Chairman of the Fiscal Council

Report

for the Fiscal Council

Subject: Report on the Execution of the Year 2023 Action Plan of the Fiscal Council

5 January 2024

I.

According to Article 44 of the Fundamental Law of Hungary, the Fiscal Council (hereinafter: Council/FC) is an organization supporting the activities of Parliament, which examines in particular the soundness of the central budget, the development of the general government deficit and the enforcement of the sovereign debt rule. In addition to the Fundamental Law, its tasks are defined in Act CXCIV of 2011 on the Economic Stability of Hungary (hereinafter: Stability/Stab. Act). Accordingly, the Council

a) **gives its opinion** on the draft bill on the central budget (including the draft bill amending the Budget Act), including on the size of the general government deficit[1] and the reduction[2] of the government debt ratio[3], as well as on the state of implementation of the Act on the State Budget every six months and the expected development of government debt,[4]

b) **decides** on granting its prior consent – pursuant Section (3) Article 44 of the Fundamental Law – to forward the uniform budget bill and the uniform bill on the amendment of the budget for final vote

c) **may formulate an opinion –** pursuant Points d)-e) Section (1) § 23 of the Stability Act – on the amendment of laws that serve as the foundation of the central budget or, any other issues related to the planning, the execution and, any other use of public funds,

d) as part of its opinion on the draft bill, it **shall examine separately** the compliance with Section (3) 166 § of Act CXXXIX of 2013 on the National Bank of Hungary with regard to its capital position, according to which, if the amount of own funds drops below the subscribed capital by the end of the year, compensation shall be covered directly from the central budget to retained earnings to ensure that within a reasonable period of time – in order to comply with the principle of financial independence – the MNB should have equity capital at its disposal at least equal to the amount of subscribed capital.

[1] Pursuant § 3/A of the Stability Act the decision regarding the public finance balance (to be precise: the balance of the governmental sector) shall be made in harmony with the respective provisions of the Fundamental Law and the EU Law.

[2] Pursuant Article 36 of the Fundamental Law as long as the public debt is exceeding half of the gross national product the National Assembly may accept only such central budget law that contains the decrease of the share of public debt to the gross national product. In harmony with the stipulation of § 4 of the Stability Act the central budget act shall determine the degree of the public debt indicator planned for the last day of the budget year. This degree shall be determined so that the decrease of the public debt indicator compared to the reference year shall reach at least 0, 1 percent, beyond the implementation of the EU regulations concerning the public debt decrease.

[3] In the course of executing the regulations of Indents (4)-(5) Article 36 as well as the stipulations of Indent (2)-(3) of Article 37 of the Fundamental Law the ratio expressed as a percentage shall be taken into consideration [...], rounded to one decimal place that contains

- in its numerator the value of public debt,
- in its denominator the value of the gross national product calculated as prescribed in the EU resolution concerning the European system of the national and regional accounts (Budget Act) and stipulated by § 2 of the Stability Act.

[4] According to Section 23 (1) (c) of the Stab. Act, the Council gives its opinion every six months on the state of implementation of the Act on the State Budget and the expected development of public debt.

The report by the President on the Execution of the Year 2023 Action Plan of the Fiscal Council summarizes

- the Council's collegiate resolutions for 2023,
- the work of the President of the FC in the framework of international cooperation between independent fiscal institutions (fiscal council-type organizations) that ensure compliance with the "fiscal framework", and
- activities directly and indirectly related to the responsibilities of the President of the Council and the Secretariat of the FC for organizing the Council's work and informing its decisions.

II.

Implementation of the year 2023 Action Plan of the Council

1. The Council has fulfilled its mandatory tasks for 2023 under Act CXCIV of 2011 on the Economic Stability of the Hungary. This required **eight board meetings**. The Members of the Council and the apparatuses supporting their work continued to work in the intervals between meetings, continuously monitored the processes of public finances and formed opinions concerning the related inquiries, statistical and other information, and forecasts.

a) Meeting related to Point f) Section (1) § 23 of the Stability Act

(aa) In accordance with its Rules of Procedure, the FC **discussed and adopted its 2023 Action Plan on 8th of December 2022,** including **the plan of** expert research/**analyses** (**Resolution 6/2022.12.08**) that assist the FC in formulationg its opinion and the grounding of its decisions.

(ab) On **27th of December 2022,** at the same time as its opinion on the draft decree of the 2023 central budget on the different rules related to the state of emergency and the resolution on the fulfilment of the sovereign debt rule**, the FC discussed and approved its report on the implementation of its 2022 task plan (Resolution 5/2022.12.27).**

b) Opinion providing duties according to Points a) – c)[5] Section (1) § 23 and Section (1)[6] of the Stability Act

(ba) At its **meeting on 12th of January 2023**, the Council adopted its Opinion on a draft bill amending Act XXV of 2022 on the Hungary's 2023 central budget. In **Opinion 1/2023.01.12**, it stated that " Russia's war against Ukraine, the sanctions imposed in response, the explosion in energy prices and the related uncertainty in the external economic environment pose a risk to the achievement of the budgetary targets set out in the draft." The Council also highlighted that "the draft foresees economic growth of 1.5 percent in 2023, compared to the 4.1 percent initially assumed, due to the lingering effects of the war and the energy crisis, the slowdown in global growth and the impact of inflation on real incomes. Growth would be driven largely by a rise in exports outstripping imports, and would therefore be heavily dependent on external developments." In the Council's view, " economic growth is moderate compared to the forecasts of international organisations, it could be achieved if the effects of the war conflict do not worsen and other risks do not intensify ", and therefore "in the view of the latter, the Council considers that a conservative policy in the use of budgetary reserves is necessary.".

In its opinion, KT acknowledged that "the draft budget continues to ensure the achievement of the main social policy objectives set out in the original budget, such as maintaining the reduction in rationing up to average consumption, supporting families, protecting the elderly and strengthening the capacity to defend the national defence, as well as providing the possibility to increase pensions in line with the higher inflation than initially forecast, to partially compensate for the increased energy costs of public institutions and to finance the higher interest expenditure related to public debt."

In its opinion, the Council noted that "in 2023, the general government sector accrual-based deficit (ESA) as a share of GDP will be revised to 3.9% and the general government cash deficit to 4.5%. The 3.9 percent deficit represents an increase in the deficit target for 2023 compared to the current law, and therefore the Council welcomes the provision in the draft that if real GDP rises above 1.5 percent in 2023, the resulting excess revenue, less the planned excess of the

[5]The Council

- in accordance with Article 44(2) of the Fundamental Law, it gives its opinion on the draft Act on the State Budget, examines the size of the general government deficit - which does not exceed 3% of gross domestic product (GDP) - and the consistency of the general government sector with the medium-term budgetary objective. The Staff. Pursuant to Article 25 of the Fundamental Law, it simultaneously examines Article 36(4)-(5) of the Fundamental Law – the sovereign debt rule – and the Stab, which specifies it. compliance with Section 4 of the Act,
- decide on prior consent pursuant to Article 44(3) of the Fundamental Law,
- gives its opinion every six months on the state of implementation of the Act on the State Budget and the expected development of public debt,

[6] During the negotiation of the bill on the central budget, the Council also examines compliance with the sovereign debt rule in the single bill based on the information provided by the Speaker of Parliament as specified in the Rules of Procedure.

pension premium, will be used to reduce the deficit." At the same time, it continued to "push for the 3 percent deficit target to be achieved if economic conditions allow, as deficit reduction will also help to rebalance other parts of the economy." In this context, FC pointed out that "there is a risk to the ability to meet the draft estimates of revenue and expenditure. The increase in tax revenues is based on a significant increase in wage and earnings growth and nominal consumption, and in some lines exceeds the expected increase in the tax base. On the expenditure side, the draft includes an over-allocation to finance energy costs, but operating expenditure does not increase as much as the increase in operating costs is expected to require", which carries substantial feasibility risks even with extraordinary austerity measures.

