January 2007
IMF Country Report No. 07/11

# Hungary: Report on Observance of Standards and Codes—Fiscal Transparency Module

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INTERNATIONAL MONETARY FUND

HUNGARY

# Report on the Observance of Standards and Codes (ROSC) Fiscal Transparency Module

Prepared by the Fiscal Affairs Department

Approved by Michael Deppler and Teresa Ter-Minassian

January 3, 2007


## Executive Summary

This report provides an assessment of fiscal transparency practices in Hungary in relation to the requirements of the IMF *Code of Good Practices on Fiscal Transparency* based on discussions with the authorities and other organizations, the authorities' response to the IMF fiscal transparency questionnaire, and other sources of information. The IMF *Manual on Fiscal Transparency* (http://www.imf.org/external/np/fad/trans/manual/) should be consulted for further explanation of the terms and concepts discussed in this report.

Hungary has increased its level of transparency in a number of areas since the last fiscal ROSC in 2001. In particular, the coverage of fiscal reporting and the budget has been considerably extended. Fiscal reporting now covers virtually all of general government. The range of central government institutions for which expenditure is subject to appropriation in the annual budget law is wide by international standards. Other areas of progress include strengthened internal and external audit, tighter procurement policy, and the "Glass Pockets" anti-corruption initiative.

However, the cause of fiscal transparency has not been served by the fact that the Hungarian government has, on a number of occasions in recent years, sought to rely on transactions which have the effect of reducing the measured deficit and debt without changing the underlying fiscal position. The most recent example of this was an attempt, subsequently abandoned, to move off-budget the expenditure and debt arising from the construction of new motorways, by means of an arrangement involving the State Motorway Company (AAK). It is important that there be no further recourse to such transactions in future.

There is scope for further improvement in fiscal transparency in a number of other areas, some of which could help to facilitate Hungary's entry into the euro area. Budget coverage should be progressively aligned with the European System of Accounts 1995 (ESA95) concept of the general government sector, by bringing within the budget certain central general government bodies that it currently does not cover. The adoption of ESA95 accounting principles and practices is also desirable. There is a need to strengthen the medium-term fiscal framework. This requires, among other things, a stronger link between the annual fiscal targets set in the budget and medium-term fiscal objectives (which need to be consistent with the Maastricht criteria). Multiyear expenditure targeting should be considered as a tool to anchor the fiscal adjustment necessary to achieve these medium-term objectives. Fiscal risk reporting and analysis needs to be expanded. So does fiscal sustainability analysis, including with respect to the fiscal impact of an aging population. Steps should be taken to improve independent scrutiny of fiscal policy, possibly by means of the establishment of an independent expert advisory council. Finally, the budget process should be tailored towards linking funding decisions more directly to assessments of where public funds can most effectively be spent.

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Boxes



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## ABBREVIATIONS

| | |
|---|---|
| ABL | Annual Budget Law |
| AAK | State Motorway Company |
| AKK | State Debt Management Agency |
| ALSG | Act on Local Self-Government |
| APEH | Tax and Financial Control Administration |
| APV | Privatization and State Holding Company |
| BKV | Budapest Public Transport Company |
| CSO | Hungarian Central Statistical Office |
| DHK | Student Loan Center |
| ESA95 | European System of Accounts, 1995 |
| EC | European Commission |
| EU | European Union |
| Eximbank | Hungarian Export-Import Bank |
| GFS | Government Finance Statistics |
| GFSM | Government Finance Statistics Manual, 2001 |
| HST | Hungary State Treasury |
| IMF | International Monetary Fund |
| MAV | Hungarian State Railways |
| MNB | National Bank of Hungary |
| MFB | Hungarian Development Bank |
| MoF | Ministry of Finance |
| NA | National Road Construction Company |
| NFPE | Nonfinancial Public Enterprise |
| OECD | Organization for Economic Co-operation and Development |
| PFA | Public Finance Act |
| PFI | Public Financial Institution |
| PPP | Public-Private Partnership |
| QFA | Quasi-Fiscal Activity |
| ROSC | Reports on the Observance of Standards and Codes |
| SAO | State Audit Office |
| SDDS | Special Data Dissemination Standard |
| TSA | Treasury Single Account |
| VOLANBUSZ | Inter-City Bus Company |

# I. INTRODUCTION[1]

**This report provides a reassessment of fiscal transparency practices in Hungary against the requirements of the IMF *Code of Good Practices on Fiscal Transparency*.** It replaces the fiscal transparency ROSC published in April 2001. The assessment has two parts. The first part is a description of practice, prepared by the IMF staff on the basis of discussions with the authorities and their responses to the fiscal transparency questionnaire, and drawing on other available information. The second part is an IMF staff commentary on fiscal transparency in Hungary.

## II. DETAILED DESCRIPTION OF PRACTICE

### A. Clarity of Roles and Responsibilities

**Definition of government activities**

1. **General government is defined in a manner that is largely consistent with ESA95 and Government Finance Statistics (GFS) principles**. There are three sectoral concepts of relevance in Hungarian public finance: general government, legal government (a subset of general government), and the state budget sector (a subset of legal government). The constituent elements of these sectors are identified in Box 1. Fiscal reports in Hungary[2] cover virtually all of general government, which represents a significant improvement from the position at the time of the 2001 ROSC.[3] To complete the coverage of general government, it will be necessary to include in fiscal reports a number of small nonmarket nonprofit institutions.

2. **The budget covers only the state budget sector**. This is defined by the Act on Public Finance (PFA)[4] as comprising: (i) central budgetary institutions; (ii) the social security

[1] Discussions on fiscal transparency were held in Budapest during May 4–18, 2006. The IMF staff team comprised Mr. Hemming (Senior Advisor), Mr. Robinson (Head), Ms. Corbacho, and Ms. MacFarlane (all from the Fiscal Affairs Department), together with Mr. Zwerk (expert). The mission met with a number of senior officials of the Ministry of Finance, including Dr. István Várfalvi (Deputy State Secretary) and Mr. Ferenco Bathó (Assistant Secretary of State). It also met with officials from the National Bank of Hungary, the State Audit Office, the Hungarian State Treasury, the Ministry of Justice, the Ministry of Economy and Transport, the State Debt Management Agency, the Public Procurement Council, the Privatization and State Holding Company, the Ministry of Interior, and the Tax and Financial Control Administration.

[2] This refers to annual reports on general government fiscal outcomes that are made available, both on a ESA95 and a GFS86 basis, at http://www2.pm.gov.hu/web/home.nsf/frames/english.

[3] At which time, some significant general government bodies remained outside the government accounts, in particular the National Road Construction Company (NA) and the Privatization and State Holding Company (APV).

[4] Act XXXVIII of 1992.

funds (Pension Fund and Health Care Fund); and (iii) certain so-called extrabudgetary funds (which, because they are part of the budget, are not "extrabudgetary" in the usual sense of the term). The expenditure of bodies in the state budget sector is appropriated in the Annual Budget Law (ABL). The elements of general government not covered by the budget are local government and the central government units identified in Box 1 under the heading "other central government units included in general government." Together, these are responsible for about a third of general government expenditure.

### Box 1. General Government in Hungary

| | Expenditure 2004 (In percent of GDP) |
|---|---|
| **Legal government** | 47.2 |
| **State budget sector** | 34.4 |
| 1. *Central Budgetary Institutions:* Parliament, President's Office, Constitutional Court, State Audit Office, Judiciary, Ministries (14), Central Statistical Office, Economic Completion Office, Hungarian Academy of Science, and the National Research and Technology Office. | 21.1 |
| 2. *Social Security Funds:* Pension Fund and Health Care Fund. | 12.7 |
| 3. *Extrabudgetary Funds:* Labour Market Fund, Central Nuclear Financial Fund, Research and Technological Innovation Fund, Flood and Groundwater Protection Indemnity Fund, Homeland Fund, and Cultural Fund. | 0.6 |
| **Local government** Local government and local minority governments of municipalities and 20 county level government, together with other local budgetary institutions (6815 individual reporting units). | 12.8 |
| **Other central government units included in general government** | 2.4 |

- Privatization and State Holding Company.
- the State Motorway Company (AAK)
- National Road Construction Company.
- Participation Management Company.
- State Debt Management Company and State Treasury Company.
- Public media enterprises (Television, Duna Television, Radio).
- Certain nonprofit institutions, public foundations, and public nonprofit enterprises.

