



Session	Agenda	Presenter
24 October 2013	Introductory speech of the Vice-President of the State Audit Office of Hungary to the Budget Bill of Hungary for 2014 as well as the relevant SAO opinion– T/12415, T/12415/2	Tihamér Warvasovszky Vice-President

TIHAMÉR WARVASOVSZKY, Vice-President of the State Audit Office of Hungary:

‘Mr. Speaker, Ministers, Secretaries of State, Honourable Members of the National Assembly, Ladies and Gentlemen,

Meeting its statutory obligations, the State Audit Office of Hungary has compiled its opinion on Hungary’s 2014 budget appropriation bill. Our opinion was published on 11 October 2013, and I handed over the written material on the subject to Mr. János Latorcai, Deputy Speaker of the National Assembly, the same day. All of the standing committees of the honourable Assembly placed it on their agenda and discussed it, along with the Government’s bill. It is laid down by both the 1989 and 2011 Acts on the State Audit Office of Hungary that the SAO shall audit and provide its opinion on the Bill on the Budget. This means that the State Audit Office of Hungary has over two decades of experience in this work, in other words, auditors have been working for over twenty years in the interest of Hungary having the most reliable and well-founded Act on the Budget possible.

Our opinion is part of the SAO’s role as a supporter and consultant, meaning that it is not a SAO report containing recommendations and involving any obligation for actions, but much rather a guide that we prepare for Members of Parliament, voting on the bill, when the bill is submitted.

Our goal is to improve the standard and quality of the budget appropriation bill through our work and shed light on where the

shortcomings are, where the legislative and calculation background should be better elaborated, and also where we see risks. It is important to state that the SAO's opinion on the budget is not a macroeconomic analysis. We accept the macroeconomic path outlined by the Government, and provide no opinion on economic growth, inflation and other applicable indicators. Pursuant to the Fundamental Law, this is the task of the Fiscal Council. What we sought answers to was whether the bill was substantiated, its appropriations were corroborated, and the revenues could be met. We examined whether the Government had carried out the necessary background calculations and if the appropriate legal regulations were available or their amendment had been prepared. In addition, the State Audit Office of Hungary examined whether the deficit target could be reached, if the debt rule was observed, risks managed, along with assessing the plans for generating reserves.

Ladies and Gentlemen,

The State Audit Office of Hungary has audited 88.6 per cent of expenditures and 93.6 per cent of revenues in the 2014 budget appropriation bill. Multiple criteria were taken into consideration when selecting audited appropriations. Our auditing focused on areas where the scale of an appropriation, the possibility of exceeding it, i.e. uncapped appropriations and any risks that were previously proven true warranted an itemised audit, moreover we examined the new appropriations in the proposal. Similarly to last year, our audit coverage was above the 80 per cent that is specified in our methodology, i.e. it is suitable for issuing an opinion on the entire bill.

During our audit, we took the economic indicators and expected values, included in the bill and made available by the government, into consideration, along with performance data from the first seven to eight months of this year.

It is important to stress that the State Audit Office of Hungary has been conducting monitoring activity since the start of 2012, with an eye to track the execution of the budget. The State Audit Office of Hungary evaluates processes based on data and working papers requested from the Hungarian State Treasury, and the National Tax and Customs Administration in the scope of this activity, and prepares an analysis of their development after the first six months of the year. The findings of the analysis were also used when formulating our present opinion. The key summary finding of our audit is that the bill complies with the Fundamental Law, the stability act, the debt rule, as well as the requirements of legal regulations on public finances, and that it also provides for reserves in line with legal regulations.

According to the bill, the public debt indicator will go down to 76.9 per cent from 77.4 per cent in 2013, in other words, GDP-proportionate public debt will decrease. The cabinet expects a 2 per cent GDP growth and a low inflation level of 2.4 per cent, which reflects the reduction of household utility charges. In our opinion, the deficit target set for next year can be met with the macroeconomic path mentioned above, although risks need to be taken into consideration.

Among them we must highlight the rate of consumer price increase that might be lower than anticipated, along with the development of deficit and debt in the local government sector, as well as the debt of other governmental bodies that might be less favourable than expected. Similarly to previous years, once again we had to conclude that the legislation for substantiating the budget was not fully available at the time of submitting the bill, with particular reference to the amendment of tax laws. Naturally, this influenced the qualification of revenue appropriations when preparing our opinion.

