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IN FOCUS: THE EXECUTION OF THE BUDGET OF THE YEAR 2018

Summary for the Press

On the audit on the implementation of the 2018 central budget of Hungary (19197)
and the macroeconomic analysis of budget processes of the year 2018

The final accounts audit of the SAO concluded that the budgetary institutional system ensured the regularity of the management of public funds in 2018. The bill on the implementation of the 2018 central budget is substantiated, the data contained therein is reliable. In the macroeconomic analysis related to the report, the SAO points out that the economic development level of Hungary continued to move closer to the EU average in 2018, and one of the contributing factors was a sustainable increase in transparency in the Hungarian economy.

The State Audit Office of Hungary is obligated by law to annually audit the implementation of the central 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 the responsible financial management of public funds with its findings. With its macroeconomic analysis, the SAO, in compliance with its legal obligations, supports the well-managed state and the work of the Fiscal Council.

In 2018, the planned total revenue of the central subsystem of public finances was HUF 18,751.4 billion, the total expenditure was HUF 20,112.1 HUF, and the deficit was HUF 1,360.7 billion. The completed total revenue and total expenditure of the central subsystem was HUF 19,922.5 billion and HUF 21,374.1 billion, respectively, and the actual deficit was 1,451.6 billion HUF in 2018.

The final accounts audit performed by the SAO concluded that the execution of the central budget for 2018 was in accordance with the legislative provisions, and the deficit and the public debt evolved in line with the legal requirements. The data of completed revenue and expenditure shown in the bill on the final accounts for the year 2018 are reliable.

The SAO points out in its report that the cash deficit of the central subsystem of public finances showed a significant decrease in terms of both its amount and as a share of the GDP compared to the previous year. In 2018, the deficit was lower by 21% than in the previous year, i.e. HUF 1,451.6 billion, which amounted to the 3.4 % of the GDP, compared to 4.7% in 2017. The governmental sector's deficit according to EU methodology decreased by 2.3% in comparison with the previous year. The debt reduction requirement set forth in the Stability Act was complied with, as public debt as a share of the GDP dropped from 71.9% of the previous year to 69.0% by the end of 2018. The significant expansion of the GDP played a major role in the favourable trend of the deficit and debt ratios. The goals defined in the Convergence Programme for 2018 were achieved as the total of the government sector's deficit and the indicator of public debt were lower than planned.

During its audit, the SAO revealed irregularities and deficiencies – not influencing the reliability of the data included in the bill on the final accounts, and the regularity of the execution of the central budget for 2018 – in the case of a total of 38 organisations, to which the SAO drew the attention of the managers concerned in a letter. The irregularities specified in the warning letters concerned the areas of accounting, bookkeeping, the preparation of financial statement, the operation of pre-payment controls, commitments without free appropriation and topics related to the obligation to inform the management authority.

The SAO's macroeconomic analysis points out that the growth of the GDP in 2018 allowed the economic development level of Hungary to move closer to the EU average. The SAO underlines that in terms of the sustainability of this process the continuation of the current driving forces and the application of the set of tools of countercyclical policy adjusted to the economic circumstances are important issues.

The macroeconomic circumstances were favourable for the execution of the 2018 budget. The components of economic growth developed positively compared to 2017. The consumer demand of households continued to be buoyant, willingness to invest was high, and the expanding tendency of the export, including primarily the services, also continued. Among the indicators of macroeconomic development, gross average earnings, the savings of households and their holdings of financial assets increased, and the indicators of the credit market

The State Audit Office of Hungary, as the supreme financial and economic audit institution of the Hungarian National Assembly, is an independent fundamental institution of the democratic institutional system. Its mission is to promote the transparency of public finances through value creating audits, performed on a solid professional basis, thus contributing to a 'well-managed state'. Through its recommendations, the SAO promotes the regular, economical, efficient and effective use and utilisation of public funds.

also showed the signs of economic recovery. These factors contributed collectively to a faster economic growth than the EU average.

The strengthening of economic growth was supported by different demand stimulating government measures. These included government measures aiming at increasing the employment rate, simplifying the tax system, expanding housing allowances and stimulating investments.

The economic growth of 2018 greatly benefited the budget processes; the total revenue of the central subsystem exceeded the planned value by 6.2%. On the revenue side, the growth of the GDP contributed to an increase in the tax, contribution and other revenues of the budget, and to their higher-than-planned performance. In addition, the payments relating to state property were completed in a greater amount than the legal appropriation. The measures taken in order to make the economy more transparent, including the introduction of online invoicing, the extension of the scope of tax returns prepared by the tax authority, the further expansion the opportunities for simplified taxation for enterprises, and further reductions of contributions, also contributed to the growth of revenues.

In the financing of public debt, the promotion of internal savings, including in particular household savings, and thus, the decrease of external vulnerability contributed to the development of a more predictable economic environment. In addition to making an impact on the liquidity status of the central budget, the investments implemented from the European Union subsidies will serve as the basis for the further growth of the GDP and contribute to the growth of the revenue capacity of the central budget in the future. The value of the budget residues have increased over the last years. The SAO points out in its analysis that at the same time the changes in 2018 of the regulation on residues need to be monitored and evaluated in terms of the financial management of the general government and the trend of the cash deficit due to the scale of the residues.

In its analysis the SAO draws the attention to the fact that beside the intense economic growth, the trend of certain factors in 2018 highlights some important processes which indicate changes. These include the continuous rise in inflation, the slow decrease in the number of building permits issued in the case of the construction industry, the reduction in external trade surplus, and the growth rate of import exceeding export. The impacts of these processes were compensated collectively by the impacts of the economic recovery of 2018 and the government measures. The SAO underlines in its macroeconomic analysis relating to the final accounts report that these processes, however, indicate that there are some risks which, in the medium term, lead toward the deceleration of the current rapid economic growth.

The 2018 report on the final accounts and the analysis prepared on the budget processes is available on the website of the SAO (www.asz.hu).