(Note that AAK expenditure is not included in the 2004 expenditure data reported in this Box, as the AAK was at that time not considered to be part of General Government).

**Box 2. The State Motorway Company**

AAK is a government-owned agency set up in 2000, which performs the following tasks:

- Operating and maintaining a number of existing government-owned "nonprogram" motorways on behalf of the government, for which it receives a service fee.
- Collecting on behalf of government a charge ("vignette") levied on motorway users for the use of existing roadways, and receiving a collection fee for this service. Vignette revenue is transferred to the government.

In early 2006, the government planned to sign a contract with AAK which would have assigned to AAK formal responsibility for the construction, management and operation of major new "program" motorways, the actual construction was to be carried out by a general government agency, the National Road Construction Company (NA). Under this arrangement, AAK was to receive "availability fee" payments from the government.

At the time of initiating this arrangement, the Hungarian government took the position that the expenditure and debt associated with the new "program" motorways should be recorded off-budget. The effect of such accounting treatment would have been to substantially reduce the reported fiscal deficit (by an estimated 0.6 percent of GDP in 2006 and 0.9 percent in 2007). In support of its position, the government asserted that:

- AAK is a public corporation rather than a general government body, and the motorway contract was therefore a Public-Private Partnership (PPP).
- The contract would transfer construction and availability risk to AAK, thereby meeting Eurostat requirements for the expenditure and debt to be recorded in the accounts of the "private" partner rather than in those of the government.
- Because of this transfer of risk, "economic" ownership of the motorways would rest with AAK, notwithstanding that legal ownership remained with the State by virtue of the provision of the Hungarian civil code (1959/4, §172) stipulating that all roads in Hungary are property of the State.

This proposed treatment of the motorway expenditure and debt, and the classification of the AAK outside the general government sector, were the subject of some debate up until September 2006, when the Hungarian government changed its position and announced in its revised Convergence Program that "the costs of motorway construction previously planned to be carried out by AAK . . . in a PPP arrangement will now be accounted in the Convergence Program in the general government expenditures." The government also decided that the AAK would henceforth be classified within the general government sector.

The proposed new program motorways contract with AAK was not the first transaction between AAK and the Hungarian government which would have had a significant impact on reported fiscal aggregates. Previously, there had been an attempt by the government to sell "nonprogram" motorways (which had already been constructed) to AAK and to classify the receipts from that sale as general government revenue. Eurostat ruled against this transaction in September 2005, on the basis that it did not transfer sufficient risk to AAK to be considered as a proper PPP. As a consequence, the reported 2005 budget deficit (on ESA95 basis) was increased by 2 percent of GDP.

### Government relations with nonfinancial public enterprises and the private sector

3. **Certain nonfinancial public enterprises (NFPEs) carry out significant quasi-fiscal activities (QFAs), often without explicit budgetary compensation**. These enterprises include the Hungarian State Railways (MAV), the Budapest Public Transport Company

(BKV), and other smaller transport companies. QFAs are also present in the water, electricity, and gas sectors, although the discrepancy between consumer prices and cost recovery levels is not as large as in the transport sector.[5] In the gas and electricity sectors, despite efforts to better align prices with costs since 2003, implicit subsidies prevail. By mid-2007, the government plans to partially liberalize the gas market and to fully liberalize the electricity market.

4. **Arrangements regulating transfers between NFPEs and the budget are not clear**. Dividend payments are, except in the case of the NFPEs managed by the Privatization and State Holding Company (APV),[6] set on an ad hoc basis. Annual transfers from the budget to subsidize loss-making NFPEs have also been ad hoc, and the level of subsidies has generally been insufficient to fully cover the cost of QFAs. To cover the excess of operating losses over ongoing subsidies, enterprises have resorted to borrowing, typically with a government guarantee. The resultant borrowing has been particularly substantial in the cases of the MAV and BKV, resulting in the accumulation of substantial debt which the government has taken over on several occasions in the recent past.[7] In the Convergence Program of September 2006, the government stated that the principles governing operating subsidies would be clearly defined in public service contracts which would be concluded with the relevant enterprises, and that under these contracts subsidies would henceforth reflect the entire cost of efficient delivery of the service which the government wished the enterprise to deliver.

5. **The legal framework for privatization is clear, and privatization proceeds and payments are integrated in the budget**. The privatization process in Hungary is largely complete and about 80 percent of the economy is in private hands. The Privatization Act[8] regulates the privatization process, which has been managed and controlled by APV. The Act lists those enterprises under long-term state ownership,[9] and assigns ownership rights and oversight responsibilities between line ministries and the APV.[10] Although APV remains

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[5] There are also implicit subsidies in basic postal services but these are compensated by cross-subsidization from other activities.

[6] APV's dividend and resource allocation policies are set in its business plan. In the case of some APV, companies (such as the long-distance bus company, VOLANBUSZ), there are explicit service contracts with the relevant government ministry.

[7] The government typically assumes liabilities of NFPEs before guarantees are called.

[8] Act XXXIX of 1995.

[9] Assets may remain in long-term state ownership if they belong to a national public utility provider or are considered to be of strategic importance for the national economy or defense.

[10] APV exercises ownership rights over several important public enterprises, including VOLANBUSZ and certain power companies. The Ministry of Economy and Transport exercises ownership rights over MAV, NA,

(continued... )

formally outside the state budget sector (see paragraph 1), government expenditure from its reserves and income must be approved in the ABL, and an appendix to the budget presents APV's revenue and expenditure. Reports on APV operations and equity holdings are prepared quarterly and are publicly available. External audits are performed according to the Act on Accounting,[11] with the auditor selected through tender by the State Audit Office (SAO).

6. **Government regulation of the private sector is complex, although there have been improvements in some areas**. Hungary's business regulatory regime is in significant measure set by European standards. However, the transparency and consistency of application of regulation affecting business requires further improvement. Hungary is rated number 52 out of 155 countries in the International Finance Corporation's *Doing Business* composite index of the ease of doing business.[12] Particularly problematic areas are licensing requirements (where Hungary rates 119th) and registering property (96th). In its 2006 Index of Economic Freedom, the Heritage Foundation gives Hungary a rating for business regulation of 3 on a scale from 1 (best) to 5 (worst).[13]

**Government relations with the central bank and public financial institutions**

7. **The National Bank of Hungary (MNB) is legally independent and has no role in the financing of the fiscal deficit**. The MNB is a member of the European System of Central Banks, and its legal independence is granted by the Act on the MNB.[14] The Act provides a clear and transparent legal basis for the relationship between government and the MNB. In particular, the Act prohibits MNB financing of the government fiscal deficit, describes MNB's responsibilities regarding the management of the single treasury account and other government accounts held at the MNB, and regulates profit transfers to the budget. The MNB has full operational autonomy in setting monetary policy. The government and the MNB together mutually decide on the parameters of the exchange rate regime, in accordance with provisions of the Act which make exchange rate policy a shared responsibility. Currently, Hungary follows an exchange rate band.

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AAK, and the Hungarian Development Bank (MFB), among others. Ownership rights of certain other ministries are also listed in the Privatization Act.

[11] Act C of 2000.

[12] http://www.doingbusiness.org.

[13] http://www.heritage.org/research/features/index.

[14] Act LVIII of 2001.

8. **Public financial institutions (PFIs) undertake noncommercial activities on behalf of the government**. PFIs provide support through loans at preferential rates and guarantees in support of specific policy goals. In particular, the Hungarian Development Bank (MFB) is active in providing such support for infrastructure, housing, agriculture, small and medium size enterprises, and family doctors. To finance this, the MFB issues bonds denominated in foreign currency and lends in domestic currency. The government assumes the currency risk within a limit set in the ABL. The Hungarian Export-Import Bank (Eximbank) provides support to exporters, including through refinancing of credit lines to commercial banks, export prefinancing, and financing of agricultural exporters at preferential rates. Government guarantees are issued if the export operation is considered of national economic interest. The Credit Guarantee Company provides unconditional payment guarantees to small- and medium-size companies that cannot offer collateral under commercial loans. QFAs undertaken by PFIs are covered by the budget through clear and regulated payment mechanisms.

