

CHAIRMAN OF THE FISCAL COUNCIL

Proposal for the Fiscal Council

Subject: Report on the execution of the 2015 Action Plan of the Fiscal Council and recommendations for the identification of the 2016 Action Plan of the Council

December 2015

The report on the implementation of the 2015 Action Plan of the Fiscal Council (henceforward: the Council/FC) and the motion regarding the identification of the 2016 Action Plan briefly summarises the following:

- the board decisions of the Council, additionally
- the activities of the Chairman of the Council at the bilateral and multilateral professional consultations of independent fiscal institutions (IFIs, fiscal councils) guarding the observance of the „fiscal framework”,
- additionally, those actions that are necessary for the creation of the foundations of organising the work of the Council and, its decisions and that are directly or indirectly related to the functions of the Chairman of the Council, respectively the Secretariat of the FC.

Occasionally, the report refers also to those official manifestations, related to the implementation of the budget, that were expressed at professional fora organised in the background of the Council's work.

The 2016 Action Plan is built on continuity. Beyond the support received so far from the SAO of Hungary and the Central Bank of Hungary the FC is dedicated to further strengthen the foundations of its decisions by expanding the background of experts (research topics). The Council shall participate in the cooperation of the European institutions of fiscal responsibility under the aegis of the EU and the OECD also in 2016.

The rules of procedure of the FC ensure an appropriate frame for the creation, the implementation and the performance of the expanding operative tasks of the Secretariat.

I

The implementation of the 2015 Action Plan of the Council

1. The Council completed its **obligatory** work plan **tasks** for the year 2015, in harmony with the stipulations of Act CXCV of 2011 on the Economic Stability of Hungary (henceforward: Stability Act). In the course of this work it has held altogether six meetings. The decreased number of meetings, compared to that of previous years, was

related to the fact that contrary to the years of 2013 and 2014, the necessity to amend the budget has lessened in 2015, thanks to the more stable budget act and the robust planning practice. As a consequence, part of the amendments was mostly of a technical nature.

a) The meeting related to point f), indent (1) § 23. of the Stability Act

At its **first meeting** the FC discussed and approved its annual **Action Plan** (resolution **1/2015.02.09.**) and amended its **rules of procedure** (resolution **2/2015.02.09.**) in order to ensure the implementation of the widening tasks of the FC Secretariat requiring organisation, preparation and coordination.

b) points a)-b) indent (1) § 23. of the Stability Act, as well as the stipulations of indent (1) of § 24. and indent (1) of § 25 concerning the task of advisory obligations

ba) At its **second meeting** the Council **formulated its opinion concerning the draft amendment of the 2015 central budget act** (resolution **3/2015.04.14.**). In this opinion the FC found that the taking over of the debt of BKV (Budapest Transport Company) as well as the purchasing of shares from the Erste Bank shall increase – to a different extent – the cash flow deficit of the public finance, respectively the deficit calculated by EU methodology, as well as government debt. According to the Council's opinion the targeted deficit and the requirement of reducing the GDP proportionate government debt were feasible when – by the stability of the macro economy – the revenues turned out as expected and the stiff control of the government over expenditures remained unchanged.

bb) At its **third meeting** the FC **took two decisions**. On the one hand it discussed and **gave its opinion on the draft budget bill of the 2016 central budget** (resolution **4/2015.05.08.**). In this resolution the Council emphasised that the draft was not in harmony with the debt formula stipulated by the Stability Act (that would have required significant budgetary restraints for 2016) thus the FC suggested the amendment of the draft (for the umpteenth time) emphasising the importance of equally considering the aspects of stability and growth as well. Apart from the occasional exceptions – pointed out in its resolution – the Council judged the targeted revenue, expenditure, deficit and government debt indicators of the public finance being in harmony with the respective laws, the macroeconomic funds and the measures taken by the Government. It called the attention to several risks, first of all the unfavourable effect of external (geopolitical) factors.

