CHAIRMAN OF THE FISCAL COUNCIL

Report

for the Fiscal Council

Subject: Report on the Execution of Year 2024 Action Plan of the Fiscal Council

24th February 2025

I.

The Fiscal Council (hereinafter referred to: as Council/FC) is an organization supporting the activities of the National Assembly, pursuant to Article 44 of the Fundamental Law, which examines in particular the soundness of the central budget, the development of the public deficit and the enforcement of the public debt rule. Its tasks are defined by - in addition to the Fundamental Law – the Act CXCIV of 2011 on the Economic Stability of Hungary (hereinafter: Stab. Act). Accordingly, the Council

a) **gives an opinion on** the draft central budget bill (including the draft bill amending the Budget Act) and, in this context, on the level of the public deficit[1] , and on the reduction of the public debt indicator [23] , and every six months on the state of implementation of the central budget law and the expected development of public debt,[4]

b) **decides** on the granting of prior consent under Article 44(3) of the Fundamental Law before the final vote on the single draft budget bill and the single proposal amending the Budget Act,

c) **may express an opinion on** the basis of Article 23 (1) (d) - (e) of the Stab. law on the amendments to the law on which the central budget is based, as well as on any issue related to the planning, implementation and other use of public funds,

d) in the context of the expression of its opinion**, it shall also separately examine** the compliance of the capital position of the Magyar Nemzeti Bank with the provisions of Article 166 (3) of Act CXXXIX of 2013 on the Magyar Nemzeti Bank, according to which, if the equity capital is below the level of the subscribed capital for a longer period of time, it shall be ensured, by means of a reimbursement from the central budget directly to the profit and loss reserve, that the MNB has at its disposal equity capital at

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[1]Pursuant to Article 3/A of the Stab. Act the central budget act shall decide on the balance of public finances (more precisely, the government sector) in accordance with the Fundamental Law and the law of the European Union, and in compliance with the provisions of this Act.

[2]The government debt indicator shall be the percentage, rounded up to one decimal place, to be taken into account for the implementation of Articles 36(4) to (5) and 37(2) to (3) of the Fundamental Law, which

- in the numerator of public debt
- includes the value of gross domestic product calculated in the Community according to the Council Regulation on the European system of national and regional accounts in the Community (Section 2 of the Stab. tv.).

[3]According to Article 36 of the Fundamental Law, as long as the public debt exceeds half of the total gross domestic product, Parliament may only adopt a law on the central budget that includes a reduction in the ratio of public debt to total gross domestic product. According to Article 4 of the Stab. Act, the central budget law shall specify the value of the public debt indicator planned for the last day of the budgetary year. This value must be determined in such a way that the reduction in the government debt ratio compared to the reference year, taking into account the EU rules on the reduction of government debt, is at least 0.1 percentage points.

[4] Pursuant to Article 23 (1) (c) of the Stab. Act, the Council shall issue an opinion every six months on the state of implementation of the Central Budget Act and on the expected development of the public debt.

least equal to the level of the subscribed capital within a reasonable period of time, in order to comply with the principle of financial independence.

The report by the Chairman of the Council on the implementation of the JTPF 2024 Work Plan summarizes

- the Council's decisions for 2024,
- the work of the Chairman of the Council in the framework of international cooperation between independent budgetary institutions (fiscal council type organizations) that are responsible for the enforcement of the „fiscal framework”, and
- activities directly and indirectly related to the tasks of the Chairman of the Council, the Secretariat of the Council, in organizing the work of the Council and in preparing the background for its decisions.

II.

Implementation of the year 2024 Action Plan of the Council

In the previous presidential term: one plenary session (on 5th January), where the Council adopted **the report of its Chairman**, Árpád Kovács, on the fulfilment of the Fiscal Council's 2023 Action Plan **(Decision 1/2024.01.05)** and discussed and adopted the analysis „The Fiscal Council's **three-year outlook** on macroeconomic and budgetary developments” **(Decision 2/2024.01.05)**.

From 10 January 2024 **a new presidential term** started with the appointment of **Gábor Horváth.**

1. The Council has completed its mandatory tasks for 2024 under Act CXCIV of 2011 on the Economic Stability of Hungary. This required **five additional meetings.** The members of the Council and the apparatuses supporting their work were in constant working contact between the meetings, monitoring the public finances and forming opinions on the requests, statistical and other information and forecasts received in this context.

    a) Meetings related to Section 23 (1) (f) of the Stab. Act

    aa) In accordance with its Rules of Procedure, **on 21 February 2024**, the Council **adopted its 2024 Action Plan,** including the **plan of** expert researches/analyses to help formulate its opinions and support its decisions **(Decision No 3/2024.02.21.).**

b) The tasks of providing opinions pursuant to Section 23 (1) a) - c)[5] and Section 25 (1)[6] of the Stab. Act

ba) **At its meeting on 16 April 2024**, the Council assessed the state of implementation of the Act on the 2023 Hungarian Central Budget and the evolution of public debt. In its Opinion No 4/2024.04.16, it noted that „the performance of the domestic economy declined by 0.9 per cent, below the projections underlying the budget planning.” It further pointed out that „the main reasons for the decline in GDP were the fall in domestic demand due to high inflation, geopolitical conflicts and the weak cyclical situation of our main external trading partners (above all Germany).” It also pointed out that both the fiscal and the accrual deficits were significantly higher than planned [...], „the actual cash deficit was 35.1 percent (HUF 1 193.2 billion) higher at HUF 4 493.4 billion. The ESA deficit was originally planned at 3.5 percent of GDP, which was increased to 3.9 percent of GDP in the revised budget. The actual deficit for 2023 was 6.7 percent of GDP, significantly higher than the government's expectation of 5.2 percent in autumn 2023.”