**Fiscal management relations among the branches of government**

9. **The fiscal roles of the executive, legislative, and judicial branches are clearly defined by law**. The Constitution assigns powers between the three branches of government and, in particular, assigns to parliament the prerogative of approval of the budget. Parliament has the power to change the draft budget proposed by the executive without restriction. The fiscal powers and responsibilities of executive government are specified mainly in the PFA.

**Fiscal management relations among different levels of government**

10. **The responsibilities of different levels of government are clear**. The Act on Local Self-Government (ALSG)[15] specifies areas of expenditure responsibility of local governments and the taxes, fees, and charges that can be imposed.[16] In addition to own-source revenue, local governments receive substantial income in the form of grants and transfers of tax revenue from central government, in accordance with broad principles laid down in the PFA (Chapter V). Included in these transfers is a substantial share of the personal income tax revenue raised by the central government, the percentage share being specified in the ABL. Local governments also receive other grants from the central government, most of which are objectively determined on a formula basis (e.g., on the basis of indicators such as measures of the demand for certain public services). Annexes to the ABL specify clearly the principles and formulas determining both grant entitlements and the

[15] Act LXV of 1990.

[16] In the ALSG and, to a lesser degree, in the central government ABL.

local government share of personal income tax.[17] Nevertheless, a number of recent actions taken by the central government have created uncertainty in the revenue base of local governments.[18] Legislative limits are imposed upon local government borrowing.[19] However, these limits do not apply to local government public enterprises (such as the BKV).

**The legal and administrative framework for budget management**

11. **The legal framework for the management of public funds is clear and largely comprehensive**. The PFA is the organic budget law and contains broad principles of budgeting and of financial management more generally across "legal" government—that is, across both the state budget sector and local government.[20] More detailed provisions governing the preparation and execution of the state budget are contained in the ABL. Because there are certain general government bodies that are not part of either the state budget sector or legal government (see Box 1), the sectoral coverage of this legal framework is not comprehensive.

12. **A number of expenditure appropriations in the annual budget are in the nature of an estimate rather than a limit.** Accordingly, some agencies are permitted to spend more than the appropriated amount if required, without a need for parliament to increase the appropriation.[21] As a consequence, aggregate expenditure may legally exceed the amount approved in the budget law. The extent of such variation is limited by a PFA requirement that

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[17] The local government share of personal income tax is partly allocated in such a way as to compensate local governments with weak tax bases.

[18] One was the decision taken in 2005 to abolish the local business tax, an important source of local government revenue, with effect from 2008. This decision was subsequently reversed in July 2006. Another recent central government action impacting on local government was a novel provision of the 2006 ABL, which withheld a certain percentage (approximately 1.5 percent) of the local government share of personal income tax, to be released at the discretion of the central government based on whether the overall state of public finances and economic growth "evolve in a favorable manner." On the expenditure side, uncertainty can arise from the fact that the wages of local government employees are largely set by the national government as part of overall determinations of civil service remuneration. This uncertainty was exemplified by the significant impact upon the financial position of local governments of very large increases in civil service pay awarded by the central government in 2002.

[19] S.88(2) of the ALSG imposes a limit of 70 percent of "adjusted" own-source revenue.

[20] Reflecting the substantial autonomy of Hungarian local government, the PFA's provisions in respect to local government are confined to a small number of overarching requirements.

[21] This applies to: (i) mandatory expenditure such as pension and unemployment benefits; (ii) expenditure financed by carryover of unspent appropriations from the previous year as approved by the Minister of Finance; (iii) cofinancing payments required on certain categories of EU grants; (iv) own-source revenue which agencies are permitted to retain in order to provide them with an incentive for revenue-raising efforts; and (v) a number of other specific expenditure items identified in the ABL (e.g., Chapter 6 of the 2006 ABL).

the government submit an amendment to the Annual Budget to parliament if during the course of the budget year it appears that the total impact of such "excess" expenditure will be to increase the aggregate budget deficit by 2.5 percent or more (although in practice no such supplementary budget has yet been required).[22] Insofar as the provisions permitting spending in excess of the annual budget appropriation apply to mandatory programs, they are broadly similar in effect to predominant international practice, because they leave the actual amount of such payments to be largely determined by entitlement formulas rather than annual budget limits.[23]

13. **However, the provisions may have contributed to fiscal indiscipline and undermined fiscal adjustment efforts.** This is particularly the case since they apply to a wide range of expenditure programs, including to those that are not mandatory in nature (and, hence, should be appropriated in full). The flexibility to exceed the appropriated amounts has been accompanied by a tendency to underestimate expenditure and to thereby misrepresent the fiscal adjustment that is planned. To address this problem, the provisions permitting appropriation overruns should be eliminated with respect to non-mandatory expenditure. In principle there may be a case to permit such flexibility to truly mandatory programs for which entitlements are clearly laid down in legislation. In addition, the permitted overruns should be specified with reference to total spending on these programs only (rather than being related to the government's aggregate expenditure), and forecasts of such spending should be subject to careful scrutiny to ensure that they are realistic. However, further restraint may be required when fiscal adjustment is the priority, in which case suspending these provisions (through supplementary legislation if necessary) may be justified until policy credibility is restored. It would then be reasonable to require that any expenditure overrun which increases the fiscal deficit (i.e., that cannot be offset by cutting other spending or increasing revenue) should be approved by the legislature.

14. **Mechanisms for the coordination and management of budgetary and extrabudgetary activities are well defined**. As noted in Box 1, the social security funds (Pension Fund and Health Care Fund) and "extrabudgetary funds" defined by the PFA[24] are part of the state budget sector. Their expenditure is appropriated by parliament, and their funds are part of the Treasury Single Account (TSA). They are therefore fully coordinated with the budget. Only central government units outside legal government, as identified in Box 1, are not covered by the budget, although their finances are in general well coordinated

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[22] There is an additional requirement that if the variation exceeds 5 percent, a supplementary budget bill be submitted to parliament.

[23] Standard international practice is that such expenditure is not authorized or limited by the annual budget law, but is governed by "standing appropriations" or social security fund rules.

[24] Which, as noted in paragraph 2, are not EBFs in the commonly-used sense of the term.

with the budget. As noted in paragraph 5, general government expenditure financed from revenue derived from APV must now be approved by parliament in the budget (although there is no requirement for parliamentary approval of the company's operating and related expenditure). This represents a substantial improvement on the position at the time of the 2001 ROSC, when it was possible for the government to undertake substantial discretionary expenditure from APV sources.

**The legal and administrative framework for tax policy and administration**

15. **The legislative basis for taxation is clear and comprehensive**. The Rules of Taxation Act[25] outlines the fundamental rights and obligations of the tax authorities and taxpayers. Tax laws are applied uniformly and tax incentives and preferences are provided on a nondiscretionary basis and specified in statutes. Other key pieces of legislation are: the Value-Added Tax Act,[26] the Personal Income Tax Act,[27] and the Corporate and Dividend Tax Act.[28]

16. **Tax expenditures are large**. Among the largest tax expenditures in recent years have been tax credits for wage earners and family tax credits.[29] Eligibility for family tax credits was tightened in late 2006, reducing the associated tax expenditures.

17. **Tax administration arrangements are clear and coordinated with overall fiscal management**. The Tax and Financial Control Administration (APEH) has adopted many practices found in effective tax administrations around the world. APEH staff are organized into units based mainly on tax administration function and a special tax office has been established to administer large taxpayers. The agency collects not only the major taxes, but also social security and health contributions. APEH is regulated by a legal framework that provides tax officers with a full range of powers and gives taxpayers an appropriate set of protections. APEH provides a broad range of service to taxpayers through face-to-face consultations at the tax office, telephone queries at a headquarters call center, and through APEH's website. Through these points of contact, taxpayers can receive answers to queries

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[25] Act XCII of 2003.