At the same time the Council **gave its opinion on the uniform recommendation no. T/4477/15. on the amendment of the 2015 central budget from the aspect of its**

compliance with the government debt rule and gave its preliminary consent to submit the said amendment for final voting (resolution **5/2015.05.08.** – its antecedent was resolution 3/2015.04.14. mentioned above, under subsection *ba*).

bc) **At its fourth meeting the FC examined if the uniform draft budget bill no. T/4730/604 on the 2016 central budget was in harmony with the government debt rule and gave its preliminary consent to submit the draft for final voting** (resolution no. **6/2015.06.19.**). Additionally, the Council welcomed that – following the recommendation of the Government - the National Assembly amended the stipulation of the Stability Act concerning government debt and in doing so it also paid attention that the aspects included in its resolution 4/2015.05.08.

bd) **At its fifth meeting, the FC gave its opinion on the draft amendment of the revenue and expenditure grand totals of the 2015 central budget act** (resolution no 8/2015.09.21.). The Council ascertained that the excess expenditures related to the tasks that had emerged because of the migration were increased reasonably, when increasing the revenue expenditures (VAT, excise duty) and taking into consideration the pro rata implementation.

be) **At its sixth meeting, the Council gave its opinion on the compliance of the uniform proposal no. T/6326/8. on the amendment of the central budget with the government debt rule and gave its preliminary consent to pass the said amendment for final voting** (resolution **9/2015.11.02.**, its prelude was resolution 8/2015.09.21. referred to in the previous subsection).

c) *The meeting related to point c) indent (1) § 23 of the Stability Act*

At its fifth board meeting, apart from the aforementioned agenda, the FC evaluated the state of the execution of the 2015 central budget and formulated its opinion on the implementation on the basis of the first half of 2015 (resolution **7/2015,09.21.**). It found that very likely the domestic and EU expectations will be realised, just like the stipulations of the government debt rule. The FC took into consideration the favourable trend of the tax and excise revenues from the macroeconomic processes, as well as the result of employing new tools tracing the trade in goods (online connecting of cash machines to the tax office and the introduction of Electronic Public Road Trade Control System) as well. The Council deemed it a positive sign that the control over expenditures was appropriate. At the same time it saw risks in the direct effect of the refugee problems on the budget and its indirect effects exerted

via the economic processes, the non-implementation of EU revenues, the trend of the Forint's exchange rate and external factors (the Greek crisis, the Russian-Ukrainian conflict).

As regards the state of the execution of the 2014. central budget act and the expected trend of the government debt being examined when formulating its opinion on the draft of the 2016 central budget bill, the Council had not formulated a separate opinion on it.

Summing up the opinion giving job of the FC, in the course of formulating an opinion on the mid-year amendments of the central budget and in connection with the preparation of next year's budget, as well as in evaluating the data of the first half of year 2015, the Council pointed out that, apart from the favourable external and internal macroeconomic and public finance processes, there existed also tendencies that could spoil the above effects and these call for caution. Thus, when considering the utilisation of the appropriations, the Council deemed it necessary to maintain budgetary austerity and consistency as regards the observance of the annual targeted deficit and the enforcement of the government debt rule.

The 2015 central budget act was modified mid-year only twice and then mainly due to asset policy considerations. This clearly shows that budgetary stability has strengthened.

In 2015 the early adoption of next year's budget (in June) was a new phenomenon. This affected the public finance sector positively just as regards the national economy, in a wider sense due to the supports as the organisations could dedicate more time to getting prepared for the financial management in 2016. Also, it should be emphasised that in 2015 it became possible to avoid the correction of the new – at that time not entering into force yet – budget act.

The resolutions of the Council (together with the related justifications) were published on the **FC's website**. These and other documents of the Council published in English, together with the research materials commissioned by the FC were downloaded about **8 500 times** and the website registered **an average of 300 visitors monthly**.

The Chairman of the Council was repeatedly asked to give interviews and hold presentations and this also indicates the interest in the Council's work and its decisions. The most outstanding of such events were related to the formulation of the Council's opinion on the draft bill of the 2016 central budget and the interviews were asked by several (occasionally by five-six different) channels following the exposé presented in the course of the general debate of the bill in the National Assembly. Nearly the same amount of reports were requested also in relation to the evaluation of the execution of the 2015 budget act in the first half of the year

as well as at the time of the two amendments of the 2015 central budget. Thus, apart from more than **60 media appearances**, the Chairman of the Council – also due to his being a university lecturer and president of the Hungarian Economic Association – delivered several **presentations** at various fora; a number of his articles were published in professional journals and periodicals and were dealing to some extent with issues related to the tasks and spheres of responsibility of the FC. In 2015 the number of **written and phone** inquiries of the citizens asking for explanations regarding issues related to public finance and macro economy have also grown.

