Opinion
of the Fiscal Council

on the draft bill on the amendment of Act C. of 2015 on the 2016 central Budget of Hungary

I.

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

The Fiscal Council (henceforward: the Council or FC) received the draft budget bill about the amendment of the 2016 Central Budget Act (henceforward: the draft) in the form of an e-mail on 25th April 2016, as an attachment of the letter of the Minister for National Economy (File no. NGM 10400/2/2016) seeking the opinion of the Council.

In harmony with the stipulations of Indent (2) Article 44. of the Basic Law of Hungary and according to § 24. of Act CXCIV of 2011 on the Economic Stability of Hungary (henceforward: Stability Act) the Council shall formulate an opinion on the draft bill of the central budget; amendments concerning the changed revenue or expenditure totals of the central budget or those increasing the budget deficit included. In its opinion the Council may make remarks about the draft bill and – in case it has fundamental objections as regards the authenticity or feasibility of the draft – it shall indicate its non-concurrence.

When formulating its Opinion, the FC took into consideration the following antecedents:

- In its Opinion nr. 4/2015.05.08. the Council stated that on the basis of the Stability Act the 1 percent decrease of the debt indicator (calculated with unchanged rate of exchange) expected for the end of year 2015 and that calculated for the end of year 2016 as indicated by the draft budget bill, was in harmony with the foreseen economic and budgetary processes of the expected 2015 processes, as well as with the processes planned for 2016. In the justification section of its Opinion the FC pointed out that the 2016 public finance deficit calculated with EU methodology (ESA 2010) shall remain significantly below the level of the 3 percent Maastricht criteria and its level is in harmony with the domestic and EU-level stipulations as regards public finance deficit. Additionally, the low level deficit assists the implementation of the Basic Law stipulations concerning the decreasing of the debt rate, as well.

- In its Opinion nr. 6/2015.06.19. evaluating the feasibility of the compliance of the uniform public finance deficit with the government debt rule prior to the final voting, and in its Opinion nr. T/4730/604. the FC also stated that the size of the government debt foreseen for 31st December 2016 was „thoroughly founded in the uniform budget bill; was established according to the stipulations of the Stability Act and was in harmony with the budgetary processes of the bill". However, in the Justification section of its Opinion, the Council also reminded of the risks surrounding the implementation of the debt-rule as – according to the FC – the expectations might be weakened by the possible gaining momentum of the well-known geopolitical tensions, the fluctuations of the economic performance of the EU member states as well as the renewal of the crisis of the Euro-zone or the solution and the uncertainties of shouldering the incurring burdens of the migrant crisis.
- In its Opinion nr. 7/2015.09.21. about the state of the execution of the 2015 central budget of Hungary and the expected trend of government debt (on the basis of the processes of the first half of the year) the Council found that changes took place in the structure of the revenues and expenditures of the budget in the course of the past few years that have stabilised the revenues and made expenditures manageable. It was also the result of these factors that the financing situation of public finance is favourable. However, the FC also called the attention to the risk of worsening external conditions that might result in making the debt financing more expensive. According to the Council's opinion the prolonged Greek crisis, the spill-over of the danger of the Russian-Ukrainian tensions becoming permanent, the trend of the Hungarian Forint's rate of exchange or the availability of the EU resources suffering delays, might pose risks.
- In its Opinion on the 2017 draft budget bill of Hungary the FC also dealt with the year 2016 processes. Among these – in their justification – the Council found that „on the basis of the analyses of the macroeconomic processes of 2015 and that of the first quarter of 2016, the expectations are appropriate as regards the economic growth in 2016. The cyclic character of the utilisation of EU transfers shall somewhat hold back

> the expansion of the economy in 2016 (however, it can exert its positive influence again in 2017) […]. The measures introduced by the Government with the aim of whitening the economy, that had started earlier […] were already reflected in the data at the beginning of 2016. Thanks to this, the first quarter of the year saw a significantly lower level of cash-flow deficit compared to the previous years. Thanks to this, as well as to the foreseen processes, the 2 percent targeted deficit is feasible; moreover a deficit of even lower level seems to be feasible and that would affect favourably the decrease of the government debt indicator as well. In case of the latter, attention should be paid also to the ESA-deficit calculated with EU methodology as well as the cash-flow deficit that influences the debt even more directly".

