MINISTRY
FOR NATIONAL ECONOMY

Hungary: Fiscal Rules

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OVERVIEW

- Problems: deterioration in public finances; significant public indebtedness; excessive deficit; election year cycle (See chart EDP-deficit); global economic crises; IMF/EC/WB loan package and programme
- Objectives: to create and maintain responsible and sustainable fiscal policy; to meet the MTO;
- Developments; legal and institutional background: *Public Finance Act*, *1992* (primary budget surplus rule, 2007-2009); *Fiscal Responsibility Act*, *2008* (expenditure and real debt rules, Fiscal Council); decreasing deficit and debt
- Lessons

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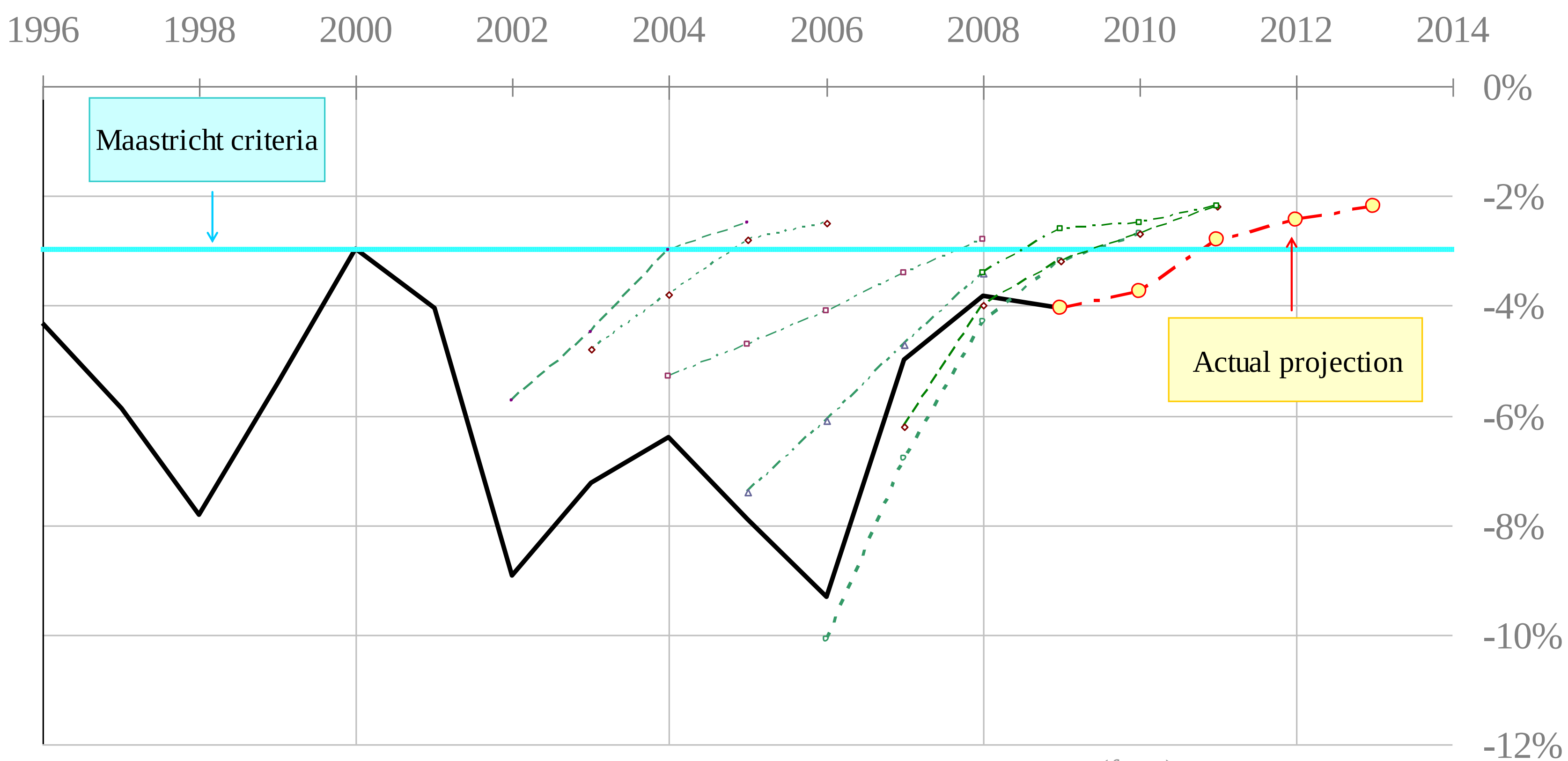
EDP DEFICIT