1. The Council also organised a joint **conference** with the Hungarian Economic Association in 2015.

Following its practice launched in 2013, the FC continued resorting to contributions of professional research institutions also in 2015, in order to lay adequate foundations for formulating its opinions (resolutions) and the judgement of the fundamental macroeconomic course related to the budget bill. This included commissioning mid-range forecasts (covering the period of 2016 -2018) concerning the expected trend of the macroeconomic and public finance environment (processes, conditions, etc.) that are of decisive importance as regards the planning of budgetary processes. Senior staff members of *GKI Economic Research Inc.*, the *Századvég Economic Research Inc.*, and the *Hungarian Academy of Sciences – Centre for Economic and Regional Studies* held presentations of their above studies at the conference held on 13th October 2015. This event evoking to wide interest also gave an opportunity for the experts invited from the Central Bank of Hungary and the State Audit Office of Hungary to present their views related to the topic. Although the 2016 central budget bill was already adopted at the end of the first half of the year, the abovementioned three studies (evaluations) – apart from the analyses prepared by the SAO and the Central Bank – might offer useful assistance for the job of the FC when formulating its opinion on the budgets of the next period, judging the macroeconomic course and forecasting possible risks.

2. **International organisations** of recognised competence – respectively, **visiting members of such organisations** – that follow with attention the work and the functioning of the Council – have asked for the opinion of the Chairman of the Council on topical issues, also in 2015. Apart from the Chairman, member of the FC and/or its experts also attended such meetings.

- a) Apart from domestic professional representative bodies and NGM (Ministry for National Economy) the Chairman of FC was also invited to attend the technical meeting organised on 9th April 2015 at the Budapest EU Mission where the agenda covered the following topics: experiences of the country-specific recommendations of the EU with special emphasis on the annual review of changes affecting the tax system, the trend of the so-called tax wedge, the changes of the proportion of tax burdens on labour and indirect taxes.
- b) The visiting OECD delegation met the Chairman of the Council in the building of MNB on 22nd September 2015. They discussed the sustainability of growth, the sustainability of the 2016 budget, the judgement as regards possible risks, the observance of the targeted deficit, the course of government debt and the trend of the GDP. As an addition to the oral exchange of opinions the delegation received the English language version of the collected FC opinions regarding the 2016 budget and documents describing the legal background of the FC's operation.

3. The loose network that started as the initiative of the Council of Budget Responsibility of Slovakia supported by OECD back in 2013, to address topical issues related to the validation of the budget responsibility framework, by now is building an ever stronger **international cooperation** encompassing the fiscal responsibility type organisations (institutions), their structure, the structure of their responsibilities, etc. under the aegis of the EU. The bilateral and multilateral discussions gave an incentive to understanding the EU purposes, expectations, interpretation of the regulations and the strengthening of trade relations. The Fiscal Council, as an interested party, is participating in this cooperation. In this respect the bygone year was rich in consultations and meetings.

a) Multilateral meetings

- DG ECFIN — Directorate-General for Economic and Financial Affairs held a professional meeting on **12 - 13 February 2015** attended by representatives of national ministries of economy, banks and fiscal responsibility institutions. The presentations encompassed the regulations and amendments of the Stability and Growth Pact, its mechanism and methodological relations. The presentations also expressed that reaching results was possible only by the combination of the individual elements. (The report can be found under file number of the: KVT/19-1/2015).
- **From 21 to 22 June 2015** the European Commission organised a meeting of professionals in Brussels where they discussed the role of independent fiscal

institutions in observing the fiscal framework, dealing with the operational functions, the permissions, the sufficiency of analysing capacities (as regards the latter, there are substantial differences existing). (The report is available under file no. KVT/50-2/2015).