According to the assessment of the Council, in particular, „high inflation and lower-than-planned economic performance have had a significant negative impact on the budgetary position. In addition, “consumption-related tax revenues were significantly below target due to a fall in consumption caused by high inflation” and “interest expenditure was significantly higher than planned in the context of higher-than-planned government debt, higher inflation and government bond yields.”

The Council also pointed out that „the cash deficit was increased by the fact that the government was forced to advance EU funding for the developments planned to be implemented under the 2021-2027 Cohesion Operational Programmes and the Recovery Plan due to the delay in the approval of the disbursement of EU funds to Hungary.” However, it also welcomed the fact that „the competent bodies of the European Union approved the Hungarian Recovery Plan at the end of 2023 and the judicial reform, so that Hungary could start receiving cohesion funds in December...”

The FC welcomed the fact that „the government debt indicator has been reduced from 74.1 percent at the end of 2022 to 73.5 percent at the end of 2023.” [...] However, it pointed out that „the reduction fell short of the 2.3 percentage points targeted in the original budget and the 3.8 percentage points envisaged in the revised budget.” In its

[5]The Council

- give an opinion on the draft law on the central budget, in accordance with Article 44(2) of the Fundamental Law, and examine the level of the general government deficit, which should not exceed 3% of gross domestic product (GDP), and the consistency of the government sector with the medium-term budgetary objective. Based on Article 25 of the Stab. law, it simultaneously examines compliance with Article 36 (4) and (5) of the Fundamental Law - the public debt rule - and Article 4 of the Stab. law, which specifies it,
- decides on prior consent under Article 44(3) of the Fundamental Law,
- issue an opinion every six months on the state of implementation of the law on the central budget and on the expected development of public debt,

[6] During the debate on the central budget bill, the Council also examines compliance with the public debt rule in the single bill, on the basis of the information provided by the President of Parliament in accordance with the provisions of the Rules of Procedure.

Opinion, the Council also pointed out that „the 0.6 percentage point reduction in the debt ratio is the result of a significant nominal increase in GDP, with a higher-than-planned deficit and a decline in real GDP."

In addition, the Opinion drew attention to the forecasting constraints in the spring-summer budgeting process, supporting „the planning and submission of the budget closer to the current year in case of greater uncertainty in the macroeconomic path". Furthermore, „it considers it a forward-looking practice that if macroeconomic developments deviate significantly from the forecast used as a basis for budget planning, and the deficit and debt ratios are worse than the target, the Government will initiate an amendment to the Budget Law."

bb) **At its meeting on 26 September 2024,** the **Council made an assessment and formulated its Opinion on the state of play and the expected development of the implementation of the Act on the Central Budget of Hungary for 2024** (Opinion No 5/2024.09.26.). The Council concluded that adverse external factors „continue to weigh heavily on the Hungarian economy, resulting in a 1.3 percent contraction in economic output in the first half of 2024 compared to the first half of 2023." „In the Council's view "real economic growth this year will be significantly below the 4 percent projected in the Budget Law and is forecast to be below 2 percent. Economic growth will be supported by an expansion in household consumption through a dynamic rise in real wages, as well as favorable developments in net exports…The domestic economy, and investment in particular, will be adversely affected by the delay in negotiations on the disbursement of funds from the European Union to Hungary."

The Council assessed the fiscal developments in the light of the fact that „the Government has raised its ESA-based deficit target for 2024 to 4.5 percent of GDP from 2.9 percent in the Budget Law." It noted that „the increased budget deficit target, however, like the expenditure side measures announced in April 2024 and the revenue side measures taken in July 2024, was not transposed in the Budget Law, so that the Council could only assess the implementation of each appropriation against the original revenue and expenditure appropriations, which did not reflect the increased deficit target."

The Council considered that „the risks it had indicated in its opinion on the 2024 budget planning have materialized. The deficit of the central sub-system of the general government in the first half of the year amounted to HUF 2,656.4 billion, 105.6 percent of the annual appropriation set in the Budget Law. This is two-thirds of the general government cash deficit target of HUF 3,982 billion, which was increased in proportion to the revised ESA deficit. With the high cash deficit concentrated in the first half of the year, the accrual deficit in the first half of 2024 amounted to 3.9 percent of half-year GDP, according to the MNB's [Magyar Nemzeti Bank – Hungarian National Bank] preliminary financial accounts… On the revenue side, mainly due to the high appropriation, which does not reflect last year's low execution, the execution of the general sales tax and excise tax and, for specific reasons, the energy sector payments was lower than expected on a pro-rata basis." „On the expenditure side, interest payments related to the financing of the public debt, as well as appropriations for budgetary bodies and professional headings, expenditure on public property and payments related to pensions were higher than budgeted." „Budget revenues from the European Union were almost HUF 370 billion below the expenditure on EU programmes."