General Government net lending/net borrowing (EDP B.9)

percent of GDP



Source: Government of Hungary (PEPs, CPs and projections), KSH - Central Statistical Office (facts)

EXPENDITURE AND BALANCE RULES

Temporary balance rule:

2010, 2011: the Government shall submit a budget bill that assures that the value of the Maastricht deficit indicator decreases as compared to the prior year's budgeted value.

Long term – permanent – balance rule (Real debt rule):

From 2012 on: the primary budget balance targets shall be defined in line with the requirement of no increase in the real value of government debt.

Medium term expenditure rule:

2010, 2011: the Government shall submit a budget bill that assures that this expenditure total, in real terms, increases over the value budgeted for the previous year by no more than fifty percent of the expected growth rate of the gross domestic product in real terms.

Long term expenditure rule:

The annual budget act shall specify the evolution of the real value of the above mentioned expenditure total, three years in advance.

RULES ENHANCING SOUND FISCAL POLICY

„Pay As You Go" rule:

→Fiscal discipline is enforced by the „Pay As You Go" rule

Whenever any measure is proposed that would result in the growth of budget expenditures or the reduction of budget revenues (deterioration of the balance), at the same time, a measure must be proposed to offset the fiscal effects of the former.

Assessment of budgetary impacts

It is necessary that all draft legislation be accompanied by a fiscal impact assessment.

It shall include *(in respect of at least four fiscal years from the effective date of the proposed legislation):*

→the quantified estimation of all the material, direct or indirect effects of the proposed legislation on the revenue or expenditure items of the budget.

SPECIFIC ACCOUNTING RULES

Accounting rules for PPPs

If a business association makes an investment under an agreement of a term of at least 5 years concluded with the Hungarian State or a self-government with an end to offer services using the asset thus created,

→the value of the asset named in the agreement shall be recorded as a budget expenditure when the investment is capitalised in the accounts;

→the value of the asset recorded as budget expenditure shall be recorded as budget revenue in time proportionate instalments, annually, during the remaining term of the agreement starting in the year it is capitalised.

Accounting for the profit/loss of state-owned enterprises

The part of the accounting profit/loss of business associations in majority state ownership relating to the state holding shall be recorded as budget items in the year when the balance sheet is drawn up.

Vs. Capital increase/subsidy provided or divident shall be accounted as budget revenue or expenditure.

THE BUDGETARY IMPACT OF AUTOMATIC STABILIZERS

- Since the fiscal policy is not obliged to keep the budget balanced every year, there is room for the operation of automatic stabilizers by adopting anti-cyclical fiscal policy
- The budget's tax receipts follow the business cycle volatility, while its spending evolve irrespectively of private activity fluctuations and without any extraordinary measures are relatively stable
- Fiscal balance is improving while economic boost, but during downturn it's deteriorating without any actions taken by the Government
- Since the net demand generated by the state is moving contrary to the private sector, thus alleviates the fluctuations of the private sector
- That exemption clause has similar effect, which declares that the state has neither by preparing the budget, nor by its implementation to react to external factors unanticipated developments

LESSONS

- Re-building market confidence
- Enhancing fiscal discipline
- Question of budget system:
  - cash-flow vs. accrual budgeting
  - national system vs. ESA
- Future prospects: Programme Budgeting