- The IMF Fiscal Affairs Department and its European Office organised a meeting in Brussels on **28 – 29 April 2015** where participants discussed issues related to the compliance of the set of fiscal rules and those concerning public finance stability. (The report is available under file no. KVT/43-1/2015).
- Between **15 and 19 April** OECD organised a meeting in Vienna examining the possible role of independent fiscal institutions in establishing budgetary balance. (The report is available under file no. KVT/37-1/2015.).
- National independent fiscal institutions themselves also organised a conference. The event held on **9 – 11 September 2015** took place in Bratislava where they reviewed the situation of fiscal institutions in the Economic and Monetary Union, the history of the „network” so far and the experiences related to the compliance of the Fiscal Compact. (The report is available under file no. KVT/63-2/2015.).
- **On the 29th of September 2015** the Austrian Fiscal Advisory Council and the Austrian National Bank hosted a professional meeting attended widely but mostly for the interested (concerned) institutions of the neighbouring countries. (The report is available under file no. KVT/64-2/2015.).
- **On 9 – 10 December 2015** it was the European Commission that hosted in Brussels a professional forum that – apart from the operational experiences of Independent Fiscal Institutions (IFIs) – paid particular attention to establishing the European Fiscal Board and its tasks (protection and control over the adaption of EU budgetary rules in the legal systems of the Euro-zone countries, communication between the IFIs of member states belonging to the EU and those not belonging to the Euro-zone, electing members to the five-member council and its limited Secretariat).

b) Bilateral meetings

On 12th February 2015 the delegation of the Council of Budget Responsibility of Slovakia arrived in Budapest upon the invitation of the Chairman of the Hungarian Fiscal Council. It was established that bilateral meetings offer a better opportunity to detect such differences in tasks regarding public law and status that could slow down progress in practical approach. The parties agreed that prior to big international

meetings it appeared advisable to harmonise the issues and positions related to the functioning of the elements of the fiscal framework at bilateral meetings, similarly to the practice followed by the Visegrád Group. (The report of the meeting is available under file no. KVT/18-1/2015).

Following the September 19th meeting the heads of Austrian IFIs, (Austrian Fiscal Advisory Council and the Budget Office of the Austrian Parliament) were ready to participate also in an initiative encompassing the IFIs of the Visegrád Group. In case of obtaining domestic support for this idea, the FC is ready to organise this. (The report is available under file no. KVT/64-2/2015.).

c) Other relations

In his capacity as member of the Hungarian group of the Trilateral Committee, the FC Chairman attended the annual conference of the organisation in Copenhagen. (The report is available under file no. KVT-60-3/2015.)

Summing up the above: the FC is playing a principal role more and more in the cooperation between the independent fiscal responsibility institutions; not only because of attending the related events but also by delivering it presentations and expressing its views. Thanks to this, understanding and accepting the Hungarian regulations and practices, the need for increased cooperation, the shaping of the mission system and adopting new, innovative approaches has grown and improved significantly.

The FC intends to actively act at international fora also in 2016 just like to participate in the joint work. In this respect, and reacting to the issue raised by several partners, the Council shall make preparatory steps to organise and operate a formation similar to the Visegrád Group if this endeavour wins domestic consent and support.

Via sending out reports of international professional meetings and consultations, members of the FC, the National Assembly and responsible heads of the Government receive information regularly.

4. In harmony with the stipulation of indent (2) § 23. of the Stability Act the **Governor of the Central Bank of Hungary** and the **President of the State Audit Office of Hungary** – in their capacity as members of the Fiscal Council – have put at the disposal of the Council the related **analyses** and findings prepared by the organisations directed by them also in 2015,

thus supporting the work of the FC. The papers prepared by these organisations assisted the laying of solid foundations for the opinion formulating work of the Council, in the following topics:

a) *SAO analyses*

- View-points for the FC for formulating its opinion on the 2016 draft bill of the central budget of Hungary (May 2015)
- View-points for the FC for formulating its opinion for the final voting of the 2016 central budget bill of Hungary (June 2015)
- Study for the identification of the aspects and focus points of SAO audits regarding investment initiating measures
- Study for the identification of the aspects and focus point of SAO audits regarding government measures aimed at obtaining and utilising competitive knowledge

b) *Budgetary reports prepared by MNB (Central Bank of Hungary)*

- Analysis of the 2016 central budget bill (May 2015)

Beyond the above, experts of these two institutions have rendered continuous assistance to the FC and offered consultations for the Secretariat thus contributing to the preparation of working documents to be submitted to the Council.