„The FC considers that the fiscal measures announced in April 2024, as well as those announced in early July, support the achievement of the new deficit target. Achieving the fiscal deficit target will require consistent implementation of the measures and close monitoring and control of public expenditure towards the end of the year."

The Council took note that „as a consequence of a budget deficit above 3% of GDP, the Council of the European Union decided to open an excessive deficit procedure for Hungary in July 2024, following a proposal from the European Commission."

The Fiscal Council noted that „the general government debt-to-GDP ratio increased from 73.5 percent at the end of 2023 to 76.1 percent at the end of the first half of the year, due to the high cash deficit and the large share of government debt issuance to finance the full-year deficit. The planned 3 percentage point reduction in the debt-to-GDP ratio in the budget law is significantly moderated by the increased ESA deficit target for the cash deficit and lower-than-planned nominal GDP growth due to lower real GDP growth. This year's lower-than-expected debt reduction in the budget law is also reflected in the end-year debt indicator of 73.2 percent set in the government's EDP notification. The projected slight decline in the debt ratio will necessarily require the achievement of the revised accrual and cash deficit target and a contained second half of the year debt issuance by central and non-central governments

bc) **At its meeting on 7 November 2024,** the Council **adopted the draft bill on the 2025 central budget of Hungary 6/2024.11.07. stating** that „the draft budget bill foresees economic growth of 3.4 per cent in 2025, at the upper end of the 2.5-3.8 per cent forecast range of international forecasts and domestic institutions analyzing the bill for the Fiscal Council", which is „projected to be supported by both household consumption growth and a renewed increase in gross fixed capital formation". The FC considers that the growth forecast by the government could be achieved, but that there are risks attached to it. These include in particular „the spill-over effects of the Russian-Ukrainian war and the sanctions imposed as a result of it will continue to negatively affect the Hungarian economy after 2024 and 2025" and „Europe's energy security problems, while alleviated, have not disappeared. In addition, negotiations on the disbursement of funds from the European Union to Hungary continue to drag on". The Council also pointed to „the risk of escalation of war in the Middle East, not to mention global trade conflicts." It noted that „all these factors mean that the main risk is that the positive turnaround in investment needed to support the planned economic path will not materialize".

The Council continues to consider it necessary „to bring the government sector deficit below 3 percent in order to balance the Hungarian economy and budget". However, the draft budget bill set the „government sector deficit on an accrual basis (ESA) at 3.7 percent of GDP", which „exceeds this limit and the criterion set by the EU Treaty". Adding that „domestic legislation temporarily allowed the maintenance of a deficit above

3 percent, but the suspension has ended, so the current set of rules will impose a 3 percent deficit criterion next year", the amendment of which the Government has initiated.

According to the FC assessment, „there are risks to the achievement of the 2025 deficit target", highlighting in the Opinion that „On the revenue side, there is a risk that the economic growth in 2025 will be lower than expected", and on the other hand, the Council sees a risk in the realization of the inflow of EU funds under the draft, as „uncertainty surrounding the availability of EU funds persists, which would increase the cash deficit in the event of a shortfall in revenues from the Recovery and Resilience Fund and cohesion funds from 2021-2027, with unchanged expenditure". In the FC's view, „risk management is hampered by the fact that the contingency reserve of HUF 100 billion in the Exceptional Government Measures appropriation is not only below the current rules [...) but also low compared to the risks identified.

The FC also stated that „in line with the provisions of the Fundamental Law, the public debt ratio [...] will decline in the course of 2025" and that „according to the draft budget bill, it will fall from 73.2 percent at the end of 2024 to 72.6 percent at the end of 2025". However, he indicated that „based on currently known circumstances, the debt ratio in 2024 could be higher than projected in the draft bill, which would not affect the reduction next year per se, but would result in a higher debt trajectory". In its Opinion, the Council also pointed out that „an increasing risk to this path is that the foreign exchange ratio of central government debt has been gradually rising over the recent period, approaching 30 percent, materially increasing the exchange rate sensitivity of the debt".

On this basis, the Council concluded that the draft Budget Bill 2025 complies with the public debt rule of the Fundamental Law and the provision of Article 4(2a) of the Stab. Act, and thus with the relevant EU rules".

The FC stressed that it „welcomes the targets set in the national medium-term fiscal structural plan presented to the European Union beyond 2025, which include a declining deficit and debt path". The deficit-to-GDP ratio will already be reduced to 2.9 per cent in 2026, while the debt-to-GDP ratio will fall below 70 per cent by the end of 2027.

bd) **At its meeting of 19 December 2024,** the FC **examined the compliance of the unified budget bill T/9894/392 on the central budget of Hungary for 2025 with the public debt rule and gave its preliminary consent to the final vote by its decision of 8/2024.19.12.20** (preceded by FC Opinion 6/2024.11.07. indicated in bc)

The Council has decided that „the level of the government debt indicator planned for 31 December 2025 as set out in paragraph 3(1) of the draft Single Budget Bill T/9894/395 on the Central Budget of Hungary for 2025 notes that it has been determined in accordance with the provisions of the Stability Act, in line with the macroeconomic forecast underlying the draft law and the projected government budgetary developments. The value of the government debt indicator calculated for the end of 2025 in the bill is 0.6 percentage points lower than the value of the indicator expected for the end of 2024, thus fulfilling the requirement of Article 36(5) of the Fundamental Law."