With respect to the above, in the Justification section of its Opinion concerning the present amendment of the budget act, the Council deals with the macroeconomic background only in a narrower sense.

According to the draft document forwarded with the purpose of seeking the FC's opinion, the revenue and expenditure grand totals of the central budget – based on their internal balance – shall be increase equally by HUF 401, 3 billion. In harmony with this the cash-flow deficit of the central budget remains unchanged. Hereunder please, find those major revenue, respectively expenditure items where they recommend new appropriation or an increase of the appropriation in the year 2016 central budget:

A) Revenues
- Corporate tax (HUF 289,4 billion),
- Value Added Tax (HUF 37 billion),
- Excise duty (HUF 29 billion),
- Personal income tax (HUF 30 billion),
- Fees paid by the general public (HUF 16,1 billion),
- Social contribution tax (HUF 86 billion).

B) Expenditures
- for the solution of the year 2016 financial management problems of the Klebersberg Institution Maintenance Centre (HUF 91,6 billion),
- for the support of the vocational training centres and of vocational and adult education (HUF 17,7 billion),

- for the investments of universities, colleges (HUF 6,6 billion),
- for the realisation of the agreements signed in 2015 with the local governments of towns with county rights, in the framework of the ’Modern Towns Programme” (HUF 50 billion),
- for the Family Housing Allowance Programme (CSOK) (HUF 50 billion),
- for the modernisation of national main road and side-road network (HUF 69,3 billion),
- to ensure the liquidity of the Budapest suburban transport and other transport-related tasks of the capital (investments) (HUF 9,1 billion),
- for managing tasks related to mass-immigration and implementation of anti-terrorist measures (HUF 11 billion),
- for local governments not receiving contributions for debt consolidation (HUF 12,2 billion),
- for the Extraordinary Governmental Actions and for increasing the appropriation of the Country Protection Fund (HUF 30 billion).

The draft allocates additional support – among others – for economic development and public road development programmes of settlements along the borders as well as for sports, the purchase of properties and investments of the Hungarian National Asset Management Inc., and MNV Inc., the employment of axel weight measuring system, investments of the Hungarian National Ambulance and Rescue Service, environment protection tasks of the state as well as the implementation of the strategic industrial tasks of the Irinyi Plan.

Apart from the above the Draft contains provisions of legal technicalities and clarification of texts.

According to the respective stipulations of the Stability Act the FC examines the aspects of the feasibility and authenticity of the draft bill but does not analyse its details, especially its internal proportions and distribution political aspects.

The Council summarises its Opinion on the contents of the draft and publishes it as follows:

II.

The Resolution of the Council

At its meeting held on 28th of April 2016 the Council adopted the following, unanimous Opinion about the draft amendment of Act C of 2015 on the year 2016 central budget of Hungary:

