ÁLLAMI
SZÁMVEVŐSZÉK

Further information, Public Relations:
Bálint Horváth, Head of Department, Senior Counsellor
State Audit Office of Hungary, Department of Communication and Public Relations
Phone: +36 1 484 9145 Mobile: +36 20 238 6939
E-mail: sajto@asz.hu Web: www.asz.hu ; www.aszhirportal.hu

FOCUS ON THE IMPLEMENTATION OF THE 2017 BUDGET

Summary for the Press
On the audit of the implementation of the 2017 budget of Hungary (18275)
and of the macroeconomic audit of budget processes of 2017

The execution of the budget of 2017 was lawful, the deficit and public debt were in compliance with legal regulations and with EU requirements, states the SAO's audit of the final accounts. The bill on the final accounts is substantiated, the data contained therein is reliable. In the macroeconomic analysis of the report, the SAO points out that last year's macroeconomic developments confirmed the government's expectations, in 2017, economic growth in Hungary was even stronger than expected.

Each year the State Audit Office of Hungary is obligated by law to audit the implementation of the budget of the previous year. The aim of the final accounts audit is to enable the SAO to support the Parliament in making decisions on the admissibility of the bill and to strengthen its responsible financial management of public funds with its findings. By its macroeconomic analysis, the SAO, in compliance with its legal requirements, supports the well-managed state and the work of the Fiscal Council.

The final accounts audit performed by the SAO concluded that the implementation of the budget for 2017 was in accordance with the legal requirements. In the central subsystem of the public finances, the development of the cash-based deficit complied with the provisions of the Public Finances Act and the 2017 Budget Act, and the cash-based deficit was 4.8% of GDP, HUF 1,833.4 billion. The ratio of public debt under the Stability Act, which amounted to HUF 27,977.3 billion in 2017, was reduced from 74.0% in 2016 to 72.9% in 2017, and its development was in line with the requirements of the Fundamental Law and the Stability Act. The extent of the government sector's deficiency based on EU methodology was in line with the requirements of the Stability Act. At the end of 2017, the government sector's debt based on EU methodology was 73.3% of GDP, which is a decrease from 75.9% in 2016. The SAO's final accounts audit concluded that the debt reduction requirement under the EU criteria has been met.

The SAO's audit revealed irregularities at one third of the audited entities, which did not affect the validity of the final accounts bill, but were related to regulatory deficiencies and the inappropriate exercise of financial management powers. In the case of several health care institutions, it was a non-qualifying mistake that, in breach of the provisions of the Act on Public Finances, there were commitments exceeding the amount of the free appropriation. Further weaknesses were revealed by the audit in the payments made against the appropriations of the National Family and Social Policy Fund (Nemzeti Család- és Szociálpolitikai Alap). In order to eliminate the deficiencies identified, the SAO called on the relevant organizations to take action. The SAO concluded that the majority of the deficiencies identified in the awareness-raising calls, which were formulated a year ago, during the audit of the implementation of the 2016 budget, were corrected by the addressees.

The SAO's macroeconomic analysis points out the followings: in 2017, economic growth in Hungary was even stronger than expected. The GDP growth rate was 4.1% compared to the previous year, which is 1.0 percentage points higher than forecast in the Budget Act in 2017.

The main drivers of economic growth were investments. The volume of investments in the national economy increased by 18.2% in 2017, construction investments increased by 21%, while machinery and equipment investments increased by 13%. In 2017, the value added by industrial output exceeded the 2016 data by 3.9%. The value added by construction (31.6%) and services (3.3%) increased significantly, however, the value added by agriculture plunged by 9.0%. Housing construction as well as infrastructure developments through EU co-financing contributed to the expansion of the construction output, the boom was supported by a reduction in the VAT rate on new homes, post-construction tax rebates and the Family Housing Allowance (CSOK).

In 2017, the six-year tax and wage agreement that came into force on 1 January was a factor for improving competitiveness, since the significant increase of the minimum wage and the guaranteed minimum wage and other wage increases have increased the income of the employees, while as a result of reducing the social contribution tax and the corporate income tax, the burden on employers has decreased. In addition to the nominal wage increase, real wages have also risen significantly: monthly gross and net earnings of employees increased by 12.9% from 2016 to 2017, and real wages increased by 10.3% in 2017. The measures related to the agreement also encouraged job creation and retention of labor. The number of employees in the private sector increased by 2.9%, while the number of public sector employees (due to the deliberate reduction of public employment) decreased by 3.5% and the employment rate reached 68.2%.

Among the tax policy measures of the government, the reduction of the social contribution tax by 5 percentage points and the introduction of the 9% corporate tax rate indirectly contributed to the growth of domestic demand, the increasing employment and the growth in export. The measure also encouraged the establishment of capital-intensive investments capable of producing high added value. This is supported by the fact that in 2017 a record amount of foreign working capital investment equal to HUF 1,000 billion came to Hungary according to the data of the National Investment Agency (Nemzeti Befektetési Ügynökség).

In 2017, the tax system continued to favor consumption-type taxes, with the weight of income taxes falling. Compared to the revised appropriation, the corporate income tax (HUF 18 billion) and the personal income tax (about HUF 12 billion) were higher, however, in case of several taxes the revenues did not reach the amount set out in the revised appropriation (e.g. simplified entrepreneurial tax, advertising tax, excise tax). Although the VAT revenue was lower by 0.5%, the revenues of 2016 were exceeded by HUF 235 billion. Reducing the VAT of some basic foods and the internet has contributed to an increase in household consumption, which has risen by 4.7% over GDP. This is due to the growth of real wages and, at the same time, an increase in domestic demand.

The 2017 report on the final accounts and the analysis prepared on the budget processes is available on the website of the SAO (www.asz.hu).