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THE SAO'S OPINION ON THE BUDGET HAS BEEN COMPLETED

Summary for the Press
about the Opinion on the Appropriation Bill on Hungary's 2016 Central Budget (15094)

The appropriation bill on Hungary's 2016 central budget is in accordance with the public debt requirement set down in the Fundamental Law and also with the requirements of the legislation governing public finances – as was stated by the State Audit Office of Hungary (SAO). In its opinion the SAO draws the attention to the budgetary risks but at the same time it welcomes the additional elements of budgetary reserves. According to the SAO with the earlier vote on the budget bill, the budgetary processes are becoming more predictable also for the external economic participants.

In fulfilment of its statutory duty, the SAO has prepared its opinion on the appropriation bill on Hungary's 2016 central budget. The opinion of the SAO is about a given status of the budgeting activity. The objective of the SAO audit is to contribute to the achievement of the goal that the National Assembly through enacting the missing legal regulations and adopting the amendment proposals should adopt an established budget capable of managing the risks arising realistically.

The budget bill provides for a total expenditure of HUF 16,551.2 billion and a total income of HUF 15,789.6 billion, of which 83.6 percent and 89.7 per cent was audited by the SAO, respectively. Despite the earlier submission of the budget bill, its overall substantiation improved: the SAO qualified 96.60 per cent of the audited expenditure appropriations as substantiated, 2.92 per cent of them as partly substantiated and 0.48 per cent of them as unsubstantiated. Of the income appropriations, 89.55 per cent were qualified as substantiated, 10.27 per cent as partly substantiated and 0.18 per cent as unsubstantiated. Based on the audited appropriations, the income and expenditure appropriations of the budget bill overall can be considered as substantiated.

The improvement in substantiation is mainly due to the stabilization of the tax system: in 2016 new taxes will not be introduced and the measures introduced to whiten the economy ensure the planned revenues. The SAO qualified 84.4 per cent of tax revenues as substantiated, comparing to the tax revenue appropriations of the 2015 budget bill, where this rate was only 51.3 per cent. The feasibility of budgetary revenues is improved by the fact that with the earlier vote on the budget bill and the amendments of the related tax laws, the budgetary processes are becoming more predictable for external economic participants.

The audited income and expenditure appropriations of the social security funds are almost completely substantiated. The appropriations for funding the local governments are similarly substantiated.

53.3 per cent (HUF 8,822.9 billion) of the total expenditure included in the bill is made up by the so called 'uncapped' appropriations, i.e. they can be exceeded during the financial year, which primarily pose a risk on the expenditure side. Within this the amount of appropriations that can be exceeded without special regulations is 38.1 per cent (HUF 6,301.9 billion) of the total expenditure included in the bill. It is a risk that the planned expenditures of the preventive medical care institutions and the Klebelsberg Institution Maintenance Centre ensure the smooth performance of functions only in case of implementing the appropriate structural measures.

On the revenue side the SAO identified major risk in connection with revenues related to state assets since the planned amount of HUF 115 billion of the so-called "other sales and utilization revenue" appropriation was not supported by documents.

The specificity of the 2016 budget planning is that it should provide resources both for the completion of ongoing programmes financed from EU funds of the 2007-2013 programming period and for the co-financing of the departing developments of the 2014-2020 programming period. The budget contains the amount for the year 2016 from the EU and national funds of the new programming period in consideration with the cyclicality within the EU programming period. The national co-financing of the programmes of the previous programming period was planned taking into account the measures taken to avoid losing the EU funds. Despite this it constitutes a risk that the consequences of EU Commission decisions on suspending some programmes were not known in the budget planning period.

Central budget reserves are intended to manage the risks identified also by the SAO. The ‘Reserve for extraordinary government measures’ with its appropriation of HUF 100 billion is in accordance with the legal requirements. The ‘National Protection Fund’ with its appropriation of HUF 100 billion is three times more than the appropriation in 2015. It is difficult to judge if its degree is sufficient for lack of information on the nature and extent of the risks that were considered for planning. The security of execution of the budget is enhanced through the so called ‘chapter stability reserves’ amounted totally to HUF 35 billion created now for the first time.

The budget bill envisages a reduction of the public-debt-to-GDP ratio from 74.3 percent (in 2015) to 73.3 per cent (in 2016). By this, the requirement set out in the Fundamental Law to reduce the public debt relative to GDP is met. The intended reduction of the public-debt-to-GDP ratio indicator (by 1 per cent) include a significant ‘buffer’, as it meets the requirement stipulated in the Fundamental Law even with a further increase of HUF 305.6 billion in the public debt. The deficit-target-to-GDP of 2.0 per cent on the basis of the relevant EU methodology falls short, by HUF 351.9 billion of the EU and national legal requirements. Thus, it meets the legal requirements even if the GDP or the public debt or deficit develops in a slightly less favourable way than forecasted.

However, the budget bill fails to comply with the requirement of public debt formula set out in the Economic Stability Act of Hungary to limit the increase of the amount of public debt. The public debt formula allows the amount of public debt to grow only by 0.35 per cent, however, the amount of public debt increases by 3.3 per cent.