[26] Act LXXIV of 1992.

[27] Act CXVII of 1995.

[28] Act LXXXI of 1996.

[29] The *OECD Economic Survey on Hungary, 2005* comments on the wide range of tax exemptions and the inefficiency of many of them. For example, in respect to family tax credit, it observed that "the size of the bias towards families with children should be reconsidered . . . the gap between post tax incomes between households with and without children is exceptionally high in international comparison and there may be more efficient ways to reach family policy objectives."

related to tax liabilities and the status of their accounts, obtain publications and guides on various topics, file their returns electronically or on downloadable paper forms, and access a number of other services. In respect to the administrative powers of tax officers, there is a need for increased powers to deal more effectively with late tax returns and late payment of tax liabilities.

18. **Taxpayer's legal rights are well defined**. Taxpayers have a right of appeal against decisions of the APEH. This includes both appeals to the tax administration itself and ultimately to the court. The Rules of Taxation Act provides the specific legislative authority for legal appeals and remedies. Taxpayers are also entitled to receive advance tax rulings, which are binding on APEH.

19. **A well-defined code of conduct for civil servants is lacking**. The Act on Legal Status of Public Servants[30] has certain provisions related to conflict of interest matters, including requirements for the declaration of property, limitations regarding political and private sector activity, rules for an oath of office, and regulatory provisions to protect state and official secrets. These legal provisions do not, however, provide a robust code of conduct regime, which would cover issues such as training and promotion, compliance monitoring, and protection for whistleblowers. A code of conduct would aid in fighting corruption.

## B. Open Budget Preparation, Execution, and Reporting

20. **The annual budget process is open and comprehensive and is broadly consistent with international standards**. The budget is on a calendar year basis and its timetable is well-established (Box 3). Budget preparation begins in January when the Ministry of Finance (MoF) drafts the base budget. It then establishes budget guidelines that define the broad targets of fiscal policy, the deficit target, and the levels of government expenditure. On the basis of these guidelines, ministries and budget units in turn prepare their budget requests and submit them to the MoF. After negotiation and the approval of the Council of Ministers, the budget is submitted to parliament by late September. Parliament debates and approves the budget by the end of December.

### The macroeconomic framework and policy basis for the budget

21. **The budget documents make reference to multiple fiscal policy indicators**. These indicators vary in terms of coverage and accounting framework, and include indicators for the overall balance of the state budget sector, the legal government, and ESA95 general government, as well as the budget balance based on the Maastricht criteria (which is the

[30] Act XXXVI of 2001.

ESA95 measure adjusted with respect to the treatment of debt swaps).[31] An annex in the budget documents explains the relationship between these concepts, and is accompanied by a summary table. The multiplicity of indicators has made the public debate on fiscal policy objectives more complex. In addition, within-year monitoring is essentially limited to the state budget sector on a cash basis, which does not always provide a clear indication of broader fiscal developments according to ESA95.[32] The MoF does not report on the overall fiscal position of the public sector, although operating losses of some public enterprises are significant.[33]

[31] See Johann R. Bjorgvinsson (2004), Government Finance Statistics Manual 2001 Companion Material: The *Government Finance Statistics Manual 2001* and its Relationship with the *European System Of Accounts 1995*, IMF, p.8.

[32] In recent years, the discrepancy between the targets and outturns under these different concepts has been substantial, reflecting not only cash-accrual adjustments, but also the realization of contingent liabilities and expenditure of general government entities outside "legal" government.

[33] To provide a broader coverage of fiscal operations and their impact on economic demand, the MNB constructs an indicator of the overall balance of the general government consolidated with key QFAs (e.g., operations of MAV, the BKV, and the MFB), other contingent liabilities, and PPPs.

| Box 3. The Budget Preparation Process | |
|---|---|
| The fiscal year is set on a calendar year basis by the PFA. The main steps in the budget preparation process are as follows: | |
| **Due dates** | **Activities** |
| January–February | MoF begins drafting the base budget. |
| March | Meetings between MoF and Administrative Secretaries of State to finalize budget guidelines. |
| Mid–April | MoF submits guidelines to Council of Ministers. |
| Mid–May | Council of Ministers approves guidelines. |
| June | MoF issues budget circular for planning and budgeting chapters. |
| July–August | Heads of agencies responsible for budget chapter submit proposed budgets for their chapters and MoF conducts an initial review of these proposals. |
| End of August | MoF submits draft budget bill to Council of Ministers. |
| September | Council of Ministers reviews and finalizes draft budget bill.<br>Budget bill submitted to parliament at end of month. |
| October–November | First Reading of bill, with parliamentary debate. |
| End of November | Parliamentary decisions related to definition of total amounts of the chapters and the deficit (surplus) amount. |
| December | Detailed parliamentary debate with proposed amendments to specific chapters. Second reading and final vote on Budget Bill and publication. |

22. **Budget forecasts and underlying macroeconomic assumptions are clearly presented in the budget**. The macroeconomic forecasts underpinning the budget are prepared and published by the MoF, although the underlying forecasting models are not publicly available.

**Medium–term planning and analysis of fiscal risks**

23. Medium-term fiscal policy objectives are clearly stated, but the link between these objectives and the concrete fiscal policy measures in annual budgets is unclear. Hungary's stated medium-term fiscal policy objectives are to comply with Maastricht fiscal rules on the overall balance of the general government and gross public debt. To deliver on these medium-term objectives, the government has three main economic planning systems:

the EU Convergence Program, the National Development Plan, and the annual budget.[34] A critical problem has been the lack of sufficient detail or adequate quantification of the underlying policies to support the achievement of medium-term objectives. The three planning systems are for the most part developed independently of each other, although the National Development Plan and the Convergence Program inform, in principle, the annual budget. The budget documents presented to Parliament make reference to the medium-term objectives of the Convergence Program, but only in rather broad terms. The budget documents do not, moreover, explain the relationship between those medium-term objectives and the annual budget targets. In addition, budgetary resource envelopes do not bear a close relationship with the public investment strategy of the National Development Plan. A medium–term budget framework capable of supporting the achievement of such medium-term fiscal targets has yet to be developed. Fiscal sustainability analysis in the budget documents is limited to projections of pension expenditure (in an appendix). Estimates of other age-related spending are not presented. The Convergence Program discusses debt projections consistent with proposed fiscal targets and the impact of some macroeconomic variables on debt dynamics and fiscal outcomes. A full debt sustainability analysis is not prepared.

24. **Estimates of the cost of new initiatives and of ongoing government policies are not clearly distinguished in the budget documents**. There is, however, some discussion of large expenditure programs and tax policy intentions.

25. **The budget documents contain little information on, or discussion of, fiscal risks, other than in respect to government guarantees**. An appendix to the budget documents provides estimates of debt guarantees expected to be called in the budget year. There are no data or discussion of risks related to macroeconomic variables, QFAs or PPPs. The Convergence Program presents estimates of the impact of the economic cycle on the overall fiscal balance, but there is no analysis of the sensitivity of the fiscal position, expenditure, and revenue to changes in key economic variables in the budget. Risk analysis of the fiscal implications of QFAs is not carried out. However, as noted above, risks from QFAs have been and remain significant. The budget documents contain a summary table of PPP operations, their total expected cost, and the estimated impact of associated availability fees on the budget in the coming three years. The lack of a clear accounting and institutional framework for PPPs also implies important fiscal risks that are not transparently disclosed.

[34] The Convergence Program is a document the Hungarian government is required to submit annually to the EU, outlining the steps that Hungary proposes to take in order to meet the Maastricht criteria. It has no legal status and is not discussed in parliament. The National Development Plan sets the basic objectives of the government's overall public investment strategy, focusing on investment projects that receive EU cofinancing.