KT considered it particularly important that "mainly due to the high growth rate of nominal GDP of close to 16.6%. It [the government debt ratio][7] is projected to decline from 73.5 percent at the end of 2022 to 69.7 percent at the end of 2023. The planned reduction of 3.8 percentage points implies that the debt rule will be met even if macroeconomic conditions turn out significantly less favourable than projected by the government." The explanatory memorandum added: " This implies that the public debt rule would be met even in the case of lower economic growth than foreseen in the government's macroeconomic forecast and a higher deficit than the projected cash deficit, which would, however, increase the public financing needs and require additional debt issuance. The foreign exchange ratio of the central government debt would rise to close to 28%, which is close to the upper end of the target range raised by the debt manager."

(bb) The Council **adopted two Opinions** at its meeting on 30th of March 2023.

bb/1. As the first item on its agenda of said meeting, the Council **assessed the state of implementation of the Act on the Hungary's 2022 Central Budget and the evolution of public debt**. In Opinion 2/2023.03.30, it stated that " [a]fter the 7.1 percent "bounce" in 2021, the Hungarian economy continued to grow dynamically in the first quarter of 2022, but this was curbed by Russia's aggression against Ukraine and its many consequences." FC pointed out that "[t]he collapse in energy security and the explosion in energy prices have hit the Hungarian economy hard, fuelling inflation and widening the external deficit. The budget has had to face an extraordinary additional budgetary burden to maintain, at least in part, the reduction in household utility bills despite the sharp increase in gas and electricity prices, and to provide broad support to several other economic actors, in addition to public institutions, to compensate for the increase in energy prices" The Council assessed positively that " [t]hanks to the strong resilience of the economy and the

[7] Government debt ratio: The ratio to be taken into account in implementing Article 36(4) to (5) and Article 37(2) to (3) of the Fundamental Law [...] expressed as a percentage of which
- numerator of government debt,
- denominator is the sum of gross domestic product (GDP) calculated in the Community as defined in the Council Regulation on the European system of national and regional accounts (Act Stab., § 2).

measures taken by the government, the economy grew by 4.6 percent for the year as a whole "

In its opinion, the Council stated that "[t]he Budget Law set the cash deficit of the central subsystem of general government at HUF 3 152.7 billion. The actual cash deficit was HUF 4753.4 billion, up by 50.8 per cent (HUF 1 600.7 billion) (HUF 20.5 billion lower than in the previous year), and was particularly large in the first quarter, due to measures to increase the incomes of some groups of the population, and in the fourth quarter, mainly because of the need for broad compensation for energy price increases. Government measures taken in the course of the year to improve the balance (introduction of extra-profit taxes, expenditure restraint) significantly curbed the deficit growth." FC also pointed out that “[t]he cash balance was positively affected by an 18.4% year-on-year increase in tax revenues", while "EU revenues planned in the budget appropriations to finance the operational programmes continued to slip significantly in 2022, leading to a further increase in the domestic fiscal burden, which contributed to the increase in the cash deficit and nominal public debt. In the absence of an agreement, Hungary did not benefit from the resources allocated to it under the Recovery and Resilience Facility (RRF) in 2022, so the programmes launched under the Recovery Plan were also financed by the central budget."

At the same time, the Council welcomed the fact that "despite the high cash deficit, the general government sector deficit as a percentage of GDP has been reduced from 7.1% in 2021 to 6.1% in 2021, according to preliminary data. However, the Council continues to stress the importance of bringing the balance below the 3 percent Maastricht criterion as soon as possible, as the reduction in the deficit will also help to rebalance other parts of the economy."

FC considered it particularly important to indicate that "[t]he government debt ratio declined from 76.8 percent at the end of 2021 to 73.6[8] percent at the end of 2022 (preliminary data), better than expected. Thus, after a temporary increase in 2020, the debt ratio continued to decline again in 2021. This is in line with both the debt rule of the Constitution and the Stability Act." In the Council's view, "the improvement is only marginally attributable to the decline in the budget deficit, as it is overwhelmingly the result of rapid nominal GDP growth, which also reflects the impact of high inflation. The debt manager has partly financed the increased public debt through foreign currency bond issuance, which has led to an increase in the foreign currency ratio of central government debt to 25.0% in 2022 from 20.6% a year earlier."

bb/2. At the same meeting, as a separate item on the agenda, **the Council examined the compliance of Bill T/2667 amending Act XXV of 2022 on the**

[8] The value is the ratio of nominal debt as reported by the MNB in the preliminary financial accounts data to nominal GDP as reported by the HCSO.

2023 Central Budget of Hungary with the sovereign debt rule and gave its prior consent to the final vote in its decision 3/2023.03.30 (preceded by FC Opinion 1/2023.01.12 indicated in subsection (ba))**.**

In its opinion, the Council stated that "[t]he government debt ratio is projected to decline from 73.5 percent at the end of 2022 to 69.7 percent at the end of 2023 according to the single proposal " At the same time, it stated that " the targeted reduction in the debt ratio is consistent with the macroeconomic path used as a premise for the bill and with the projected fiscal path. " Based on this, it considered that "the government debt-to-GDP ratio expected at the end of 2023, when implementing Act XXV of 2022 on the Central Budget of Hungary for 2023, subject to amendments, is in line with the downward adjustment requirement of Article 36(5) of the Fundamental Law. The planned reduction of 3.8 percentage points implies that the debt rule will be met even if macroeconomic conditions turn out significantly less favourable than projected by the government."

The Council stated that "[t]he level of the debt indicator has been set in accordance with the provisions of the Stability Law and the requirement of Article 36(5) of the Constitution is fulfilled, and the Council therefore gives its prior consent, in accordance with Article 44(3) of the Constitution, to the final vote on the single proposal T/2667/85."

The Council continued "to urge the early achievement of the 3% deficit target, economic conditions permitting ". Therefore, it welcomed " the provision in the bill that if real GDP grows above 1.5 percent in 2023, the resulting surplus revenue, less the planned excess of the pension premium, should be used to reduce the deficit."