1. As regards the authenticity and feasibility of the amendment of the revenues and expenditures the Council has no such fundamental objections against the submitted document that would justify the indication of non-concurrence.
2. The changes of the appropriations shall increase the revenue and expenditure grand totals of the central budget equally, by HUF 401, 3 billion. Thus the cash-flow deficit of the public finance shall not change. On the basis of the favourable processes of the previous year and the data from the first quarter of 2016, the Council is of the opinion that the increase of the revenue expenditures is substantiated.
3. According to the Council - despite the higher expenditures – the stipulation regarding the size of the GDP-proportionate public finance deficit calculated by EU methodology for year 2016, can be met. This is lower than the three percent stipulated by Point b), Indent (2) § 3/A. of the Stability Act and means that the requirement related to the deficit shall be met even if the trend of the GDP or the balance turns out to be more unfavourable than the plan.
4. According to the Council's judgement the government debt ruler shall be met as well, as by the end of 2016 the GDP-proportionate gross government debt – adjusted by the increased debt due to the advance payments for EU supports – is expected to decrease, compared to the respective data from the previous year. The Council considers it important that in the course of the execution of the budget, the Government paid attention also to the trend of the debt rate calculated by the rules of the European Union, in order to avoid that the prescribed decrease shall not be endangered by the possible increase of the cash-flow deficit, due to the advance payments for EU supports.
5. The Council supports idea that the draft shall increase the reserves, i.e. it shall increase the expenditure appropriations to a lower extent than the probable increase of the

excess revenues, and thus the safety of the implementation of the budget shall strengthen.

Justification

As regards the draft the Council did not experience such objectionable regulations that would justify the indication of non-concurrence concerning the document.

When formulating its Opinion the Council considered the favourable macroeconomic tendencies that were taken into consideration in the phase of planning or – in case of favourable conditions - might result in even somewhat better conditions. The economic growth that started in 2013 shall continue in 2016. This, however, does not exclude the mid-year fluctuation of the dynamics of the growth. As a consequence of the favourable labour market trends and the increasing gross average wages on national economy level shall increase by all probability by more than 3 percent and this shall significantly contribute to the growth of the economy.

The growth of the expenditure appropriation shall contribute to the growth of the investment rate and thanks to its one-time character, shall not endanger the sustainability of budgetary balance. The Council recognises that the financial consolidation of educational institutions will also take place.

The favourable trend of the tax bases, the considerable utilisation of the tax credit for growth, the strengthening of payment discipline, together with the higher tax and contribution revenues originating from government actions aiming the improvement of tax collection, make it possible to get the cover for the increasing of the appropriations and the inclusion of new appropriations on the expenditure side of the central budget.

The changes of the revenue and expenditure appropriations listed in the amendment do not concern the cash-flow deficit. However, in case the budgetary payments serving as an advance for the EU revenues would increase, it would increase also the cash-flow deficit and via this the size of government debt. According to the stipulations of the Stability Act this increase should not be taken into consideration however; it should be included in the government debt calculated according to the respective EU regulations. The too low level of debt decrease would endanger the implementation of the debt regulation of the European Union. Thus, the Council deems it important that in the course of the execution of the budget the Government should consider the possible increase of the cash-flow deficit originating from the advance payments of EU resources, as well.

The Council agrees that the draft shall increase the expenditure revenues to a lesser extent than the probably arising excess revenues; in other words it shall increase the reserves i.e. the appropriations of the Country Protection Fund and of the Extraordinary Governmental Actions (EGA). The adequate reserves shall assist the safe execution of the budget and the management of the risks arising from the probable under-realisation of the significantly raised revenues. The Council welcomes that they are going to increase the Country Protection Fund that - upon the recommendation of the Council - had been increased first by HUF 30 billion than decreased by the same amount in the course of the negotiations, in the year 2016 budget.
Even with all the above in mind – in order to ensure the sustainability of the favourable public finance processes – continuing responsible financial management would be justified also in the future.
The stipulations of the draft, recommending the clarification of technicalities and amendments assisting the implementation of the specific regulations of the year 2016 central budget have no substantive effect on the application of the government debt rule.

In harmony with the respective stipulation of the Stability Act the Council shall publish its evaluation on the execution of the year 2016 budget in the first half of the year, in September 2016. In its report the FC shall return to the trend of the macroeconomic and public finance processes considered at the time of the preparation of the present amendment.

Budapest, 28th of April 2016

Domokos László
Member of the Fiscal Council

Matolcsy György
Member of the Fiscal Council

Kovács Árpád
Chairman of the Fiscal Council