**Clarity of control of budget execution**

26. **Accounting and internal control procedures are in place**. The government has a standardized accounting system, which records both cash transactions and also many accrual transactions (such as depreciation and receivables), and which applies to all units of legal government. The government is presently working toward improvements in the accounting system to bring it into full conformance with ESA95 (which is on a full accrual basis). All state budget sector units are part of the TSA, and local government receives its transfer payments from central government through the TSA. The SAO has authority to review and report on internal control and accounting procedures.

27. **The coordination of financial management practices requires further improvement**. The Hungarian State Treasury (HST) prepares three month cash plans, but cash planning could be improved through the provision by line agencies of better information on their forward expenditure plans. Financial management practices related to government debt are set out in the PFA. The legislation covers the financing of the deficit, registration of debt and debt service of the state budget sector, and payment of interest and debt repayment. The State Debt Management Agency (AKK) is responsible for financing and debt management, and produces an Annual Report on Debt Management.

28. **Internal audit could be more effective**. The government decree[35] on internal audit establishes a system of internal audit for budget units. The decree provides for the functional independence of internal auditors, stipulates what is expected from each budget unit, and specifies the rules of procedure governing the internal audit function. However, more work needs to be done in a range of areas (including accountability and governance arrangements, and risk-based internal audit planning and implementation) in order to improve effectiveness and transparency of internal controls. There is also a need to develop a more professional cadre of internal auditors and to establish effective internal audit committees. The Government Control Office[36] was created to oversee and support internal audit in line ministries and agencies and to undertake audits on matters of government-wide significance. It subsequently gained additional responsibilities including the auditing of the use of EU funds.

29. **Procurement rules and practices are clear and well-known and conform to international best practice**. Government procurement is managed by the Public Procurement Office.[37] The "Glass Pockets"[38] anti-corruption initiative introduced

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[35] Decree 193/2003 (XI.26), subsequently amended by decree 70/2004 (IV.15).

[36] Established by Government Decree 70/2004 (IV.15).

[37] Legislative basis in the Act on Public Procurement CXXI of 2003, which replaced 1995 legislation.

requirements for transparency in respect to all contracts involving the expenditure of public funds or management of public property with a value of 5 million HUF (approximately US$27,000). Hungarian procurement rules comply with the public procurement directives of the EU and the World Trade Organization Agreement on Government Procurement. Although the required rules and practices are in place, they only apply to legal government sector as defined by the PFA. In general, considerable uncertainty exists regarding public procurement rules for PPPs.

30. **Civil service employment procedures are not clear and consistent**. Chapter III of the Act Legal Status of Public Servants[39] regulates civil service employment. Although some public service vacancies are announced publicly, open competitive recruitment processes are not the norm. Rather, qualified potential employees need to navigate through a complex, nonstandardized, and unclear recruitment process, and discretion in recruitment and promotion is a feature of public service employment.

**Clarity of internal control and independence of tax administration**

31. **Internal monitoring and control mechanisms for tax administration require improvement**. The Department of Internal Audit and Legal Supervision of the APEH plays an internal audit role to ensure the integrity of tax collection systems. There is an internal code of conduct to promote and enhance the integrity of individual tax collection officials. It is not clear how effective the code of conduct has been in limiting corruption.

32. **The national tax administration is not given full legal protection from political interference**. The APEH is supervised by the Minister of Finance, and the President of APEH is appointed and may be dismissed by the minister. There is no explicit legislative ban on the Minister of Finance intervening in, or directing, the APEH in the determination of individual taxpayer liabilities. The Rules of Taxation Act[40] stipulates the specific legislative powers of the Minister of Finance with regard to the supervision of tax authorities. These include the power to order tax audit of individuals or other taxpaying entities (Section 89) and the power to "request the directors of the tax authorities to report to him in the interest of overseeing the legal and professional aspects of taxation and may request information concerning the case of any taxpayer" (Section 11).

[38] This initiative was launched in mid-2003. Amongst its other elements are increased State Audit Office powers of scrutiny and audit, a requirement that key players in state-owned enterprises declare their assets, and an increase in publicly available information on contracts.

[39] Act XXIII of 2001.

[40] Act XCII of 2003.

**Accounting and reporting on budget execution**

33. **The accounting system is capable of producing accurate within-year reports on state budget execution**. Monthly budget execution reports are published on the MoF website by the end of the following month. Although labelled as "general government," they in fact cover the state budget sector. These monthly budget execution reports are not derived from the accounts of government agencies, but from the HST current account management systems. The annual accounts of legal government units, which record their income and expenditure, are drawn from the accounts of those units half-yearly. Although, as noted above, the accounting system used throughout legal government requires the recording not only of cash transactions, but also of many accrual transactions, methodological differences mean that it is not possible to compile within-year reports on an ESA95 basis directly from the accounting system data, but for the Hungarian ESA95 report the legal government units compile a quarterly balance sheet report from their books. Quarterly ESA95 reports are now being compiled for internal use and for reporting to Eurostat, but the quality of these reports needs to be further improved.

34. **Fiscal reporting covers general government**. General government fiscal reports are published annually. The quality of the consolidation of sectoral data undertaken to produce these general government reports has improved substantially, but further work remains to be done.

35. **The legislature does not undertake a mid-year budget review, and is not presented with in-year budget execution reports** (although such reports are, as noted above, made public).

36. **Audited final accounts are available within twelve months of the end of the fiscal year**. The PFA requires that the final accounts on the execution of the central government budget be provided to parliament within eight months of the conclusion of the budget year, and that they must be submitted to the SAO two months prior to that. The SAO's responsibility in this regard is also reinforced in the State Audit Act.[41]

**Results-oriented budgeting and reporting**

37. **The objectives and expected results from government activities are discussed only in general terms**. The budget documents presented to parliament say little about policy or program objectives, and no performance information (whether in the form of performance measures or the results of program evaluation) is made available. The 2001 ROSC pointed to the importance of Hungary making moves towards performance budgeting, where budgeting

[41] Act XXXVIII of 1989.

decisions would be based on better information about the results achieved under alternative expenditure options. This is, however, an area where little progress has been made.

## C. Public Availability of Information

38. **Fiscal information is fairly comprehensive and readily available to the public, and there is a clear commitment to provide information at scheduled times**. As outlined above, budget execution reports covering the state budget sector are made public promptly on a monthly and annual basis. Annual reports on general government fiscal outcomes are also made available, on both an ESA95 and GFS basis.[42]

### The coverage and quality of budget documents

39. **The budget documents cover most general government fiscal activities**. The annual budget bill is accompanied by appendices which provide the details of appropriated expenditure and revenue, plus other information such as budgeted transfers from privatization receipts. There is also a general explanatory document, which contains both data and a narrative discussion of issues including the macroeconomic context of the budget, fiscal policy objectives and targets, deficit financing, projected debt and the projected deficit on a ESA95 and Maastricht basis.[43] This general explanatory document also includes a range of appendices containing information on the expenditure of legal government classified by function and economic type, financial transactions with the EU, and macroeconomic projections. These appendices also provide estimates of expenditure, revenue, and the budget balance for the budget year for legal government and its subsectors (which, as noted in Box 1 covers nearly all, but not the entirety, of general government). The only information which the budget documents provides related to the entire general government sector is deficit and debt data on an ESA95 and Maastricht basis. Defense expenditure is comprehensively reported in the budget. The budget documents—including the appendices and general explanatory documents—are available only in Hungarian.

40. **The budget documents report on all EU funds which are (i) distributed by the Hungarian government or (ii) require Hungarian cofinancing**. In addition to appropriating Hungarian cofinancing expenditure for the budget year, since 2004 the budget has contained multiyear appropriations for commitments to future cofinancing of known EU projects.[44]

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[42] At http://www2.pm.gov.hu/web/home.nsf/frames/english.

[43] See paragraph 21 on the difference between the ESA95 and Maastricht budget balance measures.

[44] S.54 of 2006 ABL.

**Past and forecast fiscal data in the budget**

41. **The budget documents disclose the main fiscal aggregates for two years prior to the budget year**. However, the budget documents provide original appropriations rather than estimated outturns for the year prior to the budget year. No information on projected expenditure, revenue or financing is presented for the years beyond the budget year. The Convergence Programme of September 2006 anticipates that starting with the 2007 budget, the ABL will define expenditure appropriations for ministries and certain other agencies in nominal terms for three years ahead.