(bc) At **its meeting held on 23rd of May 2023, the Council stated in Opinion 4/2023.05.23 on the Draft Bill on the 2024 Central Budget of Hungary** " the draft budget bill foresees 4.0 per cent economic growth in 2024, higher than the average of known domestic and international projections, supported by an expansion in household consumption, a renewed dynamic increase in gross fixed capital formation and a growth rate of exports exceeding imports." In addition, it also indicated that "the economic growth projected by the government could materialise if external and domestic conditions are favourable, but is subject to a number of risks." In its opinion, FC highlighted Russia's aggression against Ukraine and its responses (sanctions), which will continue to negatively affect the Hungarian economy, Europe's energy security problems, and the protracted negotiations on the disbursement of funds due from the European Union to Hungary in 2024

The Council has already considered it necessary "to bring the government sector deficit below 3% of GDP in order to balance the Hungarian economy and budget." In its opinion, the Council stated that "[t]he draft budget bill is in line with this: in 2024, the general government sector deficit on an accrual basis (ESA) will fall below the Maastricht criterion by 1.0 percentage point to 2.9 percent, compared to

2023, while the cash deficit of the central government subsystem will be reduced by 1.5 percentage points to 2.9 percent." It also pointed out that [...] "there are risks to the achievement of these targets. One is that the expected economic growth may not materialise, which would reduce budget revenues. As regards the outturn of revenues in 2024, there is a risk of an expected underperformance of some revenues in 2023, mainly related to consumption, which would worsen the base of these appropriations." Furthermore, the Council " sees a serious risk that the appropriations for the budget bodies in kind, including energy compensation, will be significantly below the level of price increases realised in 2022 and expected in 2023 and 2024." It drew attention to the fact that "other operating appropriations of several budget headings of institutions not under the control of the Government will decrease by up to 10 percent compared to the 2023 appropriations, leading to a very significant decrease in real terms for these institutions." FC considered that "[w]ithout targeted austerity and task rationalisation measures, there is a risk that maintaining the viability of the budget bodies will require large unplanned expenditures in 2024. The Council considers that this also entails operational and service quality risks, which should be mitigated in the budget."

In its Opinion, the Council welcomed the fact that "as required by the Fundamental Law, the downward trend in the government debt ratio continues and is projected to decline from 69.7 percent at the end of 2023 to 66.7 percent at the end of 2024, according to the draft budget bill. The Council considers the reduction in the debt ratio to be achievable in view of the planned 3 percentage point reduction, despite the macroeconomic and budgetary risks outlined. On this basis, the Council concludes that the draft budget bill for 2024 complies with the debt rule of the Fundamental Law and with the provision of Section 2a Article 4 of the Stability Act."

The Council noted the fact that " the draft bill does not include the expected necessary loss compensation of the MNB and is therefore not in line with Article 166 (3) of Act CXXXIX of 2013 on the Central Bank of Hungary, which provides that "if the amount of equity capital falls below the subscribed capital at the end of the year under review, the difference shall be reimbursed by the central budget in equal annual instalments (...) within 5 years directly to the profit and loss reserve." The central bank's results have been largely negatively affected by the overall stimulus measures taken to deal with the koruna crisis and the subsequent interest rate increases necessary to bring down inflation, which are expected to reduce the own funds to below subscribed capital by the end of 2023. The Council considers it necessary that the draft law also takes into account this expected legal obligation so that the deficit target and the debt rule continue to be met."

Finally, the Council considered it necessary to draw attention to "the current limitations of the macroeconomic conditions for fiscal planning, which imply that the predictability of external developments surrounding the Hungarian economy in 2024 is subject to high uncertainties. The risks associated with this may require a re-planning, limiting the role of the budget as an economic compass."

(bd) At its meeting on 6th of July 2023, the Council **examined the compliance of the Unified Central Budget Bill No. T/4181/471 on the Central Budget of Hungary for 2024 pursuant to Article 25 of the Stability Act with the sovereign debt rule and gave its preliminary consent (in its Opinion 5/2023.07.06) to the final vote (**preceded by Opinion 4/2023.05.23 indicated in point bc).

The Council decided that "the planned level of the government debt indicator as of 31 December 2024, as envisaged in paragraph 3(1) of the Unified Budget Bill T/4181/471 on the Central Budget of Hungary for 2024, has been determined in accordance with the provisions of the Stability Act, in line with the macroeconomic and public finance developments underlying the Bill. As the value of the debt indicator projected for the end of 2024 in the Bill is 3 percentage points lower than the value of the indicator expected for the end of 2023, the requirement of Article 36(5) of the Fundamental Law is also fulfilled."

However, the Council maintained " the majority of its comments on the draft budget law, given that neither economic conditions nor the budget law have changed to such an extent that the risks indicated have been eliminated." Thus, it pointed out that "protracted war between Russia and Ukraine, the sanctions in response to it and the sharp fluctuations in world energy prices, which affect both the expenditure and revenue sides of the budget, are creating greater than usual macroeconomic risks." It also stressed that "[s]ome elements of the economic developments in 2023 point to downside risks around the macroeconomic path underpinning the budget (lower-than-expected household consumption and higher-than-projected inflation), while other factors have been favourable in recent months (energy prices and balance of payments developments)" and that in several cases these " these changes have a direct budgetary impact in 2024." The Council also indicated that " without targeted austerity and task rationalisation measures, there is a risk that the need to maintain the viability of the budgetary bodies may require large unplanned expenditures in the course of 2024.."

The Council welcomed the fact that the Government will initiate an amendment to the Act on the National Bank of Hungary later this year, according to which " the negative capital of the Central Bank should be compensated primarily by the positive results expected in later years". (With the adoption of the amendment, there would no longer be an obligation to reimburse the budget when the 2024 Finance Act enters into force.) In its decision, FC indicated that " The budget takes into account the cohesion and recovery funds for the EU budget cycle 2021-2027, so the implementation of the budget is conditional on their receipt on time and in the amounts foreseen." The Council welcomed the fact that " The planned reduction of the debt ratio by 3 percentage points provides a significant margin to ensure that the risks indicated do not fundamentally jeopardise the reduction of the debt ratio" and gave its consent to the final vote on Single Budget Bill T/4181/471.

(be) At **its meeting on 3rd of October 2023, the Council made an assessment and formed its Opinion on the mid-year state and the expected development of its implementation in the first half of the year of the Hungary 2023 Central Budget Act** (Opinion 6/2023.10.03). In its opinion, the Council stated as a starting point that " economic situation at home and in Europe in 2023 will be primarily influenced by the aftermath of the energy crisis and the protracted Russia-Ukraine war. " It also noted that " the volume of domestic GDP decreased by 1.7 percent compared to a year earlier[.]", adding that in its opinion " our economy will return to growth in the second half of the year, but annual GDP growth will fall short of the level projected at the time of the adoption of the amendment to the budget law." FC also highlighted that "[t]he main reason for the stalling in economic growth is the decline in domestic demand", and "[a] sustainable resumption of economic growth therefore presupposes a sustained reduction in inflation."

