Resolution of the Fiscal Council

on its assent to the final vote on Hungary's 2025 central budget bill

I.

Background, legal basis and publicity of the preparation of the Resolution

The Fiscal Council (hereinafter referred to as the Council, Fiscal Council) shall formulate its position on the basis of Section 25 of Act CXCIV of 2011 on the Economic Stability of Hungary (hereinafter referred to as the Stability Act, Stab. Act) on the preliminary consent required for the adoption of the draft law on the central budget, pursuant to Article 44 (3) of the Fundamental Law. In doing so, it shall examine whether the draft law meets the requirement of a reduction in the level of the public debt ratio as provided for in Article 36 (5) of the Fundamental Law.

The Council adopted a resolution on the draft bill on the 2025 central budget of Hungary (No. 6/2024.11.07.) stating that "the draft budget bill for 2025 assumes economic growth of 3.4 per cent, at the upper end of the 2.5-3.8 per cent forecast range of international forecasts and domestic institutions", which is "projected to be supported by both household consumption growth and a renewed increase in gross fixed capital formation".

The Chairman of the Council had already indicated in his statement at the beginning of the general debate that the forecast for Hungary's economic growth in 2025 published by the European Commission after the adoption of the FC Opinion is only 1.8%.

The Council believes that the growth forecast by the government can be achieved, but "there are risks". These include in particular "the spill-over effects of the Russian-Ukrainian war and that the resulting sanctions will continue to negatively affect the Hungarian economy after 2024 and 2025" and "Europe's energy security problems, although alleviated, have not disappeared. In addition, negotiations on the disbursement of funds from the European Union to Hungary continue to be delayed". In addition, the Council pointed to the risk of escalation of the war in the Middle East, as well as global trade conflicts. It said that "all these factors put at particular risk the positive turnaround in investment needed to sustain the planned economic path".

In its Opinion, the Council continued to call for "the government sector deficit to be brought below 3% in order to balance the Hungarian economy and budget". The draft budget bill set the "general 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 foresees a 3 percent deficit criterion next year", the amendment of which the Government has initiated.

According to the assessment of the Council, "there are risks to the achievement of the 2025 deficit target "highlighting that "on the revenue side, there are risks if economic growth in 2025 is lower than expected" and "uncertainty surrounding the availability of EU funds persists, which would increase the cash deficit if revenues from the Recovery and Resilience Fund and cohesion funds for 2021-2027 are not received, with unchanged expenditure". In the view of the Council, "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 Council noted that "in line with the provisions of the Fundamental Law, the government debt ratio [...] will decline over the course of 2025" and that it will "decline from 73.2 percent at the end of 2024 to 72.6 percent at the end of 2025, according to the draft budget bill". At the same time, it 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 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 Council also 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 gradually declining deficit and debt trajectory". If they are met, the deficit-to-GDP ratio will be reduced to 2.9 per cent as early as 2026, while the public debt ratio will fall below 70 per cent by the end of 2027.

The response of the Council to the government's Opinion No. 6/2024.11.07. on the draft bill on the central budget of Hungary for 2025 is contained in the general explanatory memorandum of the bill submitted under T/9894. This was referred to by the Chairman of the Council during the oral presentation of the Opinion at the beginning of the general debate on the draft law.

On 16 December 2024, the Speaker of the National Assembly sent to the Council by letter (OE-42/709-1/2024) the Consolidated Budget Bill (T/9894/395) containing the amendments adopted by the National Assembly on the 2025 Central Budget of Hungary, requesting the Council's opinion on the compliance of the bill with the public debt rule pursuant to Article 25 of the Stability Act and the granting of its prior consent to the final vote on the bill pursuant to Article 44(3) of the Fundamental Law.

In making this decision, the Council has relied on the assessments of the State Audit Office of Hungary and the National Bank of Hungary.

II.

Opinion of the Fiscal Council

At its meeting on 19 December 2024, the Council adopted the following resolution, based on the examination of the Unified Budget Bill (T/9894/395) on the Central Budget of Hungary for 2025, pursuant to Article 25 of the Stability Act.

1) The Council notes that the amendments proposed for adoption in the single budget bill do not change the planned cash deficit. Consequently, the planned amount of government debt remains unchanged.

2) The Council notes that the government debt ratio planned for 31 December 2025 in paragraph 3(1) of the draft Single Budget Bill (T/9894/395) on the Central Budget of Hungary for 2025 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 public finance developments. The government debt ratio calculated for the end of 2025 in the bill is 0.6 percentage points lower than the ratio expected for the end of 2024, thus fulfilling the requirement of Article 36(5) of the Fundamental Law.