**Budget treatment of off-budget fiscal activity**

42. **The budget documents do not include information on QFAs, and contain quite limited information on contingent liabilities and tax expenditures.** The budget documents contain an appendix with an estimate of debt guarantees expected to be called in the budget year. The methodology applied for such estimation is not open to external scrutiny. Other contingent liabilities, such as those associated with PPPs, are not assessed or disclosed. The budget documents do not include statements on tax expenditures. However, the ABL proposal and the Final Report on Fulfillment of the Budget contain some information on exemptions granted under the personal and corporate income tax as far as this has been able to be quantified by the Hungarian authorities.

**Publication of data on debt and financial assets**

43. **Information on gross public debt is published**. Monthly, quarterly, and annual debt reports are made public by AKK.[45] These reports cover only state budget sector debt, and do not include the debt of local governments. Foreign and domestic currency debt is reported, and a breakdown is provided for each category of debt by instrument and maturity structure. Other information provided includes a breakdown of domestic currency debt by categories of holder, and of foreign currency debt by currency and by fixed vs. floating interest rate. Some information is provided on debt swaps. Nominal and market values are provided. These data are made available in a reasonably timely fashion, and are of good quality. Annual and quarterly data on debt and other liabilities of general government (i.e., consolidating both central and local government) is published by the MNB.[46] AKK and MNB data are not reconciled.

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[45] *Annual Report on Debt Management*, *Government Securities Market Quarterly Report*, and *Government Securities Market Monthly Report*, available at http://www.akk.hu.

[46] As part of a general government balance sheet in the *Financial Accounts of Hungary*, available at http://www.english.mnb.hu.

44. **Information on government financial assets is published**. The MNB publishes full data on the financial assets (and liabilities) of general government in its Financial Accounts of Hungary. These financial accounts are based on GFS valuation principles. The final accounts presented to parliament after the conclusion of the budget year also include balance sheets for the subsectors of legal government, although these are not consolidated.

**Commitment to timely publication of fiscal data**

45. **Formal commitments for regular publication of fiscal data have been made and advance release data calendars are announced**. Hungary subscribes to the IMF's Special Data Dissemination Standard (SDDS) and complies with its requirements to produce advance release calendars. Monthly and annual general government fiscal data is published on the ministry website within three weeks of the end of the relevant time period, and the advance release calendars for this data (which are generally adhered to) may be found on the MoF website.[47] These reports contain both statistics and an analysis of the major developments. While the timing of the provision of annual budget execution reports to parliament, and therefore its public release, is laid down in the PFA, there is no such requirement for within year reporting.

## D. Assurances of Integrity

**Integrity of data processes**

46. **Data on budget outcomes on a cash basis are mostly reliable and the variance between budgeted and actual outturns for the main fiscal aggregates is disclosed to the public**. The variance between budget and actual outturns has, however, been considerable as a result of the unreliability of budget estimates of both expenditure and revenue. Thus, for example, the average percentage difference,[48] over the three years 2002, 2003, and 2004, between budgeted and actual primary expenditure was 12 percent. The average difference between budgeted and actual tax revenue was also 12 percent (Box 4). Deviations between budget estimates and outcomes are explained in the final accounts.

47. **Accounting policy is generally well defined but no formal statements of accounting policy are included in the budget documents and final accounts**. Detailed accounting guidelines are specified in the Act on Accounting[49] and Government Decree 249/2000. The MoF has produced an accounting manual for compiling the annual accounts of units of legal government.

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[47] http://www2.pm.gov.hu/web/home.nsf/frames/english.

[48] Average of the absolute values.

[49] Act C of 2000.

**Box 4. Revenue and Expenditure of the State Budget Sector, 2002–04**
**(in billions of HUF)**

| | 2002 | | 2003 | | 2004 | |
|---|---|---|---|---|---|---|
| | Original | Actual | Original | Actual | Original | Actual |
| Primary expenditure | 3,842 | 5,098 | 4,595 | 4,868 | 5,379 | 5,362 |
| Interest payments | 669 | 660 | 657 | 728 | 690 | 801 |
| Capital expenditure | 770 | 1265 | 761 | 767 | 974 | 860 |
| Nontax revenue | 460 | 351 | 352 | 387 | 429 | 524 |
| Tax revenue | 4,070 | 4,357 | 4,740 | 4,938 | 5,479 | 4,147 |

Source: Hungarian authorities.

48. **The process of accounts reconciliation is largely effective**. Significant improvements have been made in addressing the shortcomings in reconciliation identified in the 2001 ROSC and updates. Efforts to improve consolidation and reconciliation of the deficit and financing have achieved almost full reconciliation, with only a small remaining discrepancy between above-the-line and below-the-line figures.[50]

**Independent oversight**

49. **External audit is independent of the executive branch, and its mandate covers all general government activities, other than those of local government, together with some activities of the broader public sector**. The SAO is established by the Constitution as an organ of the parliament independent of the executive branch. The Constitution endows it with a broad mandate to audit the use of all public funds, and the finances of NFPEs and PFIs. The SAO also reviews the budget bill presented to parliament (in respect to its "fundamental soundness" and "the necessity and expediency of expenditure," which in practice means primarily an assessment of the credibility of expenditure and revenue estimates). The SAO's constitutional mandate includes "economic" (i.e., value-for-money) as well as financial audits, and this broad mandate has permitted it to become increasingly active in performance auditing. The SAO audits local government; it audits the use of grants and transfers from the central government to local government, and it also audits local government financial

[50] IMF (2004), *Hungary: Report on the Observance of Standards and Codes—Data Module—Substantive Update on Government Finance Statistics, Response by the Authorities, and Detailed Assessment Using the Data Quality Assessment Framework*. This remains the case at the time of preparation of this ROSC.

management systems (including internal control regimes) under the provisions of the ALSG. The Constitution and the State Audit Act stipulate that the chairman and two vice-chairmen of the SAO are elected for 12-years by parliament and may only be removed in the event of professional misconduct or conflict of interest. The State Audit Act stipulates that the draft annual budget of the SAO which is considered by parliament is formulated by the SAO itself and not by executive government. The State Audit Act may only be amended by a two-thirds majority of parliament. With limited exceptions involving state secrets, all SAO reports are made public. Ministers and chief executives of audited bodies may respond formally to audit reports within eight working days.

50. **The SAO has a strong audit capacity, supported by well qualified and trained staff**. The educational qualifications, experience and reports currently produced by SAO staff suggest that the SAO's current capacity is adequate for its responsibilities.

51. **There is no parliamentary public accounts committee charged with the review of reports of the SAO**. The role of the Budget Committee of the Parliament is confined to the review of the draft budget and other legislation with financial impacts.

52. **No significant external scrutiny of macroeconomic models and assumptions is carried out**. The model used by the MoF for the macroeconomic forecasts underpinning the budget is not made publicly available, and no detailed description of the model exists at the present time. Information about some key assumptions is, however, available.

53. **The national statistics office is provided with legislative assurance of independence**. The Act on Statistics[51] gives the Hungarian Central Statistical Office (CSO) technical independence in the compilation of national statistics. The president and deputy president of the CSO are appointed by the prime minister for six years with possibility of renewal for a second term. Hungary subscribes to the Special Data Dissemination Standards (SDDS) and meets the timetable for providing data on central administration and general government operations.

## III. IMF Staff Commentary

54. **Following the initial fiscal transparency ROSC in 2001, subsequent updates have tracked a series of improvements that have added to the transparency of fiscal policy and fiscal management in Hungary**. The following are notable in this regard:

- A wider range of fiscal activities and QFAs have been brought under the scope of the annual state budget and PFA, and fiscal data are reported on a general government basis consistent with ESA95 and GFSM 2001;

- Internal and external audit has been strengthened, procurement policy tightened, and the "Glass Pockets" program has increased accountability for the use of public funds and property.