In its assessment, the Council also stressed that "the cash-flow deficit at the end of the year – based on current and expected developments, excluding government measures – will be higher than budgeted. The cash flow deficit of the central subsystem of general government was set at HUF 3400.2 billion by the amended Budget Act of 2023. The deficit in the first half of the year – reaching 85.2 percent of this – amounted to HUF 2896.0 billion, then reached HUF 3299 billion by the end of August, which is 97 percent of the appropriation". Furthermore, it pointed out that " the lower-than-planned performance of VAT revenues contributed to the higher than pro rata temporis deficit as a result of the decline in consumption. Restricting access to EU funds allocated to Hungary also increases the cash flow deficit and, despite budgetary advances to support planned programmes, increases uncertainty about economic growth.

In addition, the Council noted that " the government debt-to-GDP ratio increased from 73.9 percent at the end of 2022 to 75.0 percent at the end of the first half of the year due to the high cash flow deficit. [...] The cash flow deficit concentrating in the first half of the year also significantly increased the accrual deficit. In the first half of 2023, according to HCSO data, the ESA deficit amounted to 6.3 percent of half-year GDP". The Council noted that "on 3rd of October 2023, according to a statement from the Ministry of Finance, the Government raised its 2023 ESA deficit target to 5.2 percent of GDP ", adding that "the increased deficit target reflects economic and budgetary developments" In addition, "Even with the new deficit target, the Council sees a need for close control of expenditures".

According to the Council's assessment, "despite lower than projected GDP volume growth and the increased deficit target, the government debt ratio may decline by the end of the year due to significant nominal GDP growth, in line with the debt rule". Finally, FC drew attention to the fact that " a lasting improvement in the balance of the budget will require measures in the future".

(bf) **At its seventh meeting (23rd of December 2023), the Council formed its Opinion 7/2023.12.23 on the need of direct reimbursement to the retained earnings provided by the central budget to the Central Bank of Hungary.** In it, the Council stated that "under Section (3) Article 166 of the MNB Act, effective from the end of December, the condition according to which the equity capital of the National Bank of Hungary is "below the level of the subscribed capital for a longer period" does not apply in 2024, therefore the central budget is under no obligation of direct reimbursement in 2024".

2. The Chairman and the Secretariat of the Council have repeatedly requested and received **supplementary information** related to their responsibilities from government bodies, in particular the Ministry of Finance. It monitored developments in public finance indicators and legislative changes affecting expenditure and revenue. The Fiscal Council was kept informed about revenue and expenditure developments throughout the year..

3. The **decisions** (and their explanatory memorandums) **of the Council** – following earlier practice – have been published on the Council’s website. The public interest towards these and other Council documents, their English translations and research materials remained strong in 2023. In the previous six years – 2018-2023 – the **total number of downloads** was 104,451, of which research materials accounted for more than 70 percent of downloads. Taking into account the average data, it can be assumed that in the whole of 2023, the decisions of the Council (with justifications) were downloaded roughly two thousand times, while research papers were downloaded roughly eight hundred times.

The professional public interest in the activities (Opinions) of the Council has been enhanced for years by traditional conferences organized jointly by the **Hungarian Economic Association** (MKT) **and the Fiscal Council, presenting the results of researches and background papers**. The impact of the volume of studies summarizing the results of the research, published online and in printed form, in Hungarian and English for the first time, was noticeable at the end of 2020, also in MKT-FC cooperation. Based on this success, the publication of the documentary volume continued in 2023 as well, in addition to the practice of the conference (see also point 7 of this report).

Press relations **concerning the work** of the Council are the responsibility of the President according to the rules of procedure. Although the FC secretariat does not carry out separate press monitoring, it is informed about media appearances. According to the available data, the interest of the written and electronic press was mostly focusing on the draft central budget bill for 2024 and after the presidential exposé at the beginning of the parliamentary debate on the bill (Kossuth Radio's “Jó reggelt Magyrország” "Ütköző and other debate programs, on MTV1, Hír TV, InfoRadio, Karc FM). The reports published on the Council’s activities, and a significant part – practically all – of the interviews related to the budget were also turned into news by radio and TV channels.

The number **of media appearances –** due to interest, in line with the average of recent years – was around 100 in 2023. In several speeches, the President of the Council assessed the interim and projected developments in macroeconomic and public finances, public debt and government deficits in 2023 in relation to the effects of global economic and geopolitical changes, in particular the raw material and energy crisis, etc. intensified as a result of the Russia-Ukraine war.

The interest in the Council's work is also indicated by the fact that the Chairman of the Council was often invited to give lectures – not only directly related to the decisions of the FC, but also concerning the revenues and expenditures of the general government, as well as on different topics of public services, including the healthcare system. The President of the Council – not inseparable from his professorship and his function as perpetual president of the Hungarian Economic Association – gave numerous lectures at several universities (Corvinus University of Budapest, National University of Public Service, universities of Szeged, Sopron, Kecskemét, Debrecen (also at the latter's external branches) and at various professional forums. In addition to the website of the Council, the illustrations and occasionally the Hungarian and English texts of the lectures were also published on various internet portals.

Writings of the Chairman related to the tasks and competences of the Fiscal Council have been published in print and through online press (Figyelő, Index, Világgazdaság, Portfolio.hu, Medicina, AzÜzlet, Növekedés.hu, etc.).as well as in county and local newspapers. In the case of topics and issues related to the economy and the budget, various news outlets often quoted and refered to the documents of the Council and the statements of its Chairman. In 2023, the number of **letters and telephone** inquiries remained unchanged, in which citizens asked questions about macroeconomics, public finances and their own situation, and received information from the president of the Council

4. The Fiscal Council has been part of the further expanding **international cooperation** in 2023 as well, participating in the joint work from the very beginning in 2013. The multilateral discussions facilitated the common interpretation of EU intentions and rules, and the broadening and strengthening of professional relations.

a) Multilateral discussions

- **From 13 to 14 April 2023**, the OECD and the Icelandic Parliament organized a technical conference – in Reykjavik – for various parliamentary budgetary organizations and independent fiscal institutions (fiscal councils, IFIs). This 15th annual meeting was hosted by the Icelandic Parliament, which brought together representatives from almost all OECD member countries, along with many international institutions. In the keynote speech on the first day, participants analyzed the impact of the challenges of recent years (multiple crises, inflation, rapidly changing and uncertain outlooks, etc.) on the economy, assessed the difficulties of finding appropriate political and professional answers and shared their experiences on the possibilities of ensuring effective fiscal surveillance in such circumstances. The second session focused on the significantly deteriorating fiscal health of public finances. They agreed that restoring fiscal sustainability of public finances is a growing concern. They discussed how the design of fiscal frameworks can help restore fiscal sustainability and the optimal role of supervisory institutions. The third session focused on the impact of pressure on healthcare-related spending on long-term fiscal sustainability. In this session, there was consensus that in order to understand budgetary "pressures", Parliaments' budget offices and independent fiscal institutions need to better understand/analyze health/health-related processes and trends. Therefore, the section also touched on long-term trends in health care and their impact on public spending. The final – fourth session – of the first day examined the role of parliamentary fiscal institutions in dealing with the consequences of climate change in public finances, as spending increasingly supports goals closely linked to climate change and other environmental issues. At the meeting, the British institution presented concrete examples through calculating the emission effects of fiscal measures and estimating the long-term economic effects of climate change.