However, I need to stress that in its current opinion, the State Audit Office of Hungary provides a statement about a given state of the draft budget, as the budget approval process concludes in December. As typical for every year, including this one, by the time the general debate of the budget begins, the substantiation of the draft already improves, as in turn does the quality of the bill.

The appointed committees have already discussed the bill on the amendment of various acts substantiating Hungary's 2014 central budget. Although the committee debates about the bill on various tax laws have not yet been concluded, they nevertheless mean a significant step forward in terms of the substantiation of various tax items. At the same time, obviously we were unable to take these effects into account for our opinion.

Honourable Members of the National Assembly,

It is a significant step forward, compared with previous years, that the 2014 bill does not contain any appropriations that would qualify as unsubstantiated according to SAO's methodology. All of this means that the quality of planning has improved, in other words, our work has been utilised, since the State Audit Office of Hungary pointed out planning inadequacies in its opinion on the budget from year to year, and last September we also published our report on the audit of planning chapter-managed appropriations, in which we made several proposals and their utilisation is reflected in this year's budget appropriation bill.

Based on the data and documents that had been available until the end of September, we concluded that in the 2014 bill more than half of tax revenues are covered by appropriations which in our view are substantiated by legal regulations and calculations. The remaining items were qualified as partly substantiated due to previously noted inadequacies in the statutory background and the fact that the items are not fully supported, however they are still feasible. All of this means that according to our assessment, planned tax revenues will be mostly realised in the budget if the government's macroeconomic forecasts are met, however risks will have to be reckoned with for various items.

In the case of the largest revenue item – value added tax of HUF 3000 billion – risks may be due in part to this year's lower than expected revenues and in part to the consumption-related uncertainties of the macroeconomic path for 2014. At the same time, it must be taken into consideration also that the aforementioned risks, related to VAT, could be offset next year by the online connection of cash registers, generating surplus revenue throughout 2014, the semi-annual effect of which the government estimated at HUF 95 billion this year.

The bill calculates with a significant increase in the number of taxpayers who choose the itemised tax for small taxpayers ('KATA') and small company tax ('KIVA') in 2014, which carries risks in light of this year's processes. It should be noted that the risks we indicated in relation to KATA and KIVA might entail the increase of revenue at the total budget level. The reason being is that if the aforementioned increase in the number of taxpayers does not occur, more of those not choosing small tax options will remain subject to other taxes, therefore corporate income tax, simplified entrepreneurial tax, personal income tax and social contribution tax revenues could go up. Meeting the telecommunications tax target carries risk given the lack of experience related to the increase of its rate. In our opinion, in light of the way these tax item appropriations were met previously, the appropriation for financial transaction levy carries a risk.

At the same time, however, we can declare that the overall risk related to tax revenues in the budget is hardly more than 2 per cent. That was all that the State Audit Office of Hungary indicated. In relation to the revenue side, we must also note that according to the bill, the shift in the tax structure from income to consumption type taxes, manifested since 2009, will continue next year.

Honourable Members of Parliament, Ladies and Gentlemen,

The State Audit Office of Hungary qualified almost all of the direct expenditure appropriations in the budget as substantiated. At the same time, we pointed out that although the amendment of laws related to social policy based fare subsidy and the child care allowance were in progress at the time of concluding the audit, they were not yet finished, and calculations in support of the expenditure related to waste public services, as well as litigations, involving the Ministries of National Development and Rural Development, are still missing. Consequently we qualified these appropriations as partly substantiated, however, we must note that the items listed above only make up 1.7 per cent of total central expenditures.

More than half of the planned total expenditure in the central budget is what we refer to as uncapped expenditure appropriation. These expenditures may pose a risk in terms of meeting the target deficit. This is why the State Audit Office of Hungary pays special attention to these appropriations every year. The fact that, based on the previous year's experiences performance, did not significantly exceed plans, what is more, in some cases it even remained below them is nonetheless favourable and significantly reduces the risks in 2014.

The State Audit Office of Hungary considers accumulated public debt to be the most significant problem that affects Hungary's public finances and the entire national economy. The reduction of GDP proportionate public debt is an obligation stipulated in the Fundamental Law. That is why in its opinion on the budget, the SAO pays special attention not only to the fulfilment of the debt rule, but also to the matter of public debt management and the related risks.