The Council took note that „the National Assembly, at its session of 17 December, amended the Act CXCV. Act on Public Finances (hereinafter referred to as „the Act on Public Finances”) and the Stability Act, which abolishes the previous provisions of the Act on Public Finances on the level of the reserve provision for extraordinary government measures and of the Stability Act on the balance of the government sector”, thus eliminating the legal conflict between these two pieces of legislation and the single proposal, as previously indicated by the Council.

However, the Council maintained its comments on the risks to the draft budget bill, given that neither economic conditions nor the draft budget bill had changed in such a way that the tensions indicated had disappeared. The Council considers that the unchanged level of the contingency provision for Exceptional Government Measures remains low in relation to the risks identified”.

The Council therefore gave its assent to the final vote on the single budget bill T/9894/395.

2. The Chairman of the Council and its Secretariat have, in the context of their duties, on several occasions requested and received **additional information** from government bodies, in particular the Ministry of Finance. The Council monitored developments in public finance indicators and legislative changes affecting its expenditure and revenue. The Fiscal Council was kept informed of revenue and expenditure developments. Particularly noteworthy was the summary material received from the Parliamentary State Secretariat of the Ministry of European Union Affairs, which provides a detailed presentation of the state of play of the procedures related to EU funds as of mid-May 2024, their expected outcome, the expected timing of payments and thus their impact on public finances, as well as the information material received from the Ministry of Culture and Innovation on the Hungarian family policies’ results.

3. **The decisions of** the **Council** (with the explanatory memorandum) have been published on its **website**, in line with the practice followed. These and other Council documents, English translations and research materials were also highly popular in 2024. In 2024, this year's FC decisions (with explanatory memorandum) were downloaded 5904 times, while the research materials were downloaded 6590 times.

   The interest of the professional public in the Council's activities (its opinion) has been increased for years by the traditional conferences of the Hungarian Economic Association (HEA) and the Fiscal Council, which present the results of background researches. The impact of the study booklet summarizing the results of the research, published for the first time in Hungarian and English online and in print, at the end of 2020 - also in cooperation with the HEA-FC - was noticeable. The Council continued this tradition in 2024, but the publication of the booklet was postponed to 2025, while the conference was held (see also point 7 of the report).

   Press relations concerning the work of the Council are the responsibility of the Chairman according to the Rules of Procedure. The FC secretariat, although not specifically monitoring the press, is informed of media developments. According to the available data, the written and electronic press interest was mainly focused on the appointment, the opinion on the implementation of the 2023 budget and the date of the draft 2025 central budget bill, which was published on several media channels (Portfolio, Világgazdaság, Kossuth Rádió, Kormány.hu, Makronóm, Marketnews, HEA's website, etc.). A significant part of the reports on the activities of the FC and the interviews related to the budget - practically all of them - were also turned into news by radio and TV channels.

The number of **media appearances** was around 25 in 2024, thanks to the interest generated. In several speeches, the Chairman of the Council assessed the macroeconomic and public finance developments in 2024, the public debt and the public deficit between years and the expected developments. These included interviews with Portfolio and Kossuth Radio in January and with the international news website Market News in April. He was also interviewed by Reuters (July) and HVG (December), among others.

The interest in the work of the Council is also indicated by the fact that the Chairman of the Council was also invited to give various **presentations**. On 11 April 2024, the Chairman of the Council gave a presentation entitled „Focus on Public Debt" at the XVI Financial Days in Pécs, and wrote an article for the conference proceedings. At the invitation of the Audit Section of the Hungarian Economic Society, the Chairman of the Countil gave a lecture on 11 June on the topic of Public Debt and Competitiveness, which is available on the HEA website. Also at the invitation of the HEA, he gave a lecture titled „Public Finances, Fiscal Rules, Competitiveness" on 5 September the at the plenary section the HEA's annual conference. On 17 October, at the invitation of the Association of Healthcare Economic Managers, he presented at plenary session on „What does the future hold? Macroeconomics, Budget (Public Finance) and Health Financing" at the XXX Hungarian Health Days. He also spoke at the Council's own conference on 26 November 2024 and at the meeting of the Presidium of the Hungarian Banking Association on 2 December 2024.

In the case of topics and issues related to the economy and the budget, various news sites often **quote** and **refer to** the documents of the Council of Europe and the statements of its Chairman. In 2024, **the Council did not receive any telephone calls or letters** from citizens asking questions about the macroeconomy, public finances or their own situation.

4. The Council has been part of the growing **international cooperation since** its inception in 2013 in 2024 as well. Multilateral discussions have facilitated the common understanding of EU intentions and rules, and the broadening and strengthening of professional relations.

a) Multilateral discussions

- **On 29 January 2024**, the activities of the Partnership Programme Priority 1 (Budgetary-financial oversight of the parliament over the executive) and Priority 1.2 (definition of the annual budget and its link with other strategic documents) and Priority 2.2 (role of independent budgetary institutions) of the Partnership Programme „Inter Pares - Parliaments in Partnership, the EU Global Project for Strengthening the Capacities of Parliaments", implemented in the Parliament of Uzbekistan, were merged and organised online. The English language event merged the two activities and focused on three themes: 1) national strategic governance systems and budget legislation, 2) the role of parliaments in setting the annual budget, and 3) the role of independent budgetary institutions. During the online meeting, the Chairman of the Council presented in detail the tasks, structure and competences of the Hungarian Fiscal Council. In view of the delay of the programme, he focused in detail on the domestic practical implementation of the original four major areas of his presentation (rule-based budgeting as a prerequisite for sound planning, the purpose and applicability of rule-based fiscal policy, institutional and regulatory solutions: rule-based budgeting in practice, the introduction of rule-based budgeting in Hungary and the contribution to the results).