The first session of the second day focused on the OECD Best Practices for Parliaments in Budgeting guidelines on how to organize fiscal surveillance effectively in all parts of budgetary processes (providing guidance for legislative engagement throughout the budget cycle, supporting legislators empowered and fiscally responsible in the budgetary process). The second session of the day provided an opportunity to share communication practices, stressing that good communication is key to the efficiency of the work of independent fiscal institutions and parliamentary budget officials. This should be taken into account during organizational development.

The meeting provided an opportunity for informal exchanges of views and discussions. Thus, the Chairman of the Council had a longer, cordial conversation with participants from Austria, South Africa, Iceland, Portugal and Slovakia, as well as with the relevant senior OECD officer, Mr. Jón Blöndal, and with the representative of the Polish Ministry of Finance.

- **On 15-16, June, 2023** the Network of European Independent Fiscal Institutions (EUIFI) convened a conference on "The impact of climate change on public finances and fiscal policy from a national and European perspective" – in The Hague – for its network members. The keynote speeches were delivered by Hans Vijlbrief (Deputy State Secretary for Economic Affairs of the Netherlands) and Diederik Samsom (Head of Cabinet for the EU Green Deal), highlighting progress in the introduction of green technologies and support for climate protection. The session discussed how key institutions (e.g. ECB) measure the effects of climate change on the budget and climate policy considerations. Subsequently, in the second session, participants received an overview of the progress of DG REFORM's Technical Support Instrument, indicating that work on the main pillar of the Facility is expected to start in late 2023 or early 2024. Finally, the ad hoc Working Group on the Review of the EU's fiscal rules framework presented the progress made, which could inform discussions between stakeholders during the negotiations on the review of the relationship between IFIs and economic governance. The third session discussed the framework of the Network, the first topic of which was the renewal of the Network's contract with the Centre for European Policy Studies for the next two years (2024-2025). Members have received a draft contract in advance with confirmation of the official name of their institution and the identity of their president, indicating that the contract itself provides for the functioning of the Secretariat unchanged and that the annual contribution of each IFI member will only increase in accordance with the Belgian salary indexation. The need to update the internal governance of the Network was raised in connection with internal regulations and an agreement was reached to update the current internal regulatory documents. It was agreed that the management and the Secretariat would send a draft of the amendments to the members by September. In this session, they indicated that the Network had received applications for observer status from the Scottish IFI and the 6 Western Balkan countries and agreed that its content should be clarified and that the Management and the Secretariat would therefore return after the summer break to clarify the conditions for observer status. The fourth session focused on the review of the EU's fiscal rules, during which the Secretariat pointed out that the Commission's first technical seminar on Economic and Fiscal Governance Review proposals was not sufficient to answer members' technical questions. For this reason, the Network's management and the Secretariat have set up a small technical working group of 10 members. The aim of this working group is to allow for ongoing discussions with the Commission where it may be useful to reflect the aspects of the IFIs**. (Travel report number: KVT/21-2/2023.)**

- **During 5-7 of, 2023** the Georgian Parliament and the OECD organized a technical conference for independent budgetary institutions from Central and Eastern European and South-Eastern European countries in Tbilisi. The primary aim of the event was to introduce the practical experiences of European and OECD countries to the participants of the conference. As the opening of the event, the American representative of the OECD greeted the participants, then the President of the Georgian Parliament launched the work of the conference, emphasizing in his short opening speech the importance of communication and the benefits that can be "transferred" from the EU's institutional systems. In the first session of the first day, the OECD representative elaborated on the organization’s principles for independent fiscal institutions, showing how they define key institutional practices and arrangements that promote effective fiscal surveillance. Then representatives of the participating countries presented the principles already put into practice and the possibilities for further development. The second session examined how fiscal councils and parliamentary stakeholders can help build good relations and ensure a coherent environment conducive to strong budgetary surveillance. It has been pointed out that the quality of effective functioning between budget councils and parliamentary budget officials is very important. In the third session, the best practices of parliamentary budgetary oversight were examined, and during the session the countries presenting provided insight into the extent to which their countries' parliamentary budgetary surveillance practices correspond to OECD best practices and what challenges they may face.

The first session of the second day presented the reform efforts of the budgetary frameworks of EU member states, focusing on strengthening public debt sustainability. The second session analyzed how best to communicate key messages on long-term fiscal sustainability, facilitating the necessary reforms. They also identified an increasing challenge in restoring the sustainability of public finances. **(Travel report number: KVT/31-2/2023.)**

- **Between 10 and 12 November 2023**, the Chairman of the Council – as a member of the Hungarian chapter for the Trilateral Commission – attended the meeting of the European Section of the organization held in Prague. After the usual greetings and a message from Czech Prime Minister Petr Fiala, the first panel discussed the aspirations and attitudes of the younger generations moderated by Zdenek Toma (former Governor of the Czech National Bank). The second panel included a discussion on "The war in Ukraine and the evolution of the power position in Europe" by Rolf Nikkel (Chair of the German Council on Foreign Relations), which included Mark Brezinski (US Ambassador to Warsaw), Christofen Denk (Director of the European Investment Bank) and Alexandra de Hoop Scheffer (First Vice-President of US Marshall Fund Germany). The discussion of economic policy alternatives to ending the conflict was extremely cautious and diplomatic. In essence, what has been said confirmed that the war is prolonged, and the supportive attitude so far shows signs of fatigue. After that, the conference continued with thematic discussions, the first topic of which was "Another war in the Middle East and its impact on the world", which discussed the terrorist actions of Hamas and their consequences. Jacob. A. Frenkel (former Governor of the Bank of Israel) was interviewed by V. Dlouhy (former Czech Minister of Industry and Trade), after which tense comments and questions were also made. It was clear from these that the western half of Europe is captured by the idea of migration. Israel's former central bank chief calmly answered one-sided questions and gave a picture on topics such as Israeli domestic politics, democracy and governance, but avoided alternatives to the consequences and long-term political outcomes of Hamas' terrorist action and response. The discussion continued with the title "Affordable energy security in Europe", which presented the gradually balanced situation and known trends Jozef Sikela (Czech Minister of Industry and Trade) and Jan Ruzicka (external expert of the Czech International Investment Group). The third and fourth panels addressed the problems of the "digital future", addressing the possibility of global, still different digital rules and warning of the consequences of this. The closing panel was "Political leadership" for a changing world order, for which Carl Bildt (Swedish ex-prime minister) and the chairman of the Moderate Party gave an introductory note entitled "Wake up Europe". The podium discussion that followed was moderated by Le Monde journalist Sylvie

Kauffmann and attended by Boruth Pahor (former Prime Minister) and Jeans Palm (CDU Deputy President). The discussion drew a nuanced and critical picture of the limits of action that are in place on European opportunities. However, the atmosphere of interesting and diverse, nuanced conversations did not express awakening, but a feeling of helplessness and resignation to drift. This was reinforced by the expert and advisory presentations of the closing sessions, which considered mostly the risks of the future (migration, health, social care) and less opportunities.

