the formulating of FC’s opinion on the execution of the year 2022 annual budget act in the first half of the year titled **„Macroeconomic and public finance situational picture of the first half of 2022”**. In this they examined the effect of the

⁹ The action plan additionally contained the research titled „Sustainable development and interactions of public finance” however, according to the decision of the FC – to save money – it was not realised.

changing world economic environment (beside the stalling of production and supply chains, the surging energy and raw material prices, the strong inflationary pressure, the Russian-Ukrainian war, etc.) on the outlooks of Hungarian economy as well as the identifiable risks. In this study they unfolded in detail the factors influencing Hungarian real economy, the components of the production and utilisation sides of the GDP and their expected evolution.

- **OG Research Innovatív Közgazdasági Megoldások Kft./ Innovative Economic Solutions, Századvég Gazdaságkutató Zrt./Economic Research Co. and BCE** prepared an analysis of the characteristic features of the medium term macroeconomic processes, the dominant tendencies and the risk factors of the economic life and of the economic-political room to manoeuvre, titled „Macroeconomic, public finance situational picture and outlook for 2022-2024”. The analysis identified the determining factors of the near future: the energy crisis, the high price of raw materials, the Russian-Ukrainian war the obstruction of receiving EU resources. The studies presented the domestic macroeconomic and budgetary processes via three fundamental trajectories.
- **Kopint-Tárki Konjunktúrakutató Intézet Zrt. and OG Research Innovatív Megoldások Kft.** prepared an analysis of the international economic and growth processes – within it the characteristics of world trade and raw material markets (primarily of the international oil and natural gas markets – the evolution of inflation, the money markets, the monetary restrictions, the growth tendencies of the EU economy, the changing world economic conditions, the effect of the Russian-Ukrainian war, of the activity of China and the consequences of all the above factors on the Hungarian economy, bearing the title: „**Effects of the changes of world economy on the EU – especially on the German economy and the effects of all the above on Hungary’s economy and public finance**”. Finally, they presented the effects of alternative scripts on Hungarian economy for the next ten years.
- Profkonzult Kft. presented an analysis with the title: „**The effect of the EU recovery plan on the economic growth of the Union and our domestic economy**”. The study presented the aim and the system of the Recovery and Resilience Facility’s (RRF) as the decisive element of the Recovery Plan for Europe/Next Generation that, on hand, is a facility expressing the European solidarity of the member-states and, on the other hand, an incentive device for big economic, social and environmental reforms. The analysis presented the effect of the utilisation of this resource (in the share of the GDP) as regards the implemented projects of the individual member-states by sensitivity analyses, simulations and projections). The analysis addressed the effect of the supports for investments increasing productivity and reforms; specifically, the spill over impulses of this resource and its utilisation on coordinated growth.
- Leadership Kft. and Kopint-Tárki Konjunktúrakutató Intézet/Business Climate Research Institute completed a research titled: „**Sustainability, economic growth and**

competitiveness in Hungary". The analyses presented (analysed) the evolution of Hungary's competitiveness, the growth and development data as well as, assessing if the growth was realised in a sustainable way – in an international context. The researches also dealt with the consequences of the changing system of values in the world (placing in the foreground development vs. growth). To this end, measuring the various characteristic features of development and establishing its methods are indispensable. Beyond this, the research evaluated the relations of digitalisation and competitiveness, the indicators measuring the development of digital economy and society, comparing them to other countries' data; more specifically the requirement of avoiding the „trap of medium development”.

- GKI Gazdaságkutató Zrt. and Századvég Gazdaságkutató Zrt prepared an analysis titled: **„Fiscal sustainability and the transformation of healthcare financing with regard to the shift of the share of state-non state services and the emergence of private insurance”**. The studies presented the financing models a various healthcare systems and their respective legal background, followed by a review of international data regarding the evolution of expenditures, the analysis of factors influencing healthcare financing (demographics, lifestyle, earnings, prices, technological development, etc.), the structure of healthcare financing and its changes, the gaining ground of private health insurance and its development potential. The studies presented the results of surveys on the population's satisfaction and other, healthcare related analyses. Beyond the above they addressed the problems the healthcare system is facing and finally, they made recommendations concerning the transformation of healthcare financing models.

The prepared studies (evaluations) were useful in assisting the job of the FC and contained findings, evaluations and consequences worthy of attention regarding the evaluation of the implementation of the year 2022 central budget in the first six months of the year as well as the formulating of an opinion of next year's (2023) budget, the evaluation of the sustainability of the public finance-macroeconomic processes and the forecasting of the risks.

7. Up to now FC, jointly with the Hungarian Economic Associations, every year has organised a **conference** where the rapporteurs of ÁSZ and MNB presented their respective analyses supporting the work of the Council as well as the results of the background studies prepared for the FC by the respective institutions, as detailed under Point 6. The 10th such conference took place on 11th of October 2022. By the decision of the Council the summaries of all the studies were collected in a volume and published both in Hungarian and English languages for the third, consecutive year.
8. As regards the dates of the FC meetings, in most cases – with regard to the respective rules of the Stability Act – these are fixed in the body's annual action plan. Either pursuant the action plan or the macroeconomic-public finance processes, it might be necessary **for the Council to take a stand due to its constitutional position** or formulate an opinion. In 2022 there was no need for this.

III Adoption of the Report

I ask the Fiscal Council to please adopt the year 2022 annual Report pursuant the included draft resolution.

Budapest, 27th of December, 2022

Kovács Árpád

Resolution 5/2022.12.08. of the Fiscal Council

At its meeting held on 8th of December, 2022 and following the presentation of the FC Chairman, the Fiscal Council discussed and adopted the Report on its year 2022 Activities.

The FC calls the attention of the Chairman to forward the Report to the Speaker of the National Assembly.

Deadline: immediate

Responsible: the FC Chairman

Budapest, 27th of December, 2022

Windisch László
Member of the Fiscal Council

Kovács Árpád
Chairman of the Fiscal Council