5. Studies

In 2015 the FC commissioned studies (forecasts) from analysing institutions in four topics.

a) Completed works

- **„Macroeconomic, Public Finance Situation and Outlook 2015-2016”** was the title of the analysis prepared by *GKI Economic Research Inc.*, and *Századvég Economic Research Inc.* about the characteristic features of the macroeconomic processes of the subject year, the expected trends for the next year, as well as about the risks. On the one hand this paper was to support the laying the basis for the FC opinion as regards the evaluation of the budgetary processes in the first half of 2015 and the expected trend of government debt. On the other hand it assisted the opinion-giving job of the Council concerning the 2016 central budget bill.
- **„Mid-range Forecast of the Processes of the Macro-Economy and Public Finance”** was the title of the study prepared by the *GKI Economic Research Inc.*, and *Századvég Economic Research Inc.*, together with the *Hungarian Academy of Sciences*

Centre for Economic and Regional Studies for the assessment of the mid-range processes of public finance.

- „**Review of the Effect of the Mid-Range Processes of World Economy on the (Growth of) Hungarian Economy and Public Finance**” was the title of the paper prepared by *Kopint-Tárki* and *OG Research*. By focusing on the trend of the mid-range processes of world economy the study was analysing how it affected the economy and public finance.

b) Under preparation

- The FC commissioned a study from the *Hungarian Academy of Sciences for Economic and Regional Studies* titled „**The Expected Trend of the 2015 – 2017 Labour Market Situation and Processes and their Effect on Growth and Public Finance**”. The document shall focus on issues like the characteristic features of the labour market and its changes. The completion of this document continues in 2016.

6. In most cases the dates of the Council’s meeting are listed in the annual Action Plan – with respect to the stipulations of the Stability Act. It may become necessary – either with respect to the Action Plan or because of the macro-economic and public finance processes (for example, because of the stipulation of meeting the government debt rule) – that **due to its constitutional position the Council has to make a current statement**, or give its opinion on a current matter. The opportunity for this has been secured throughout the year however; the favourable trend of the processes has not called for such consultations. .

II

Year 2016 Action Plan

According to Article 44. of the Basic Law of Hungary, the Fiscal Council is an organisation supporting the activities of the National Assembly that shall examine the grounding of the central budget with a special emphasis also in 2016. Apart from the Basic Law, the tasks of the Council are determined by the Stability Act. Accordingly, the Council shall deliver its opinion on the following:

- next year’s central budget bill and the draft bill on the amendment of the budget act of the current year,

- every six months the state of the execution of the central budget act and the expected trend of government debt,
- decides on granting the preliminary consent of the FC to submit the budget bill and – in cases stipulated by the Stability Act - the amendment of the budget bill prior to the final voting.

In harmony with the stipulations of Indent (2) § 23. of the Stability Act, as members of the Fiscal Council, both the Governor of the Central Bank of Hungary and the President of the State Audit Office of Hungary shall put at the disposal of the Council those analyses and findings prepared by their respective staff that are related to the topics discussed by the FC, also in 2016.

In order to have wide range grounding for preparing the decisions of the Council, the body has the option to complement its professional (background) capacities with the analysing capacities of the respective research institutes, external experts and advisory bodies as well. The Council intends to continue this practice that started in 2013, also in 2016. Beyond the analyses and findings of the SAO and MNB – via its Secretariat the – the Council avails itself the opportunity to use such external capacities to be able to lay the foundations for the professional and adequate analyses, enhance its the ability of evaluating the forecasts of the macro-economic baseline scenario, necessary for the judgement of the budget.

The detailed Action Plan is available in the appendix of the detailed proposal.

III
Motion

According to the above, I kindly ask the Fiscal Council to adopt the proposal about the 2015 report and the 2016 Action Plan.

15th January 2016

Kovács Árpád
Chairman of the Fiscal Council