- In addition, a **significant number of conferences were held online and in person, mostly in Brussels, by various parliamentary budgetary bodies and independent fiscal institutions (IFIs)** to discuss current issues falling within the Network's remit (work programmes, study reports, current tasks, etc.).

b) *Bilateral discussions*

- **On the 14th of February, 2023, Moody's Investors Service** representatives (Dr Heiko Peters, Dr Hornung Dietmar) visited the Chairman of the Fiscal Council in his offices in Budapest. To kick off the discussion – on the topic of evaluating 2022 –the representatives were informed that according to the calculations of the Hungarian Central Statistical Office, GDP growth in the previous year was 4.6 percent, but economic performance has clearly decreased in the last quarter of the year, which will continue in the first half of this year, and the expected "bounce-back" may be realistic from the second half of the year. In addition to the effects of global factors (energy prices, sanctions policy, Russia-Ukraine war, etc.), agriculture has been hit by drought, the performance of the construction sector has declined, but the investment rate remains high. The Chairman expressed his hopes that the investments started will "pay off", but due to adverse developments, "smaller figures" will have to be calculated. In addition, he also noted that he strongly hopes that there will be no loss of EU funds. In his evaluation, he also mentioned that social programmes undertaken by the Government (support for childbearing, pensions, other social benefits) can be managed from the annual budget. In answer to questions, he indicated that the Government intends to maintain balance, for this purpose some investments will be reduced, and – in his opinion – price caps may also be phased out during the year (in the second half of the year). He said that in addition to the main factors contributing to the high level of inflation, drought, sanctions policy and the impact of overrun investments are also present. He believed that the amendment to the 2023 budget law would take place at the end of March. Returning to EU funds, he explained that a pragmatic solution is needed, and in his opinion controversial issues cannot be dragged out for political reasons indefinitely, and the Government has always given and continues to provide correct answers to EU questions. Turning to the medium-term outlook, the Chairman of the Council said that substantial economic growth can/will return in 2024-2025, and sustainability is not at risk. All in all, it is expected to be a difficult year, stabilizing at all levels of the economy.

- **On the 15th of August, 2023, Moody's Investors Service** representatives held on an online consultation with the Chairman of the Council international (Dietmar Hornung, Heiko Peters and Marco Santaniello). As an introduction, the Chairman gave an overview of the developments of economic growth in the first half of the year and the expected outlook for the year. He said that economic performance has continued to decline quarter-on-quarter over the past three quarters, and according to available calculations, annual GDP is expected to be between -0.5 and 0.5 percent. In addition to a smaller than planned expansion (1.5 percent), high inflation had/has a negative impact on revenues, specifically VAT and excise tax revenues. He also pointed out that the deficit of the central budget in the first half of the year was HUF 2896 billion, which represents 85 percent of the annual appropriation. This is mainly due to property expenditures, compensation for district heating and residential electricity suppliers, as well as universal suppliers of natural gas. However, these payments were/are in line with the amounts foreseen in the amended budget law. He noted that the 13th month pension payment also plays a role in exceeding the pro-rata deficit.

Turning to 2024, he said that next year's budget law – building on 2023 as a base – expects GDP growth of 4 per cent, inflation of 6 per cent, a deficit target of 2.9 per cent and a reduction in public debt to 66.7 per cent. However, according to current calculations, these expectations are threatened by the war situation, other geopolitical shifts and the unpredictability of energy price developments. Turning to the possibility of obtaining EU funds, he said that, according to his knowledge, negotiations are progressing well, albeit with follow-up questions, answers and new conditions. He expressed hope that sooner or later, but rather sooner rather than later, EU development funds (cohesion and RRF) would be allocated to the country, because it could help to resolve existing disparities in several sectors (education, health). The consultation focused on the so-called the phasing out of support measures (price caps, etc.). In connection with this, the President said that realities do not speak in favor of an immediate and one-step solution, as the phase-out may largely depend on the decrease in the world market price of energy, the recovery/strengthening of domestic production, the realization of planned/launched developments, but most importantly on the evolution of the geopolitical situation. He added that in the course of 2023 the EU Commission proposed to amend the rules on Member States' fiscal frameworks in order to enhance the medium-term orientation of budgetary planning.

- **On the 22nd of November 2023,** the Chairman of the Council held talks with international rating representatives of Fitch Ratings (analyst Malgorzata Krzwicka and director Paul Gamble) about the expected development of macroeconomic/public finance developments in 2023 and 2024. To kick off the discussion, the President of the Council informed the rating representatives that 2023 "started" with the amendment of the budget law, which was based on more recent parameters than the original (economic growth of 1.5 percent, achievement of the deficit target of 3.9 percent). Compared to this, circumstances have changed a lot, so GDP performance decreased quarter by quarter due to high inflation and a decline in consumption (investment cuts). In this process, he highlighted in particular the extent of the decline in tax revenues (VAT, excise duties) on consumption, and the fact that at half-year the economy had been in recession since the fourth quarter, and as a result, government debt was continuously increasing. Subsequently, he handed over a table representing macroeconomic/budgetary developments to the representatives of the credit rating agency, which also illustrated the current state of affairs and risk factors. The Chairman of the Council also said that a six-monthly evaluation of the implementation of the annual budget law has been carried out. In connection with this, he informed the attendees that in its practice, the Council also uses expert analyses/research from the very beginning to substantiate its assessment and to substantiate the position of the Board in a careful and multifaceted manner. He informed participants that these analytical materials will be available online in December. Finally, he spoke about the fact that, despite the known/presented difficulties, budgetary processes can be managed, and based on what has been done so far, he believes that growth expectations of 0 per cent or around are realistic, while briefly turning to the budget for next year (2024), he sees a chance of growth of around 4 per cent.

Subsequently, in answer to a question about the feasibility of meeting the 2024 budget deficit target (2.9 percent), the Chairman of the Council explained that today the Stability Pactum requires the budget deficit to be kept below 3 percent, but many other European countries – apart from Hungary – have been struggling to meet this criterion for a long time. In his view, a review of the Pactum requirement may be justified in view of the events of recent years. When asked whether he was "satisfied with the budget deficit target projected/increased to 5.2 percent for 2023 in the autumn EDP report", he replied that developments in public finances suggest that the deficit could be slightly higher (a few tenths). To this end, he reiterated that tax revenues have not developed favorably this year either. At the same time, it is a valuable development that in recent years there has been a very large amount of tax whitening in Hungary, so today we have the "least gray " tax system in the EU.