- **On 31 January 2024**, the International Monetary Fund held its „6th Fiscal Forum - Fiscal Policy in a Warmer and More Fragmented World" at the National Bank of Belgium in Brussels. The meeting brought together policy makers and, to a larger extent, academics for a full-day face-to-face workshop. The event consisted of three consecutive sessions, presenting academic and policy papers on climate change and fiscal policy, strengthening the EU fiscal architecture and rebuilding fiscal reserves. This was followed by a panel discussion on the fiscal challenges facing the EU. Based on recent research and data on the financial implications of the green transition, the panel confirmed some known or suspected regularities, including the expectation that postponing the (economic) policy and investment decisions needed to make the transition is likely to increase the costs of the transition, and that the projected welfare losses from maintaining current emissions can only be avoided by a smaller welfare loss if the right policies are pursued early. The Forum also presented a number of research results pointing towards deeper and more centralized European integration (the „tradability" of environmental commitments within the EU, an EU-wide unemployment insurance scheme as a complementary element). The panel discussion showed that the proposals for new EU fiscal rules were not seen by stakeholders as a significant step forward, but they agreed that there was no backward step and that a certain degree of flexibility in the rules, better taking into account country-specific aspects, could be a positive step towards more applicable rules and predictability.

- **On 11 April 2024**, the EU Independent Fiscal Institutions Network held its meeting online. Compared to the previously published agenda, there was no vote on either the Network's internal rules document or on the individual applications for observer status, both of which were postponed to the conference in June 2024, to be organised alongside the face-to-face meeting. In addition to these two topics, the focus was on the experience with the changes to the Economic Governance Review and how they are expected to be transposed into national law.

- **On 17 May 2024**, the Fiscal Council was represented online at the annual hybrid conference of the European Fiscal Board (EFB). The central theme of the conference was the recently adopted Economic Governance Review (EGR), the new reform of the EU budgetary framework, formally launched in early 2020. It was noted that while fiscal policy remains the responsibility of political actors - national governments overseen by the Commission and the Council - contributions from sources independent of national governments and EU institutions have played an important, mostly advisory role in this fiscal policy in the past. Such independent sources, although clearly separate, are interlinked and include (i) independent national fiscal institutions (IFIs, fiscal councils) and the EFB, (ii) the Eurosystem/European Central Bank (ECB) and (iii) financial market participants. The role of these three independent sources in the policy process is quite different, but interrelated; weaknesses in one (or two) may put additional weight on the other. The symposium sought to answer the question of how the reform will affect the contribution of these three large groups to fiscal policy and how their roles can become constructively complementary in a reformed system.

- **On 6 June 2024**, the European Commission organised its regular conference for independent fiscal institutions (EUNIFI), online. The presentation of the European Fiscal Board (EFB) focused on net expenditure and its sustainability, while the Commission's representative spoke about the adoption of the EGF and the first key steps following its implementation. Afterwards, the Commission representative briefly explained the methodology used by the Commission to calculate the fiscal trajectories. In the final session of the conference, the possibilities of IFIs as advocates of fiscal discipline were first considered, followed by suggestions on how to avoid fiscal shocks caused by environmental disasters due to climate change.

- **On 12-13 June 2024**, the Chairman of the Council and the Head of the Secretariat attended the meeting of the European Network of Independent Fiscal Institutions (EUIFI) in Berlin, hosted by the German Federal Ministry of Finance. On the first day of the two half-day conference, the Vice President of the Network, Esther Gordo Mora, Director of the Economic Analysis Department of the Spanish member institution (AIReF), and Thiess Büttner, President of the German member institution (Stability Council), briefly welcomed the participants. Afterwards, State Secretary Prof. Luise Hölscher delivered a welcome address by Finance Minister Christian Lindner to the participants. On the first day of the conference, Klaus Adam, academic advisor to the Federal Ministry of Finance, first gave a presentation on the close link between financial stability and fiscal policy, including aspects of debt financing and market access, stressing that from the latter perspective there is no obstacle to diversification, but that the different sizes of the EU's largest economies do not allow for meaningful diversification of risk. Volker Wieland, also a scientific adviser to the Federal Ministry of Finance, then gave an introductory presentation on the possibilities for fiscal policy in different types of crises. Both presentations were followed by a round-table discussion, where questions were invited from the audience in addition to the invited speakers and panelists. One of the main ideas was „spend smarter, not more” in the spirit of fiscal prudence, emphasizing the efficiency-enhancing contribution of better coordination to results. The second day of the conference was devoted to discussing the internal affairs of the Network. Among these, the Network's Secretariat informed the participants about the latest publications of the Network and the most important recent publications of its member organizations. The next item on the agenda was the discussion of the internal rules of the Network. The suggestions received in relation to the version previously sent to members have been incorporated, and all institutions will be able to comment electronically before signature (as in the case of the agreement between the Network and CEPS), and no major differences of opinion remained. However, no decision has been taken on the individual institutions that have applied to join the Network as observers. The last part of the conference was devoted to presentations by the Portuguese and Estonian member organizations. First, the Portuguese Public Finance Council presented its work on the estimation of various risks. This included a presentation on expected macroeconomic, demographic, climate change and natural disaster risks, as well as risks related to specific budgetary programmes, public guarantees and public debt. The Estonian member organization then presented the public finance events for the period 2020-2024. In this context, it was mentioned that as the changed EU fiscal rules require different levels of discipline from countries with lower public debt and deficits, the role and importance of national legislation will be enhanced.