55. **Notwithstanding these improvements, it is important that remaining shortcomings are addressed**. While the general objective is to better inform public understanding and debate about fiscal policy, the more specific aim is to ensure that a lack of transparency does not contribute to a continuation of recent deficit overshooting. The areas where further progress is desirable are: coverage of the budget; fiscal reporting; the medium-term fiscal framework; debt sustainability analysis; fiscal risk analysis; independent scrutiny of macroeconomic models and assumptions; and budget outcomes and performance. It would also improve fiscal transparency vis-à-vis the international markets if more of the Hungarian budget documentation was made available in English on the MoF website.

**Coverage of the budget and fiscal indicators**

56. Given that Hungary's medium-term fiscal policy objectives under the Convergence Program for euro adoption are, consistent with ESA95, specified in terms of fiscal outcomes for the entire general government, it is desirable that the internal fiscal policy debate should have the same sectoral focus. It is unfortunate from this perspective that the budget documents, and consequently much of the budget debate in parliament, center on the fiscal outcomes of the state budget sector and of legal government (although the budget documents contain some information on general government on an ESA95 basis). A key reason for this is that, notwithstanding the progress that has been made in extending the sectoral coverage of the budget, there are still a number of central government units which are not part of the state budget sector (nor indeed of legal government) as defined by the PFA. This should be remedied, with bodies such as NA and APV being brought within the coverage of the budget. More generally, a Convergence Program that is discussed and approved by parliament should provide the framework for the annual state budget. This means that all parts of general government—including, notwithstanding its significant fiscal autonomy, local government—should be fully factored into the headline fiscal indicators which are the focus of the budget presentation to parliament.

57. **The government's decision to classify the AAK in the general government sector is appropriate**. Prior to 2006, the AAK was not part of general government because it relied upon market revenue via the sale of vignettes, which it used to finance the operation and maintenance of existing roads. But from 2006, AAK has collected vignette receipts on behalf of the government in return for a collection fee, while continuing to operate and maintain motorways under contract to the government for which it also receives a fee. The non-market

[51] Act XLVI of 1993.

nature of this revenue makes classification to the general government sector appropriate under ESA95.

58. **The decision of the Hungarian government to recognize the capital expenditure on the new motorways previously planned by the AAK is to be welcomed**. The Hungarian civil code clearly assigns ownership of all roads in Hungary to the state, in which case new motorways are not assets of AAK. Only if it could have been demonstrated that there was real risk transfer from the government to AAK could it have been argued that true "economic" ownership did not lie with the government and that it was legitimate to record this capital expenditure and borrowing off-budget. This was a difficult case to argue.[52] The more general point, however, is that transactions of a "creative accounting" nature can only hinder—and not assist—Hungary in dealing with the fiscal challenges that it faces.

**Fiscal reporting**

59. **Fiscal indicators employed in the budget documents and financial statements should be aligned with ESA95 not only in terms of sectoral coverage, but also in terms of ESA95 accounting principles and practices**. It should nevertheless be recognized that these principles and practices can be implemented in manner that allows some transactions to be recorded in a way that can send misleading signals about fiscal policy. The favorable adjustments to ESA95 fiscal indicators used in the Convergence Program to judge compliance for Maastricht targets provide an example.

60. **A specific shortcoming of fiscal reporting relates to within-year reports**. At the moment, these are limited to monthly reports on the cash position of the state budget sector. To aid monitoring of the implementation of fiscal policy, and to ensure timely and appropriate responses when fiscal policy goes off track, the government should accelerate moves to quarterly reporting on an ESA95 basis. Such reports should not only be available to the public, but also submitted to parliament. They should contain an analysis of deviations of fiscal aggregates from their planned path, which will help determine whether a policy

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[52] In this connection, Eurostat observes that "the classification [of assets in long-term contracts between public and private partners] as government assets has important consequences for government finances, both for the deficit (the initial expenditure is recorded as government fixed capital formation in the nonfinancial account, under the category P. 51), and for the debt (the financial account would record new government borrowing, that increases gross debt in the form of an "imputed loan" in AF.4, which is part of the "Maastricht debt" concept). Moreover, according to ESA95 rules, when the assets (in the form of construction or other structures) are considered government assets, the capital expenditure is recorded on an accrual basis at the outset . . . ." (European Union, *Long Term Contracts between Government Units and Nongovernment Partners (Public-Private Partnerships)*, 2004, p. 7).

correction is called for.[53] It is also desirable that the debt reporting by AKK, which currently covers the state budget sector, should be extended to general government.

**Medium-term fiscal framework**

61. **The Convergence Program is a step in the direction of providing a medium-term framework for fiscal policy formulation**. It specifies fiscal policy objectives through 2009, the principle objectives being the reduction of the overall deficit and gross debt of the general government to the levels specified by the Maastricht Treaty. The view of the EC, the Fund, the OECD, and the MNB is that previous Convergence Programs were unrealistic because, firstly, it was not clear that the state budget was consistent with the Program targets and, secondly, the favorable accounting treatment of certain problematic transactions (most notably military fighter leases and PPPs, including those involving AAK) could be challenged. An appropriately ambitious medium-term framework cannot avoid steady implementation of high-quality adjustment measures, and a Convergence Program that suggests otherwise does not serve the objective of fiscal transparency. It is therefore important that the Convergence Program, and by implication the state budget, is backed by a careful analysis of debt sustainability and the preparation of realistic adjustment scenarios, supported by a detailed macroeconomic framework and quantification of adjustment policies. Models used for these purposes should be publicly available. It is pleasing that the Convergence Program of September 2006 improves the treatment of these issues.

62. **The government should adopt a medium-term budget framework that is consistent with the Convergence Program**. The government's three main economic planning systems—the National Development Plan, the Convergence Program, and the annual state budget—are not well integrated: while the systems inform each other, there is no clear link between them. Medium-term fiscal planning that would relate annual spending plans to medium-term affordability considerations is at a very early stage still, although the government is taking some initial steps in this direction in its preparations for the 2007 state budget, by presenting three-year appropriations for certain expenditures. Without having a strong medium-term fiscal planning system, annual decision making in the context of the state budget is not guided by medium-term considerations. Given the need for fiscal adjustment to focus to a considerable degree on the expenditure side of the budget, the medium-term budget framework could in fact take the specific form of multiyear expenditure targets which can anchor the adjustment effort and ultimately sustain fiscal discipline while allowing automatic stabilizers to operate on the revenue side. Box 5 provides further details about expenditure targeting.

[53] A welcome development in this context is the government's announcement in the September 2006 Convergence Program that, until the excessive deficit is eliminated, it would inform the Commission and Ecofin on a semi-annual basis about the developments of the budget and, in the event of departure from the planned course, about the measures to assure the resumption of the fiscal path.

## Box 5. The Design of Expenditure Targeting Frameworks

In general, the expenditure aggregate to be targeted should be broad-based. The use of comprehensive aggregates reduces the risk that ceilings lead to creative accounting or can be circumvented by increasing expenditure outside the targeted aggregate. However, specific items could be excluded:

- Spending that cannot be easily changed in the short term, (e.g., the interest bill). Nevertheless, while some spending items may not be easily changed in the short term (e.g., entitlements), the expenditure framework should include realistic (multiyear) targets for these items.
- Counter-cyclical expenditure items (e.g., unemployment benefits). Including them in the ceiling could impede the operation of the automatic stabilizers, although these are primarily on the revenue side.
- Priority or high quality spending. The objective is to protect spending items that can have significant returns but are politically easier to cut, such as (high quality) investment spending. However, this should be balanced against the risks of excluding too broad categories of expenditure.

Some disaggregation of spending ceilings can be useful, but should not impose excessive rigidity on the expenditure framework. A key issue is the extent to which savings in some categories can be used to offset overruns in others. Lower-than-expected expenditure on some programs (e.g., due to productivity gains) should generally be saved. However, excessively disaggregated expenditure ceilings may eliminate essential flexibility for agencies which have multiple tasks.