3) The Council notes that the National Assembly, at its session of 17 December, adopted an amendment to the Act on Public Finances CXCV of 2011 (hereinafter referred to as the "Act on Public Finances") and to the Stability Act, which removes the legal conflict between the previous provisions of the Act on Public Finances on the level of the reserve provision for extraordinary government measures and the Stability Act on the balance of the government sector and the draft budget bill, which the Council had indicated during its opinion on the draft budget bill.

4) The Council maintains its comments on the risks to the draft budget bill, given that neither economic conditions nor the draft budget bill have changed in such a way that the tensions indicated have disappeared. The Council considers that the unchanged level of the Contingency Reserve for Exceptional Government Measures remains low in relation to the risks identified.

5) Taking all these factors together, the Council gives its prior consent, in accordance with Article 44 (3) of the Fundamental Law, to the final vote on the single draft budget bill T/9894/395.

6) The Council authorizes its Chairman to immediately inform the President of Parliament of the Decision and to present it to the plenary session of Parliament before the final vote.

III.

Justification

Compared to the provisions of the bill submitted (T/9894), the changes in appropriations adopted by the National Assembly reduce the revenue and expenditure of the central subsystem of public finances in the 2025 budget by the same amount - HUF 10.34 billion.

As regards revenue appropriations, a reduction of HUF 23.0 billion in the mining fee is due to the change in the relevant legislation. Other changes are largely due to transfers of functions.

The increase in expenditure appropriations is linked to the increase in the tasks of certain institutions, which increases are covered on the one hand by transfers and reductions in expenditure. On the other hand, the additional expenditure and the shortfall in the mining levy are to be financed by an increase of HUF 60 billion in revenue from the sale of assets. Achieving this latter additional revenue will require both the timely implementation of state property rationalization measures and sufficient demand for the properties offered.

Provisions appropriations decrease by HUF 114.4 billion. This is partly related to the increase in the subsidy to non-state human service providers and municipal maintenance providers to cover the increase in the minimum wage and guaranteed minimum wage, which was originally planned to be included in the provision. In addition, the above-mentioned reduction in the provision will cover the increase in staffing needed to speed up border crossings at the Hungarian-Serbian border and to carry out the tasks of the advertising authorities and monument protection assigned to the government offices of the capital and counties.

The modifications do not change the planned cash deficit of the central subsystem, and hence the planned amount of government debt. The general government sector deficit calculated according to the EU methodology remains unchanged.

Meeting the revenue estimates in the bill required amendments to tax and other laws. These amendments were adopted by Parliament.

The opinion of the Council (6/2024.11.07.) also indicated that the amount (HUF 100.0 billion) earmarked for the Reserve for Government Exceptional Measures (RGEM) in the draft 2025 Budget Bill is 0.23 percent of the planned budget expenditure, which is below the minimum of 0.5 percent required by the Public Finance Act. The Government has taken the initiative to repeal the provisions on the lower and upper limits of the RGEM appropriation in the bill on the foundation of the 2025 central budget of Hungary. This was adopted by the Parliament, thus eliminating the conflict of law. However, the low level of the RGEM still poses a risk to the financing of tasks resulting from government decisions taken during the year and to the replacement of budget revenues foreseen but not collected for unavoidable reasons.

In its Opinion (6/2024.11.07.) the Council stated that the draft budget bill 2025 did not comply with the requirement of the Stability Law that the balance of the government sector should not exceed 3.0% of GDP. In order to comply with the law, the Government has also initiated a change to this provision of the Stability Law in the bill on the foundation of Hungary's 2025 central budget. According to the new regulation adopted by the Parliament, "In the Act on the Central Budget, the balance of the government sector shall be decided in accordance with the Fundamental Law and the legal regulations of the European Union." With regard to the latter, the explanatory memorandum of the bill refers to Regulation (EU) 2024/1263 of the European Parliament and of the Council, which requires Member States with a government sector deficit exceeding 3.0 percent of GDP to implement a four-year deficit reduction programme, i.e. to comply with the EU requirement to reduce their deficit at a satisfactory pace. Hungary is one of these Member States, and the deficit target of 3.7% set in the 2025 budget bill is a significant improvement on the 4.5% deficit announced as the government's target for 2024. The national medium-term budgetary structural plan submitted by Hungary has not yet been adopted and is currently being assessed by the European Commission.

Overall, the amendments contained in the single budget bill T/9894/395 did not require a revision of the findings of the earlier opinion of the Council (6/2024.11.07.) on the validity of the public debt rule. In the light of the above, the Council has adopted its Decision on the compliance with the public debt rule of the draft unified budget bill, in accordance with Article 25 of the Stability Act, and has given its consent to the final vote on the draft unified budget bill T/9894/395. At the same time, in its Decision, the Council considered it necessary to draw attention to the risks surrounding the implementation of the 2025 budget, maintaining the comments made in its Opinion No 6/2024.07.11. on the draft bill on the 2025 central budget of Hungary (the latter are quoted in Part I of current document).

Budapest, 19 December 2024.

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