- The 16th Annual Meeting of the OECD Parliamentary Fiscal Offices and Independent Fiscal Institutions took place from **16-18 June 2024** in Athens, organised by the Hellenic Parliamentary Fiscal Office. On the eve of the two-day conference, the organizers, led by Mark Hadley (Congressional Budget Office, USA, Chief Operating Officer), requested a special informal meeting without an agenda with the Chairman of the Fiscal Council, followed by an opening night gala dinner at the event's flagship venue, the Royal Olympic Hotel. The conference was marked by a special focus on the presentation of Greece's fiscal and economic performance, dispelling previous prejudices. The first session focused on the role of the Fiscal Councils as fiscal advocates. The introduction of Independent Fiscal Institutions (IFIs) has strengthened fiscal surveillance in countries in the aftermath of the 2008 global financial crisis. However, the renewed rise in public debt since then and the impending spending pressures require a renewed approach. The aim of this session was to show how IFIs can move from their role as primarily fiscal enforcers to becoming advocates for long-term fiscal sustainability. In keeping with its good professional tradition, the OECD assessed the maturity of the IFIs that are members of the organization by developing a Fiscal Advocacy Index and shared details of the methodology with members. The second session focused on greater citizen involvement. In this context, it was noted that in almost all developed countries there is scope for greater involvement of citizens in traditional fiscal surveillance. Innovative approaches are needed to bridge the gap between traditional processes and modern expectations. The third and final session of the first day of the conference explored the link between climate change and long-term fiscal sustainability. Both climate change and the green transition will place new burdens on public finances. IFIs and parliamentary budget offices have a role to play in understanding the fiscal implications of these changes and in communicating the risks to fiscal sustainability in a meaningful way. The session presented the OECD's new tool (EDISON), which allows for a comprehensive assessment and forecasting of the impacts of climate change on public finances and fiscal sustainability within given parameters. On the second day of the conference, the first session focused on the technical methods underlying high-quality fiscal analysis. Their main aim is to improve the understanding of fiscal risks and the accuracy and clarity of fiscal sustainability analysis, enabling policy makers to make informed decisions for a more secure fiscal future. The second session that followed focused on communication. It presented innovative approaches to improve communication on complex economic and fiscal challenges, in order to better engage political and public stakeholders and thus facilitate the creation of political will to act to understand and address policy challenges and their implications for fiscal sustainability. At the end of the two-day programme, Euysup Cho, Head of the National Assembly Budget Office in South Korea, as Co-Chair of the OECD Asian Parliamentary IFIs Network, gave a short presentation on the meetings in Asia in recent years. Finally, at the end of the conference, the organizers, through Jón Blöndall, a senior OECD official, thanked the participants and indicated that they would welcome applications to host the 2025 meeting.

- **On 3 October 2024, at** the **IPC SECG (Inter-Parliamentary Conference on Stability, Economic Coordination and Governance in the EU),** the Chairman of the Hungarian Fiscal Council, spoke to the staff of the Economic Governance Unit (EGOV) about the objectives of responsible fiscal policy and the role of the European Fiscal Council, established in 2015. He stressed that, although the regulation of independent fiscal institutions (IFIs) varies across EU member states, the European Fiscal Board (EFB) provides recommendations to help member state institutions work together to share best practices. He described in detail the functioning of the Hungarian fiscal system, with a particular focus on the public debt rules based on the Fundamental Law. He described the composition and main tasks of the Fiscal Council, highlighting its important role in the adoption of the law on the central budget. Finally, he mentioned the reformed Stability and Growth Pact, which includes country-specific debt and deficit reduction rules, and the new economic governance framework. Kajus Hagelstam of EP/European Parliament added that the effects of the new economic governance framework will only be seen later and that the European Fiscal Council will be responsible for assessing compliance with the rules at EU level. Asked how the Institute for Budgetary Responsibility Budapest is linked to the Fiscal Council, the Chairman of the Council explained that the Institute is an independent NGO focusing on budgetary issues.

- **On 24 October 2024, an informal meeting of financial counsellors** was held in the framework of the Hungarian Presidency programme. The two-day event was attended by the heads of the Financial Diplomacy Group of the European Union Member States and representatives of the European Commission, the General Secretariat of the Council, the Council Legal Service, the European Bank for Reconstruction and Development and the European Investment Bank. The opening programme of the informal meeting included a visit to the Parliament building. The Chairman the Fiscal Council, welcomed the participants, then, in view of the new European economic governance system that entered into force this year, he gave a presentation on the role of independent budgetary institutions and, in its domestic context, on the specific features, main tasks and institutional history of the Fiscal Council. As part of the subsequent cultural programme, the delegates were taken on a guided tour of the Parliament building and were introduced to the interesting history of the building of the Parliament building. The evening ended with a dinner and a cruise on the Danube.

