



Date of the meeting	Agenda	Speaker
6 October 2009 (diary number: 227)	Introductory speech of the President of the State Audit Office of Hungary to the Budget Bill of the Republic of Hungary for 2010 as well as the relevant SAO opinion (No. T/10554, T/10554/1)	Dr. Árpád Kovács President

DR. ÁRPÁD KOVÁCS President of the State Audit Office of Hungary:

‘Honourable Madam Speaker,
Honourable Members of the Parliament,
Mr. Minister of Finance,
Mr. President,

As I have already mentioned at this place several times, more precisely fourteen times, the State Audit Office of Hungary – thanks to its strategy that has been supported by the National Assembly, feels responsible and thus bears responsibility to assist by its audits that the public finance functioned as well-balanced and secure as possible while focuses on the risks endangering such functioning and by giving recommendations to manage, respectively to eliminate such risks. I wish to note already now: I would like to thank the Minister of Finance for having referred to our recommendations in his introductory speech and by accepting the aim of amending he promised some changeovers.

However, I should also mention that thanks to its public office status the State Audit Office of Hungary cannot take a stance in matters falling outside its sphere of authority. Such matters are the internal contents of the economy and of the budget policy and the professional-political control of measures serving their implementation.

We completed our audit and formed our opinion that is at your disposal having in mind the above. Contrary to the earlier practice, with respect to the establishment of the Fiscal Committee and their report published, the SAO audit addressed the issue of evaluating macroeconomic data and processes, as well as that of the balance only to the extent it was unavoidable when judging the thorough preparation of the gross sums of the revenues and expenditures.

I must begin by saying that at the closing of our on-site audit we have not been familiar yet with the bill on the agenda. In the course of forming our opinion we have been facing difficulties in several aspects thanks to the

fact that – contrary to the requirements stipulated by law – we did not have at our disposal background calculations and impact analyses to assist the qualification of the thorough preparation of the changes. Further, the fact that only parts of the background calculations of the resources' cutbacks related to the measures narrowing the tasks of local governments have been available represented an uncertainty factor in the course of our forming an opinion. This can be traced back also to the fact that the package of bills aiming the amendment of the individual acts setting the foundation for the next year budget have been submitted only after the budget bill.

The time frame at our disposal for judging the planning process has been traditionally short. Having this fact in mind, instead of the full range of chapters, we carried out on-site audits only in case of chapters selected for risk analysis. Apart from this we did documentary audits too, focusing on the statements entered by the planning organizations, on numerical data and documentation supporting the above. Apart from this, instead of the cash based approach of the individual chapters, as a first approach, we audited the planning mechanism of the functional appropriations of the financial system, in respect of the environment protection function.

Based on this I should say that the proportion of the major numbers, their respective future feasibility cannot be certified, qualified in advance, due to the difficult to calculate and rapidly changing economic processes. The Minister of Finance has referred to this too. The fact of the calculations, their internal consistency might be normative though to qualify the thorough preparation however it does not and could not guarantee certainty when it comes to the implementation of the appropriations. Our audit found that the support of the different tax categories in respect of the tax return revenues of the central budget is varied. As the realization of the appropriations that are very difficult to foresee in this respect depends mostly on the economic processes of next year, it is fully justifiable to resort to the most possible conservative predictions.

The direct expenditures of the central budget make up more than 44% of the expenditure gross sum of the bill. These have been well controllable. It is definitely favourable that our audit has qualified the planning of the direct expenditure appropriations nearly fully well founded. On the revenue side to the social security funds decline is to be expected, thanks to the changes in the dues burdening the employers and the expenditures of the various measures are also keeping back the expenditures of the funds. The related budgetary appropriations have changed several times following the wrapping up of our on-site audit. We could not complete the evaluation of the fairness of these appropriations however we would like to call the attention of the honourable members of the parliament that apart from budgetary and financial aspects this field is especially

important and – maybe I could express myself this way – it is very sensitive from the social aspect too. The option of stepping back to the state pension system deserves special attention the more so because although in the short run it will improve the budget balance, its long-range effect can be appraised only when being familiar with the number of those stepping back.

Local governments can manage revenues amounting to some HUF 3 000 billion. More than half of this sum is made up of state supports, other, assigned revenues and transfers within the public finance system. An additional tenth of the revenues are aggregation and capital like revenues, more than half of the revenues come from EU supports and national co-financing. Own revenues make up more than one third of the total revenues. I have listed the above to make it more perceptible the nature of the 2010 mitigation of the supports intended for local governments. In essence this means that in a comparative structure and taking into consideration the so-called basis correction operation targeted supports and contributions will decrease by 2,2% while the central development targeted supports financed from national resources will decrease by 54,4%. At the same time EU supports together with national co-financing will grow by 60%. When speaking about the improved results this means that the speeding up of the utilization of EU funds and the claiming of them has been of enormous importance.

The anticipated effects of the former decisions and of the regulation might further strengthen in the financial status of the local governments and as a consequence a forceful differentiation will continue in this field. The financial situation has been considerably differing depending on the type of the local governments. We have to declare that the harmony between the tasks and the available resources of the local governments has been continuously worsening. No comprehensive supervision of the spheres of responsibilities, authorities and of the financing system has been realized yet. Hence the budgetary risks of the different governmental levels represent growing uncertainty. The increasing indebtedness experienced in recent years and parallels with this the utilization of the cash in hand on the accounts of the local governments to be used next year from the aspect of the deficit targets, i.e. from the aspect of achieving them represent risk.

