Resolution of the Fiscal Council

on granting its approval to pass Bill T/2667 on the amendment of Act XXV of 2022 on Hungary’s year 2023 central budget for final vote

I

Background, legal basis and publicity of the resolution

The Fiscal Council (hereinafter referred to as the Council, Fiscal Council, FC) shall formulate its position on the preliminary consent required for the adoption of the bill on the central budget and its amendment pursuant to Article 44 (3) of the Fundamental Law, based on Article 25 of Act CXCIV of 2011 on the Economic Stability of Hungary (hereinafter referred to as the Stability Act). In doing so, the Council shall examine whether the unified budget proposal meets the requirement of a reduction in the level of the government debt ratio as provided for in Article 36(5) of the Fundamental Law.

By its Resolution 1/2023.01.12., the Council gave its opinion on draft bill T/2667 proposing an amendment to Act XXV of 2022 on the 2023 central budget of Hungary. In its opinion, it stated that "the moderately planned economic growth can be achieved even if the effects of the war conflict do not worsen and other risks do not increase." It drew attention to the need to "pursue a conservative policy in the use of budgetary reserves" and urged "the achievement of a deficit of 3 per cent, if economic conditions permit, as a reduction in the deficit will help to rebalance other parts of the economy." He also noted that "the reduction in the debt ratio will continue in 2023 thanks to the high growth rate of nominal GDP [...]. It is projected to decline from 73.5 percent at the end of 2022 to 69.7 percent at the end of 2023. The planned reduction of 3.8 percentage points implies that the debt rule will be met even if macroeconomic conditions turn out significantly less favourable than projected by the government."

Compared to the draft submitted to the National Assembly for its opinion, the draft bill T/2667 did not affect either the cash deficit or the government debt ratio, so the Council's findings on the draft were also valid for the submitted bill.

On 27 March 2023, the Speaker of the National Assembly sent to the President of the Council of Ministers by letter No. OE-42/211-1/2023, the unified proposal No.

T/2667/85 on the amendment of Act XXV of 2022 on the 2023 Central Budget of Hungary, requesting the Council's opinion on the compliance with the public debt rule pursuant to Article 25 of the Stability law and the granting of its prior consent to the final vote on the bill pursuant to Article 44(3) of the Fundamental Law.

II
The Fiscal Council Resolution

At its meeting on 30 March 2023, the Council adopted the following decision on the basis of the examination of the single proposal T/2667/85 on the amendment of Act XXV of 2022 on the 2023 Central Budget of Hungary, pursuant to Article 25 of the Stability Act.

1. The Council notes that the amendments proposed for adoption in the Consolidated Proposal do not change the projected cash deficit, as the amendments increase the revenue and expenditure headings of the 2023 budget of the central subsystem by the same amount.

2. The Fiscal Council stresses the importance of ensuring that the action plans to be prepared by the heads of the managing bodies of the budgetary bodies under the control of the Government, as provided for in Article 8(2) of the Bill, contain realistic, sustainable savings measures that do not jeopardise the performance of public functions.

3. The Council continues to urge the early achievement of the 3% deficit target, economic conditions permitting. Therefore, the Council welcomes the provision in the bill that if real GDP grows above 1.5 percent in 2023, the resulting surplus revenue, less the planned excess of the pension premium, should be used to reduce the deficit.

4. The Council notes that the changes to the central budget's revenue and expenditure headings, as set out in the single proposal T/2667/85, do not increase the level of government debt.

5. The government debt ratio is projected to decline from 73.5 percent at the end of 2022 to 69.7 percent at the end of 2023 according to the single proposal. The Council is of the opinion that the targeted reduction in the debt ratio is consistent with the macroeconomic path used as a premise for the bill and with the projected fiscal path. On this basis, the Council considers that the government debt-to-GDP ratio expected

at the end of 2023, when implementing Act XXV of 2022 on the Central Budget of Hungary for 2023, subject to amendments, is in line with the downward adjustment requirement of Article 36(5) of the Fundamental Law. The planned reduction of 3.8 percentage points implies that the debt rule will be met even if macroeconomic conditions turn out significantly less favourable than projected by the government.

1. The level of the debt indicator has been set in accordance with the provisions of the Stability Law and the requirement of Article 36(5) of the Constitution is fulfilled, and the Council therefore gives its prior consent, in accordance with Article 44(3) of the Constitution, to the final vote on the single proposal T/2667/85.

2. The Council authorises its Chairman to inform the Speaker of the National Assembly of the Resolution without delay and to present it to the plenary session of Parliament before the final vote.

III

Justification of the Council Resolution

Compared to the provisions of the bill submitted under T/2667, the changes in appropriations adopted by the Parliament increase the revenue and expenditure of the central subsystem budget for 2023 by the same amount (HUF 17,556.9 million). The amendments do not change the cash deficit of the central subsystem and thus the amount of government debt. The general government deficit calculated according to the EU methodology will remain the same. The amendments adopted are as follows:

In order to extend the Baross Gábor Reindustrialisation Loan Programme, the borrowing capacity of Eximbank Zrt., the operator of the programme, is broadened, to be covered by a transfer from the Overhead Protection Fund's Competitive Sector Support expenditure appropriation.

Within the Cabinet Office of the Prime Minister, a separate revenue and expenditure appropriation is created by transfer within the heading of the Cabinet Office for the technical management of public finance for the emergency regulations relating to the operation of toll systems.

The amount allocated to the National Council of the Judiciary for personnel and material expenditure is increased by HUF 300 million, the source of which is provided by an equivalent reduction in the expected payment obligation resulting from the guarantee operations undertaken by Eximbank Zrt.

Overall, the amendments contained in the single proposal T/2667/85 did not require a revision of the statement in the KT Opinion 1/2023.01.12. concerning the application of the public debt rule.

The Council considered it important to point out that the amended budget is also subject to risks. Therefore, in its implementation, it is necessary for budgetary authorities to take realistic and sustainable austerity measures that do not jeopardise the delivery of public services. Otherwise, the smooth delivery of public services would require significant additional expenditure, which would risk jeopardising the achievement of the public debt target. Despite the partial compensation of the increase in energy prices, the real value of appropriations to finance public services has declined significantly in several areas, so addressing the resulting tensions in budget implementation deserves further attention.

The Council also called for a reduction in the budget deficit, as this will help to rebalance the economy in other areas (e.g. by contributing to improving external financing capacity).

Against this background, the Council adopted a Resolution on the compliance with the debt rule, in accordance with Article 25 of the Stability Act.

Budapest, 30 March 2023.

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