- **On 10 December 2024, the National Fiscal Frameworks Conference took place for the fourth time in Brussels.** The aim of the event is to promote dialogue between policy makers, experts, academics and practitioners, to improve knowledge sharing and collaboration between organizations and disciplines. This year's conference focused on the introduction of a new economic governance system, effective public investment management and the macro-fiscal risks of climate change. In addition to practical experiences, participants were given an overview of the challenges and progress in these areas.

- **The 21st meeting of the EU Network of Independent Fiscal Institutions took place in Brussels on 11 December 2024.** The European Fiscal Board reported on its activities in 2024, gave participants an overview of the medium-term fiscal plans submitted by member states and discussed the possible extension of the remit of the independent fiscal boards in line with the changes to the EU's public finance rules.

- In addition, the various **parliamentary budget organizations and independent fiscal institutions (IFIs**) held online conferences to discuss/confer on current issues (work programme, investigation reports, current tasks, etc.) within **the Network**'s remit.

b) Bilateral talks

- **On January 30, 2024, the European Commission's Directorate General for Economic and Financial Affairs** (DG ECFIN) initiated a meeting related to the publication In Depth Review of macroeconomic risks in Hungary, where FC hosted the participants at the Szabad György Office Building in Budapest. The meeting discussed two major topics, the expected fiscal outlook and information on the budgetary framework and planning.

- **On 31 January 2024**, taking advantage of the 6th Fiscal Forum of the IMF in Brussels, the Chairman and Head of the Secretariat of the Council, the Head of the ECOFIN Unit of the Permanent Representation of Hungary to the European Union and two colleagues of the Council reviewed the legislation to be amended in the framework of the reform of the EU economic governance and its consequences. The amendments are mainly aimed at strengthening national ownership and the medium-term orientation of budgetary planning. As a result, the requirements for independent fiscal institutions (IFIs) will also be completed and clarified.

- **On 29 April 2024**, the Chairman of the Fiscal Council received **a delegation of the European Court of Auditors in** the Parliament, during which the role, functioning and activities of the Council, the EU institutions and the Hungarian Presidency were discussed.

- **On 30 April 2024**, representatives of **Moody's Investors Service** were received by the Chairman of the Fiscal Council at his seat. The representatives of the rating agency were briefed on current issues of recent and medium-term fiscal policy, including the expected deficit and government transfers to households and corporations this year and next, the implications of the EU economic governance reform and the expected launch of the excessive deficit procedure, and current or longer-term challenges such as the current higher interest burden on public debt financing and the budgetary impact of an ageing population.
- **On 14 June 2024**, a delegation from the **International Monetary Fund** requested a meeting with the Chairman of the Council. The main topics of the meeting were the short and medium-term fiscal outlook, views on the realism of the 2024 revised budget (or the revised 2024 fiscal target) and the 2025 fiscal target, policy adjustments needed to achieve the targets, contingent liabilities, fiscal risks.
- **On 25 November 2024**, the Chairman of the Fiscal Council received a delegation from **Fitch** at his residence. The issues raised by the representatives of the rating agency were mainly related to the budgetary results for 2024, the development of revenues and expenditures, including the expected costs of the cuts in public sector charges, interest expenditure, the development of public sector wages and pension expenditure. The Council also discussed budgetary plans for 2025, budgetary targets and main macroeconomic assumptions, including expectations on the flow of EU funds, as well as the outlook for interest expenditure and its expected structure. Of course, the medium-term fiscal-structural plan was also discussed, as well as the expected costs of the various subsidized loan schemes and state guarantees.

5. The Governor of the National Bank of Hungary and the Governor of the State Audit Office of Hungary - as members of the Fiscal Council - provided the Council with related analyses and studies on issues discussed at the Council's meetings on behalf of the organizations they govern, supporting its activities in 2024 as well. In addition to the analyses provided as working material, these studies helped to inform the work of the Council in the following areas:

a) SAO analyses
   - Three-year outlook on the main macroeconomic and budgetary developments affecting compliance with the debt rule
   - Analysis for the Fiscal Council on the budgetary developments in the first half of 2024
   - HEA-FC Joint Conference on Public Finances: Does the inter-annual evolution of central government expenditure pose a budgetary risk?

b) MNB analyses

- Budget reports:
  - Monthly analyses of budgetary developments in 2024
  - Budget Report - Half-yearly analysis of public finance developments - October 2024
  - Budget report - Analysis of the 2025 budget bill

- Quarterly inflation reports
- of the MNB's expected changes in its own funds
- HEA-FC Joint Conference on Public Finances: Budgetary Situation and Interest Expenditure Trends

In addition to the expert analyses, the liaison experts of the two organizations provided continuous assistance to the FC secretariat in the preparation of draft working documents to be submitted to the Council, provided consultation on other issues, and participated in Council meetings and forums organised by FC.

6. Building on the continuity of the 2024 agenda of the SC, in addition to the support of the SAO and the MNB, the SC has so far commissioned 10 studies from eight research institutes to assess the sustainability of public finance planning, the implementation of the Budget Law, the evolution of public debt, the balance of public finances, the sustainability of macroeconomic development, and to strengthen the basis for the Council's Opinion and Decision. In all cases, these studies have been completed on time, to a satisfactory standard and have contributed to the soundness of the Council's decisions.