Both the budget bill and the SAO opinion are introducing those risk factors that can be found on a wide scale from the investment behaviour and the set of the yield-level of government securities to the direct and indirect effects of the economic crisis. In this respect we have to consider a peculiar risk too, namely that the short-term interest saving effect as a concrete advantage in case of loans of international institutions in foreign currency offered at a more favourable price than the actual market price,

in medium term might disappear as a result of the budgetary refunding of the expected losses of the Central Bank.

Honourable National Assembly,

Now, allow me some statements about the document itself on the agenda. According to the general justification of the bill the most important indicators related to the economic and budget policy goals have been determined in a coherent relation with each other, with respect to the stipulations of the so-called ceiling act, i.e. the Act on Fiscal Responsibility. We can verify this so long as the requirements arising from the stipulations of the law appear in the budgetary document. We have to mention though the practice that the presenter complies with certain legal stipulations not at submitting the budget bill, rather later, usually as part of justification of the chapters. Our audit found that similarly to the practice of the previous years the observance of the passages of the Act on Public Finances concerning the budget bill has been incomplete, as the minister has also referred to this.

We are convinced that such deficiencies are material, namely that in several aspects it is exactly the summaries important from the point of parliamentary decision-making that are missing. First of all the exposition on how the stock of long-term undertaking of obligations is shaping up – and this in a yearly breakdown according to budgetary chapters, respectively the expected disbursements is missing. The other thing missing is the numerical consequences of decisions affecting several years as well as their effect broken down according to the concerned years.

Honourable House,
Ladies and Gentlemen,

It is a widely accepted fact that developing the central budget, its debate and based on these debates the subsequent adoption of the best possible budget under the circumstances is probably the most important act of both the National Assembly and of the government that involves social and economic effects.

One of the central issues of the debate could be what direct effect does the budget that addresses the balance requirements as a priority and also wishes to improve the prospects of enterprises on the big, communal provision systems. Within this healthcare provision and the marked featuring of its requirements have reached a critical point in view of the prevalent tensions existing in this public service and the involved social reflections. In parenthesis I would like to mention that several of our audits and audit reports focusing on healthcare provision contained recommendations pinpointing the errors and offering solutions – regrettably it seems that practically with no result.

I would continue by noting that the debate might encompass the welfare type services and the revenues of the citizens. In this respect it would not be correct to forget the fact that the situation of households having decreasing revenues recently, has worsened at a greater extent than the average. The polarization of the citizens' revenues has increased and the falling behind of the poorest continues. The pace and intensity of measures aiming at the restoration of the fiscal balance and putting back the course of sustainable development – and I believe, here we will need to as fully agree as possible – should not transgress the border marked by social peace, more precisely by the possibilities of daily living conditions of the citizens.

In the line of such opinion-leading professional institutions that have repeatedly urged the thorough analysis of certain, fundamental issues, the State Audit Office of Hungary is not alone. Such issues are, for example; what modern, democratic state and what market relations could/should be built-developed in Hungary in a world that has been undergoing changes as a consequence of today's economic crisis? In this respect it remains a question, how the relations between the state and the foreign and domestic actors of the market mechanism are evolving? It should be decided, what would be the most important, new tasks of the state that point beyond the traditional tasks, how can the functioning of the big provision systems be improved, what should be the possibilities of accessing their services that would also ensure equal opportunities be like? The recent study of the Research Institute of the State Audit Office of Hungary titled 'The practical economic role of the state in the global economy of the beginning of the 21st century' submitted last week to the Committee on Budget, Finance and Audit Office wants to promote the analysis and creative debate of such fundamental issues.

It is common knowledge that the renewal of the regulation of public funds has started as a result of what – thanks to you – important laws have been enacted. However, up to now the supervision of the extent of the public finance, the systematization of public tasks that the state should finance has not taken place yet. After outlining the logical chain related to the role of the state and reviewing the major experiences gained in the field of international trends and – not lastly – the Hungarian state functioning in the course of the past two decades, the study outlines the changes required concerning the economic role of the state. Among others it should be decided concretely what are those assets, services the state wishes to take care of itself but it is also important to clarify which government levels bear responsibility for the transferred tasks.

I recommend with pleasure to the honourable House and to all of you this study that has approached the issues related to the economic roles of the

state practically and has employed empathy concerning the possible elaboration of the would be solutions.

The central budget, respectively its debate has always stepped beyond the narrow professional horizon and the general time horizon – even if the act is valid only for one year. We need also to look forward and thus exercise an effect that will shape the future if we are not tied up by threats of endangering the functioning of the national economy and the debate is not overtaken by short sighted cost-benefit approach. No matter how important and unavoidable the solution of the present aggregation of problems is, in the course of the budget bill debate social tensions and their possible solutions obviously get adequate attention too, just like the issues and questions that will shape the fate of the future generations, i.e. apart from the harmony of the external balance, the need for the harmony of internal balance as well.

Honourable National Assembly,
Members of the Parliament, and first of all Madam Speaker,

My mandate as president of the State Audit Office of Hungary will expire soon. I would like to repeatedly express my thanks for your encouragement of the work done by the SAO, for your support and for making use of our recommendations. How else should I say good bye at the end of the last parliamentary speech of my twelve year long term then assuring you, it is my deep conviction that we all, those present included, have done and carry on doing our job, participate in the budget bill debate in the spirit of the old Roman saying that the topmost law is the welfare of the country.

Thank you for your attention.'