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SUMMARY

of the SAO Opinion on the 2014 Budget Bill of Hungary

Objectives and scope of the audit

In compliance with its statutory obligations, the State Audit Office of Hungary (SAO) formulated its opinion regarding the bill on the 2014 central budget.

In the course of formulating its opinion on the budget bill, the State Audit Office of Hungary (SAO) addresses the question whether the draft bill is substantiated, the appropriations indicated therein are supported and whether they are feasible in the case of revenues. Furthermore, it was also assessed whether the Government made the necessary background calculations and whether the adequate legal regulations are available and whether the amendments thereof have already been prepared.

The SAO examines whether the deficit target and the planned amount of the public debt indicator – assuming that the macro path indicated in the prognosis have been achieved – is in compliance with legal requirements. In this context, the opinion of the SAO addressed the issue whether the Government evaluated the risks arising from the macroeconomic uncertainty and other factors, and whether the reserves adequate for the management of these risks or other related measures were integrated in the budget.

The State Audit Office of Hungary does not assess the reliability of the macroeconomic prognosis being part of the bill. The SAO evaluates the substantiation of the revenue and expenditure appropriations depending on the trends of macroeconomic indicators by examining whether they are in line with the macroeconomic prognosis. Furthermore, it is not within the tasks of SAO to formulate an opinion on the economic and social policy priorities reflected in the budget appropriation bill.

It is important to stress that the opinion of the SAO is about the current state of budgetary planning, as the approval process of the budget closes in December. The objective of the audit is that the contents of the SAO opinion contribute to the adoption of a substantiated budget which is able to manage the realistically arising risks by passing the laws still missing and adopting amendment proposals.

The 2014 budget appropriation bill calculates with HUF 16,883.1 billion of total expenditures and HUF 15,958.4 of total revenues, 88.6% and 93.6% of which have been audited by the State Audit Office of Hungary, respectively.

Main findings

The bill is in compliance with the public debt rule stipulated in the Fundamental Law and the Stability Act, as well as the provisions of the legal regulations concerning public finances, and it provides for reserves. The public debt indicator is going to decrease from 77.4% of 2013 to 76.9% next year.

In relation to the planned deficit of the central budget, the 2014 financing concepts aiming to ensure the continuous liquidity of the Single Treasury Account are arithmetically elaborated and supported.

Similarly to the previous years, not all legal regulations substantiating the budget were available at the time of submitting the bill.

It is a significant step forward compared to the previous years that the bill does not contain any appropriations considered as 'unsubstantiated' according to the methodology of SAO. However, the legal background substantiating the tax payments included in the budget appropriation bill is incomplete, as the amendments of tax laws affecting the next year have not been prepared, they have not been submitted to the National Assembly yet. Considering these and the existing risks, according to the opinion of SAO, 52.6% of the tax revenues of the budget is substantiated, while 47.4% thereof is partly substantiated (VAT, financial transaction duty, telecommunication tax, small enterprise tax, lump-sum tax for small businesses). 98.3% of the determining direct expenditure appropriations of the central budget is substantiated and 1.7% thereof is partly substantiated.

It is necessary to mention that 56.4% of the planned total expenditure of the 2014 central budget (HUF 9528.2 billion) is uncapped expenditure appropriation, which constitutes a risk in terms of the compliance with the deficit target. The risk is decreased by the fact that according to the previous years' experience, the implementation of these appropriations did not exceed the appropriation significantly, and in certain cases it did not even reach them.

97% of the EU subsidies related to the National Strategic Reference Framework (NSRF) of the EU financial framework between 2007 and 2013 were committed. The budget bill contains an expenditure of HUF 1787.9 billion for the NSRF programmes in 2014, which exceeds last year's data of HUF 1354.5 billion by 32%. The targets are substantiated, however, in terms of implementation, it constitutes a risk that the planned utilisation in 2014 of the EU funds committed with a contract in the framework of NSRF is significantly higher than that of

2013, as this utilisation was stalling in the previous years. In order to minimise the risk of lower utilisation, the Ministry of National Economy took several measures (negotiations, modifications of the regulation, action plans). It is worth to mention that a utilisation lower than planned – due to the fact that less own resources are necessary – would mean savings in terms of the 2014 budget.

In the financial framework of 2014-2020 Hungary will receive subsidies from several EU funds in the framework of the Partnership Agreement. The total amount to be planned is HUF 6477.6 billion. The Agreement is expected to be signed in the beginning of 2014. Expenditure appropriations of the new programmes were planned according to the first year of the previous period (mainly in the case of technical-type expenditures), as in the lack of EU regulatory norms, related national legal regulations have not been passed yet.

The State Audit Office of Hungary found that the revenues and expenditures of the separated state funds are substantiated.

The 2014 budget appropriation bill contains a break-even balance regarding the budget of social security funds also in 2014. The total expenditures and revenues of the funds planned for 2014 amount to HUF 4848.8 billion, which is 4.2% higher than the 2013 appropriation set out by law. On the revenue side, the increase of taxes and contributions and the decrease of budgetary subsidies are expected continue. Expenditures are planned to increase in line with the extent justified by the planned inflation and the stock change. The coverage necessary for the increase of pensions proportionate to the planned inflation is contained in the budget of the Pension Insurance Fund. The revenues and expenditures of social security funds are also substantiated.

In line with the changes in the task performance of local governments, in 2014 they will be financed in a task-based subsidy system introduced in 2013, however, comprehensive relevant experience is not available yet. The reformed financing structure will further be refined. For the support of local governments, the central budget provides HUF 703.6 billion in 2014, which is 9.4% higher than the amount in 2013. The modification of the planned appropriations is substantiated by legal regulations. However, no information is available on whether appropriations provide sufficient support in the base year and in 2014 for the performance of the obligatory tasks of local governments. 93.1% of the audited appropriation amounting to HUF 578.7 billion is substantiated and 6.9% thereof is partly substantiated.

The bill includes central budgetary reserves amounting to HUF 220 billion. The HUF 120 billion appropriation of the reserve for extraordinary government measures is substantiated, while the HUF 100 billion appropriation of the Country Protection Fund is partly substantiated. This latter qualification is justified by the fact that although the substantiation of certain appropriations improved significantly, the justification of the bill does not refer to the type and extent of risks which were calculated with when determining the amount of the Country Protection Fund. The appropriation of the fund cannot be utilised until 30 September according to the bill. Following this date, it can only be utilised if the deficit planned for 2014 – considering the reserves to be utilised – does not exceed 2.9% of the GDP.

It constitutes a risk that the planned deficit according to EDP in 2014 is only 0.1 percentage points lower than the EU requirement of 3.0%, stipulated also in the Stability Act. It also poses a risk that according to the Stability Act the planned decrease of the GDP-proportionate public debt in 2014 is 0.5 percentage points compared to that in 2014. This means that the implementation of the public debt rule can be hindered if the inflation is lower than planned, the deficit and debt of local governments subsists, or the debt of other government bodies is higher than expected.