   - **„Macroeconomic and Public Finance Situation from 2023”**, Századvég Konjunktúrakutató Zrt. and ECO-VISTA Gazdaságkutató Tanácsadó Kft. analysed the international environment of the Hungarian economy (risk factors of the global economy, especially the performance of the US and German economies, the euro area) and the development of domestic macroeconomic (real) developments. In this context, the impact and changes in the global business cycle, including international developments (inflation, commodity price fluctuations, etc.), the development of the production and consumption components of domestic GDP and their interrelationships, balance of payments and labour market indicators, the characteristics of further fiscal, monetary and financial developments, the consequences of government and monetary measures were examined in detail.
   - **„Macroeconomic and public finance outlook for 2025-2027”** - for the opinion on the draft 2025 budget bill - OG Research Innovative Economic Solutions Ltd, Kopint-Tárki Konjunktúrakutató Intézet Zrt, Makronóm Közhasznú Nonprofit Kft. and the Corvinus University of Budapest (BCE) have prepared a medium-term analysis of the characteristics of macroeconomic processes, the key trends, and the risk factors of economic life and the economic policy space.

- **„The sustainability of public finances and the interrelationship between health care”**, an analysis by GKI Economic Research Institute, presented and evaluated the role of the health care system in public finances, its expenditure weight and needs. The analysis presents the factors influencing the financing of health care (demography, lifestyle, morbidity, mortality, incomes, prices, regulation, technological development), the structure of health care financing and its changes according to the pillars of financing, with a special focus on public health care. Lastly, in addition to presenting the problems of financing health care, proposals are made with a view to possible restructuring.

The studies (evaluations) prepared have been useful in assisting the work of the FC, providing findings, assessments and conclusions worthy of attention for the assessment of the implementation of the 2023 Central Budget Law and the evolution of public debt, as well as for the assessment of the sustainability of public finance macroeconomic developments and for short and medium-term projections

In view of the shift in budget planning from spring to autumn, the Council decided to update the content of four studies. Thus, the main findings of the analyses prepared by OG Research Innovative Economic Solutions Ltd, Kopint-Tárki Konjunktúrakutató Intézet Zrt, Makronóm Közhasznú Nonprofit Kft. and Corvinus University of Budapest (BCE), in addition to updating the related macroeconomic baselines, were completed by the research institutions concerned by the end of October 2024, in connection with the submission of the 2025 central budget bill in early November.

7. Every year so far, the Fiscal Council of Hungary has organised **a conference** together with the Hungarian Economic Association, where the results of the analyses supporting the work of the Council, as well as the results of the background studies prepared for the Council under point 6, were presented by the speakers of the relevant institutions. The twelfth presentation conference took place on 26 November 2024. The Council decided to publish the full set of the summaries of the studies in Hungarian and English translation in a fifth volume, expected in the first half of 2025. A new feature of the 2024 conference was the presentation by Mojmír Hampl, President of the Czech Fiscal Council, and Daniel Dăianu, President of the Romanian Fiscal Council, who followed their presentations with a joint round table discussion with the Chairman of the Council. The presentations and the discussion focused on the challenges for independent fiscal institutions (IFIs) under the reformed European economic governance framework and the challenges facing EU countries, which have significant budgetary implications.

8. When examining the draft laws on the central budget, the Council must also decide, in addition to its existing task, whether, if the MNB's own funds are below the level of subscribed capital for a prolonged period, it is necessary to ensure, by means of a direct charge to the profit and loss reserve, that the MNB has at least the same level of own funds as subscribed capital within a reasonable period of time, in order to comply with the principle of financial independence. The Council, with the participation of the MNB, held **an international online conference** on the role of central bank capital on **12 September.** One of the key findings of this conference was that a central bank can effectively perform

its statutory tasks even with negative capital. There are a number of central banks that have had negative capital for a long time, yet have been able to operate smoothly and efficiently and successfully achieve price stability. Moreover, experts consider the use of profits from later years for this purpose to be an acceptable way of replenishing central bank capital. Against this background, the Council accepted that the draft bill on the 2025 central budget did not include a reimbursement from the budget to improve the MNB's capital position.

9. In most cases, the dates of the meetings of the Council are fixed in the annual task plan, also with regard to the rules of the Staff Act. Macroeconomic and public finance developments may make it necessary for **the Council to take a position** and express its opinion in an extraordinary meeting, as a **result of its constitutional position.** This was not necessary this year.

III. Adoption of the accounts

I ask the Budget Council to adopt the 2024 report as set out in the attached proposal for a decision.

Budapest, 24 February 2025.

Horváth Gábor
Költségvetési Tanács elnöke

Resolution 1/2025.02.24. of the Fiscal Council

At its meeting of 24 February 2025, the Fiscal Council discussed and adopted the report on the activities of the 2024 budget, on the basis of a proposal by its Chairman.

Calls on the Chairman of the Council to send the report to the President of Parliament.

Deadline: immediately

Responsible: the FC Chairman

Budapest, 24 February 2025

Windisch László
a Költségvetési Tanács tagja

Horváth Gábor
a Költségvetési Tanács elnöke