Based on the bill, 2014 can be considered a step in the right direction from this perspective as well. Although refinancing the maturing EUR 5.45 billion foreign currency debt will be a crucial task for 2014, the bill forecasts to further reduce the foreign currency debt that ties the hands of Hungarian economic policy-makers.

According to plans, 38.2 per cent of the overall Hungarian public debt will be foreign currency debt at the end of 2014. This is a decrease in relation to this year and is also consistent with the public debt management strategy.

Honourable Members of the National Assembly,

In our opinion we called attention to the fact that the balance of European Union transfers and the uncertainty of the date of receiving EU financing stands as one of the largest uncertainty factors in planning the financing of the central budget. This item has been a problem for several years. Changes in projections occurring in a short time and running up to hundreds of millions can pose a significant risk in terms of public debt management, since it can force changes to financing, even in unfavourable market conditions.

The degree of this risk is well reflected in the fact that originally budgeted financing needs may increase by more than HUF 400 billion this year, related to the uncertainty over when EU funding will arrive. Be that as it may, the critical significance of European Union support in terms of Hungary's development is beyond doubt. This is why the termination in the summer of the excessive deficit procedure against Hungary was a major step forward from the perspective of the overall Hungarian economy, and that, in the first half of October, a total of HUF 490 billion in European Union funds were received in two instalments to finance Hungarian programmes as a result of the agreement between the government and the European Commission.

In connection with European Union funds we concluded that the budget contains those appropriations which make it possible for Hungary to fully utilise the EU funding to which it is due. By the end of September, 97 per cent of EU funding related to the national strategic reference framework was committed. According to information from the Ministry for National Economy of Hungary, some HUF 1,000 billion of EU funds has already been disbursed to recipients, and this amount may increase to up to HUF 1,500 billion by the end of the year.

The 2014 bill contains expenditure of HUF 1787.9 billion for such programmes, which is nearly a third more than this year's. We concluded that the target figures for the appropriations in 2014 are substantiated. A favourable development is that the national economy portfolio has taken several measures to make the use of EU funds easier and more dynamic. This is facilitated by the appearance of the European Co-Financing Fund in the budget appropriation bill, with HUF 30 billion available for 2014.

We concluded that the proportion of commitments within the framework of the New Hungary Rural Development Programme increased to 94.1 per cent of the available funds by July 2013. The bill includes HUF 224.5 billion in expenditure for using EU funds thus committed, out of which HUF 60.6 billion is the amount of support.

Honourable Members of the National Assembly,

We concluded that in the case of the Pension Insurance Fund, the bill reckons with a pension increase of 2.4 per cent, in line with inflation, and a considerable increase in service time dependent care provision, and also established that the revenues and expenditure of the fund are substantiated. The Health Insurance Fund also has provisions for raising healthcare workers' salaries, income supplement substituting remuneration for workers who continue to work as pensioners, and also for HUF 30 billion in development. The revenues and expenditures of this fund are also substantiated.

In addition to a special reserve of HUF 76.2 billion, the bill includes a central budget reserve of HUF 220 billion. We concluded that the HUF 120 billion appropriation for the reserve for extraordinary government measures is substantiated. We qualified the amount of HUF 100 billion for the Country Protection Fund as being partly substantiated. This qualification is due to the fact that although the various appropriations, as I have said, have improved significantly, as has the level of their substantiation, the reasoning of the bill fails to present the type and degree of risks that were considered when the size of the Country Protection Fund was determined.

Honourable Members of the National Assembly,

The Act on the State Audit Office of Hungary prescribes the auditing of the budget appropriation bill and also states that the SAO shall assist in facilitating well-governed state operations. We once again kept these things in focus while performing our work this year. Our opinion on the Bill on the 2014 Central Budget of Hungary above all wishes to support the responsible work of the Honourable members of Parliament and that of the government. The purpose of our budget audit is provide a SAO opinion that contributes to the National Assembly adopting a budget that is substantiated and capable of managing risks that may realistically arise through passing new laws and adopting amendments. I trust that you will find the experience of our audit useful and will be able to utilise them in the time that remains until the final vote.

I would like to thank the Ministry for National Economy of Hungary for its cooperation, since there was a great deal of engagement between us in creating this opinion. I would also like to thank you for your honouring me with your attention.

Thank you very much.'