- **On the 5th of December 2023,** the Chairman of the Council met with the IMF delegation (Head of Delegation Anke Weber, Atticus Frederick Weller, Xuege Zhang, Christopher Jackson and Augustus J. Panton – all leading economists) about macroeconomic and fiscal developments this year, the risks of performance, as well as the prospects for 2024 and the determinants of performance. In his introduction, he presented (and handed over to the members of the delegation) the publication of the Council, which summarizes the professional works that provided versatile support for the formulation of the opinions of the Fiscal Council. He particularly emphasized the role of FC in budgetary planning. Turning to the development of the processes of '23, he emphasized that it must be assumed that the prospects of next year cannot be disregarded from "today". He added that the government debt ratio is expected to fall to 70 percent and inflation could "fall" to between 6 and 8 percent by the end of the year (annual inflation will still be high). Economic growth may be lower than planned, between 0 and – 0.5 percent, taking into account the recession in the first half of the year, but the performance of the third quarter indicates that the economy has recovered from the recession. Turning further to 2024, he highlighted that the budget law was based on a 4 percent increase, which he expects to be achievable, but may be smaller taking into account the current economic conditions. To illustrate the expected development of key macroeconomic indicators, he provided delegation members with both an optimistic and a pessimistic outlook. He added that despite all circumstances, the country's operation can be financed, hopefully the Russian-Ukrainian war will not spread further, and there will be a real agreement with the EU, but there are unpredictable factors (e.g. the development of energy prices, where the recent fall in petrol prices has been favorable, etc.). However, it is positive that the Public Utility Protection Fund has been saved, fewer resources have been used, and the foreign trade deficit has been eliminated, but at the same time it is a sore point that tax revenues have fallen short of calculations (realized tax revenue is about HUF 2,000 billion below the appropriation). He also highlighted that next year pensions will increase by 6 per cent, government purchases will be solved through conversion and capital raising, and the source of tension is that the investment rate remains high. In his assessment, he also pointed out that it is not possible to prepare for all unforeseen circumstances. Although the Government is ambitious on certain development issues, citing the covid period as an example, when recovery was rapid following the "overtaking on the bend principle", he added that this only works if "nothing comes up".

Turning to questions, he first pointed out that next year wage growth and the slowdown in inflation will (could) help growth, and it is also positive that this year the decrease in imports has also improved the balance of foreign trade, and some investments (e.g. in the automotive sector) support expansion despite the difficulties. On the other hand, it should be taken into account: employment disparities are solved by the fact that major investments are made in the eastern half of the country (previously the majority of investments were implemented in the western part of the country), so new programmes can be launched in the Debrecen, Szeged, Kecskemét and Békéscsaba regions. Despite many obstacles, this is a conscious development programme on the part of the Government. Then, in answer to a question concerning the threats surrounding the budget, he explained that currently risks in this area can be divided into four groups: on the one hand, the impact on energy prices and the rigidity of sanctions policy, and, on the other hand, the development of consumption and the "status" of EU funds. In his opinion, essentially all four factors are unintentional. Despite this year's positive trends, the contribution of tourism to growth remains questionable. In answer to a question concerning the first version of the Hungarian Fiscal Council (led by Mr. György Kopits) and the current construction, he said that the practice followed in the world is colourful. The “Kopits version” had an analytical apparatus of around 40 people, while the current small staff has an organizing function, building on the findings of the SAO and the MNB in forming its opinion. The work of recognized external experts and researchers is also implemented in this process, keeping the balance between the different sides. Of course, there were/are fiscal institutions with their own analytical apparatus. There are also models (e.g. French, Slovak, Dutch) where analytical work is installed at the national banks. The background work for the Fiscal Council of Hungary is carried out by 6 people, relying on the above-mentioned professional base when preparing KT opinions. In reply to the question "Can the Council stop the adoption of the budget?" he said that there was a precedent for this in 2012, when the Council considered the macro path of the 2013 budget to be unfounded. He explained that at that time the Government had prepared a new macro path, which is important because the recovery of the domestic economy started after that. In response to a question concerning next year's budget, the Chairman of Council reiterated that next year's deficit largely depends on this year's performance. He added that the Council issued an opinion on the performance of the 2023 budget in the first half of October in which it criticized the amendments made by the Government during the year. He also indicated that he had no information on the Government's possible further intention to do so. In his view, if there is a reason/intention for it, there may be amendments, but the exercise / initiation of this is the sovereign right of the Government.

5. The Governor of the National Bank of Hungary (MNB) and the President of the State Audit Office (SAO) – as members of the Fiscal Council – pursuant to Section 23 (2) of the Stability Act, provide the Council with analyses and studies of their institutions related to the issues discussed at the Council meeting in 2023, supporting its activities. These studies helped to substantiate the Councils review work in the following areas:

a) SAO analyses
Analysis for the Fiscal Council for the 2023 budget. I. semester budgetary processes, with an outlook to the VII-VIII. Months

b) MNB analyses

Fiscal reports:

Analysis of the 2024 budget bill

Six-monthly analysis of public finance developments

A summary study on budgetary developments in 2023 into a volume of studies edited by the Hungarian Economic Association and the Fiscal Council

"Fiscal situation in an inflationary environment" presentation at the joint conference of the Hungarian Economic Association and the Fiscal Council

MNB's monthly analyses of budgetary developments in January 2023 – December 2023

Other analyses of the MNB

In addition to expert analyses, the liaison experts of the two organizations continuously assisted the Secretariat of the Council in preparing draft working documents, provided consultation opportunities on other issues, participated in Council meetings and forums organized by the Fiscal Council of Hungary.

6. Continuing the tradition of several years, in addition to the support of the SAO and the MNB, the 2023 Action Plan of the Council further expanded the topic of researches in order to strengthen the soundness of the Council's opinions and decisions with topics such as assessing public finance planning, the implementation of the budget law, the evolution of government debt, the balance of public finances, the sustainability of macroeconomic developments. In 2023, nine research workshops carried out 15 **studies**. In all cases, these works were completed on time, in appropriate quality, and laid the foundation for the annual conference presentations as well as their inclusion in the volume of studies of KT.

- Titled **"Macroeconomic and public finance situation in 2022",** Kopint-Tárki Institute for Economic Research Ltd. and ECO-VISTA Economic Research Consulting Ltd. analyzed the international environment of the Hungarian economy (risk factors of the world economy, especially the performance of the US and German economies, as well as the euro area) and the development of domestic macroeconomic processes. Within this framework, the impact and changes of global economic activity, including international developments (inflation, fluctuations in raw material prices, etc.), the development of the production and consumption components of domestic GDP, their interrelations, balance of payments and labour market indicators, the characteristics of further fiscal, monetary and financial developments, and the consequences of government and monetary measures were examined in detail.
- "**Macroeconomic and public finance developments of 2023 I. half-year"** – for the opinion of the Fiscal Council on the implementation of the 2023 Budget Act in the first half of the year, Kopint-Tárki Economic Research Institute Zrt., Hungarian Economic Research Plc. and ECO-VISTA Economic Research Consulting Ltd. prepared an analysis (assessment) of changes in the global economic environment (further intensifying geopolitical conflicts, uncertainties in global energy price developments, slowing Chinese growth, strong inflationary pressures, etc.) prospects, recognizable risks. It detailed the factors influencing the production and consumption components of the Hungarian real economy and GDP, their expected development, as well as the processes of public finances and the main growth trends and prospects.
- **"Macroeconomic and public finance forecast for 2023-2026"** order to comment on the draft budget bill for 2024, OG Research Innovative Economic Solutions Ltd., Hungarian Economic Research Ltd. and Corvinus University of Budapest (BCE) prepared an analysis of the characteristics of macroeconomic processes, key trends, and risk factors of economic life and economic policy space in the medium term. All three completed researches build on and analyses the facts of the years 2022-2023 to arrive at the formulation of their medium-term outlook. The main focus area of the medium-term outlook: the expected development and uncertainties of global energy prices and economic-business processes, as well as the presentation of significant geopolitical changes/movements at the EU-G7-NATO level (which increase risks to the Hungarian economy). In addition, there is further uncertainty that the development of the fiscal space may be greatly influenced by global political processes, as well as the (additional/expected) obstruction of access to EU funds. The studies presented the expected medium-term macroeconomic and budgetary developments in Hungary in several baselines and drew conclusions on their expected development. Special mention should be made of the analysis of the international and domestic economy carried out by the MACRONOME Institute entitled **"Medium-term macroeconomic outlook, with special regard to expected developments in public finances",** also taking into account the medium-term outlook. Within the framework of the examination of

geopolitical processes, it presents the characteristics of the new trend (deglobalization), the characteristics of world economic processes and the transformation of world trade, the assertion of regionality and evaluates Europe's competitiveness (its prospects) in this process. The research devotes special space to the presentation of GDP, inflation, monetary policy, especially energy market developments (electricity, natural gas prices, consumption trends). Turning to domestic processes, the study evaluates the results of domestic GDP, inflation and labour market in 2023. It reviews the main revenue and expenditure items of the budget, then gives a medium-term forecast of the expected economic performance between 2023 and 2025 (including the expected development of external balance, inflation, labour market and public finance developments).

- Titled **"The impact of changes in the world economy on the EU – especially on the German economy, their impact on the economy of Hungary and on its public finances"**, Kopint-Tárki Institute for Economic Research Ltd. and OG Research Innovative Economic Solutions Ltd. conducted an extensive analysis of international economic and growth processes, including the characteristics of world trade and commodity markets (primarily oil and gas market relations), financial markets, as monetary tightening intensified , growth trends/opportunities for the EU economy as a whole, including growth trends in EU countries with high economic power (in particular the situation and prospects of Germany and France). The analysis discusses China's role in the world economy, the global consequences of its economic transformation, and the appearance of developing countries' interests, primarily India's, in the Russian-Ukrainian war. Finally, it assesses the impact of the global (international) environment on Hungary's macroeconomic situation, growth prospects and public finances.
- Profkonsult Ltd. carried out an ambitious analysis entitled **"The impact of the EU recovery plan on the economic growth of the European Union and Hungary"**. The completed study assesses the growth effects of the EU, including basically the Hungarian Recovery and Resilience Plan (RRP), presents the characteristics of the Hungarian growth model, and then comprehensively explores the growth relationships at EU level. As a starting point, the research analyses the potential growth processes of the EU and its various country groups and the erosion of growth potential through growth-accounting analysis, presenting the methodology chosen for this and the necessary theoretical connections. It reviews the history of Next Generation EU (NGEU) and the main features of the underlying crisis (COVID pandemic), the economic policy responses to it, and provides a comprehensive picture of the main features (main objectives, innovative features, etc.) of the Recovery Plans (RRPs) adopted in the EU and a quantitative analysis of the growth effects of the adopted RRPs. Finally, the study presents the broader growth and macroeconomic impacts of Hungary's "revised" Recovery and Resilience Plan, focusing on the growth effects of the short- and medium-term time dimensions, with a specific focus on investment.
- The research titled **"Sustainability, economic and social development and competitiveness in Hungary"** was conducted by Leadership Ltd. The study analyses three areas – also taking into account their influence on each other. The first area is – in its international context (based on the 2023 study of Swiss competitiveness researcher

IDM) – Hungary *development of its competitiveness* and its current position (based on general economic performance, government efficiency, company efficiency and infrastructure). The second area of interest is *innovation performance* (share of innovative enterprises in the total population in some important sectors, share of firms generating innovation in the V4 and some other countries, etc.). The third area of focusis the correlation/relationship between sustainability and resilience, as both are also related to productivity. The research concludes that in the current rapidly changing domestic conditions, "it is not enough to set GDP growth as the most important goal, because structural, innovation and sustainability issues cannot be addressed with it." Its message is that a comprehensive, systemic, interconnected development strategy is needed, aimed at ensuring that the development trap is avoided economically, socially and environmentally.

- The Hungarian Economic Research Plc. and GKI Economic Research Plc. both prepared an analysis entitled **"The implementation of healthcare reform concepts, including financing reforms, and their impact on fiscal sustainability",** the topicality of which is given by the transformation of the healthcare system that has begun. On the one hand, the studies present the problems related to the operation of Hungarian healthcare and analyze the transformation ideas. Within this framework, the ratio of total health expenditure, including expenditure financed by the state and households, to GDP and total government expenditure, is assessed in detail – also with illustrative charts – our position in the European ranking and the situation of the private healthcare market in this regard. The factors influencing health status and indirectly the health care system (demographics, lifestyle, major diseases, causes of death, etc.) are examined. They give a comprehensive assessment of the current situation of the care system on the facts of primary and specialist care (shortage of doctors, workload, practice, health visitors, nursing capacity/shortage). They summarize the most important challenges and financing relationships related to the care system, the solution of which is essential in order to improve the quality and sustainability of care. They evaluate "reform ideas" concerning the health system (primary care, restructuring of the on-call system, salary situation, reduction of waiting lists, prevention of hospital debt, etc.). They discuss financing issues related to the impact of healthcare transformations (including strengthening primary care, challenges of institutional financing). They consider it necessary to strengthen the role of healthcare funds and voluntary health insurance services enabling citizens' savings and their use in health care, and to consider tax relief in this regard.

The completed studies (evaluations) have been useful, as they helped the work of the Council, by promoting findings, evaluations and conclusions worthy of attention for evaluating the implementation of the Central Budget Act of 2023 in the first half of the year, as well as for commenting on the budget for the following year (2024), assessing the sustainability of public finance-macroeconomic processes, and short- and medium-term forecasts.

7. The Council followed its tradition of organizing a **conference** together with the Hungarian Economic Association every year, at which the lecturers of the institutions concerned presented the results of the analyses pursuant to the above mentioned, in Section 6. The supporting work of the SAO and the MNB were also presented on these occasions. The eleventh conference could take place on October 5, 2023. According to the decision of the Council, the a summary of the studies was published in Hungarian and English volume, for the fourth time in a row.

8. In most cases, the dates of the meetings of the Council are set out in the annual task plan, also taking into account the rules of the Stab. Act. As a result of macroeconomic and public finance processes, it may be necessary for **the Council to adopt a position and express an opinion** by holding an extraordinary meeting due to its constitutional situation. This was not necessary this year.

III. Adoption of the Report

I ask the Fiscal Council to kindly adopt the 2023 Report in accordance with the attached proposal for a decision.

Budapest, 05 January 2024.

Kovács Árpád

Resolution 1/2024.01.05. of the Fiscal Council

At its meeting held on 5th of January 2024, following the presentation of its Chairman the Fiscal Council adopted the Report on its activities for 2023.

The FC calls on the Chairman of the Council to forward the Report to the Speaker of the National Assembly.

Deadline: immediate

Responsible: FC Chairman

Budapest, 5th of January 2024.

László Windisch	Árpád Kovács
Member of the Fiscal Council	Chairman of the Fiscal Council