Setting multiyear targets has potential advantages. A multiyear framework makes medium-term fiscal goals explicit, providing the rationale for specific expenditure ceilings and helps to build broad consensus. However, setting multiyear targets could come at the cost of limited flexibility during the period over which the targets are fixed. A solution could be adoption of expenditure targets set on a rolling basis, as plans can be revised as economic conditions change, but there is also a risk that such flexibility could be misused. In this respect, the practice of fixing expenditure targets at the beginning of a legislature for its entire span (as in Finland), together with limited contingency provisions, may represent a more transparent solution that is conducive to a higher degree of accountability.

Realistic macroeconomic assumptions underlying an expenditure target can strengthen its transparency and effectiveness. The adoption of a cautious scenario has the advantage of likely better-than-expected outcomes, which could create some room to finance new programs (during the fiscal year) or to manage unexpected spending overruns. However, the adoption of an excessively cautious scenario can obscure the true fiscal goals of the government, undermining the purpose of the multiyear fiscal framework. A cautious scenario may also induce lower commitments by line ministries and result in additional spending pressures during the year as revenue will likely exceed projections. A more transparent arrangement would be to accompany the adoption of a realistic scenario with the introduction of a contingency reserve.

Nominal targets, as opposed to real ones, are easier to monitor and can contribute to countercyclical policies. Nominal ceilings are simpler to implement and monitor, as there is no need to use spending-related deflators that are difficult to estimate. Moreover, nominal ceilings can reinforce the response of automatic stabilizers to demand shocks, as higher-than-expected inflation would automatically lead to lower real government spending. However, nominal ceilings can lead to cuts in real spending when inflation is high that could be disruptive and inappropriate.

Cash and accrual based targets can play a complementary role. Accrual measures are generally superior as a means for budgetary planning. However, within year monitoring of fiscal developments can be impeded by the delay with which accrual figures are usually available.

63. **There is a need to do more longer-term fiscal analysis, most notably to develop a fuller understanding of the future fiscal implications of the aging population**. This would encourage adjustment measures that address not only immediate and medium-term fiscal consolidation needs, but also provide an effective response to longer-term fiscal pressures. Measures that contribute to a fundamental social protection and health care reform would fall into this category.

**Fiscal risk analysis**

64. **Fiscal risks need to be fully reported and properly taken into account when formulating fiscal policy**. At present, Hungary reports only guarantees in a transparent fashion, although the Convergence Program contains some analysis of risk surrounding macroeconomic projections. A supplementary report to the budget should aim to broaden this coverage in order to identify and if possible quantify key sources of fiscal risk so that fiscal policy is formulated with a view to ensuring that risk exposure can be managed. Given the rapidly growing use which is being made of PPPs in Hungary, special attention should be paid to the fiscal risks which these may create.

65. **However, fiscal risk analysis should go beyond this, and look at other factors that can affect fiscal outcomes**. In particular, it is important to be aware of the uncertainties surrounding short-term forecasts and medium-term projections. Paying attention to the range of possible outcomes can provide a natural antidote to optimism bias by highlighting downside risks. This is especially important in connection with debt sustainability analysis because debt dynamics are extremely sensitive to key assumptions and risks are correlated across assumptions.

**Independent scrutiny**

66. **Fiscal policy in Hungary is subject to considerable scrutiny**. Internally, the SAO has a mandate to report on the "basis for the budget," and in this connection it can comment on whether the stance of the budget is appropriate, expenditure proposals are reasonable, and revenue forecasts are realistic. However, its focus is mainly on revenue forecasting, and while the SAO has consistently warned the government about optimism bias in its forecasts, this has been to little effect and fiscal targets are routinely missed as a consequence. Externally, there is regular Fund, OECD, and EU surveillance, with the last having been stepped up considerably in the context of the Convergence Program.

67. **Most recently, the MNB has been commenting publicly on fiscal policy in its Inflation Report, voicing concerns about the government's ability to meet the fiscal targets of the Convergence Program**. However, the role of fiscal policy watchdog should not be part of the mandate of an independent central bank, and it would be preferable if there were other institutions that could play this role.

68. **If more intensive internal scrutiny of fiscal policy is desirable, what are the alternatives**? One option might be to strengthen the mandate of the SAO to make more explicit that it has to make not only technical judgments on forecasts, with which it is understandably more comfortable, but also judgments on fiscal policies. More precisely, the SAO could be tasked to comment on the clarity of fiscal policy and on the consistency of the budget with announced fiscal policy (it being a widely accepted principle that supreme audit bodies do not comment on the appropriateness of government policies per se, but only on the implementation of those policies). The government would then be required to respond to comments from the SAO on fiscal policy, and outstanding issues would be reported to parliament when it discusses fiscal policy. It is, however, not clear that this would be the best approach. Fiscal policy analysis is not usually a core competence of a supreme audit body, the skill base of which is accounting-related. Resources may therefore be needed to strengthen the expertise of the SAO on both the macroeconomic and microeconomic aspects of fiscal policy. However, even then there is a risk that the SAO may have difficulty establishing credibility on policy matters while its capacity to perform more traditional core functions is weakened. An alternative option worthy of consideration would be to set up an expert advisory council with a mandate to provide an independent view on all or selected aspects of fiscal policy.

**Budget outcomes and performance**

69. **While the points above emphasize fiscal transparency as it relates mainly to aggregate fiscal policy, the efficiency and effectiveness of public expenditure is also important**. As suggested in the 2001 ROSC, it is desirable that Hungary move to a form of performance budgeting, and more specifically that steps be taken to:

- Clearly specify the objectives of public expenditure in terms of intended outcomes;
- Classify expenditure in terms of objectives, replacing allocations based on input categories by program allocations;
- Begin to develop performance indicators, program evaluation, and other methods of obtaining information about program performance;
- Modify the budget process to give greater attention to choices about the best allocation of limited resources between competing purposes; and
- Strengthen the organizational structures and capacity of government ministries to implement the proposed performance management framework.

## Appendix I. Summary of Key Findings from Past Fiscal Transparency Assessments

### 2001 Full ROSC

*Overview*

- Significant progress in increasing the transparency and accountability of government.
- The activity of fiscal authorities clearly spelled out in the PFA (which conforms to EU requirements for regulating budget management).
- Recent reforms have provided a modern and well-functioning budget process, comprehensive coverage and is couched in a well-articulated medium-term economic framework.
- A number of extrabudgetary funds has been reduced significantly, comprehensive fiscal data are reported and there are effective internal and independent external audit controls.

*Areas for improvement*

- Central government should present a consolidated picture that would include the activities of the APV.
- Consideration should be given to restructuring arrangements between the budget and APV to bring its fiscal activities fully into the central government budget, with the same treasury and internal audit controls as all other budget institutions.
- Operations of the NA and “nonprofit” institutions that conduct essentially fiscal activities should be reflected in the central government budget and reports.
- Greater care to be taken to ensure that all government spending is authorized (either budget or supplementary budget) by parliament.
- Government should ensure that the current rules for public procurement are more strictly adhered to at all levels of government.
- Authorities should prepare comprehensive reports on QFAs, on the financial assets of the government, and on tax expenditures.
- Consideration should be given to moving towards performance or output-oriented budgeting and developing the ability to conduct performance or value-for-money audits.

**May 2002 ROSC Update**

*Overview*

- Significant fiscal activities are still conducted outside the purview of the MoF (APV and MFB). These are fiscal in nature and remain outside of the scope of the government budget. In 2001, spending outside of the government budget increased by 1.5 percent of GDP (bulk of which accounted for by the NA, a subsidiary of the MFB).
- The government has initiated steps to monitor off-budget fiscal activities. PFA amended in late 2001 to include detailed reporting requirements for all economic units engaged in fiscal activities.
- Partial reporting of QFAs, but MoF does not prepare a regular, comprehensive report of all QFAs.
- A new reporting system on the value of financial assets of the state is under preparation. Government decree effective January 2002 introduces new accounting and reporting system for budgetary units. MoF intends to compile quarterly accounts on the valuation of state financial assets and publish quarterly stock data.
- SAO has completed its review of public procurement (published May 2001).
- MoF has published the macroeconomic model underlying its macrofiscal forecasts.

*Commentary*

- Fiscal transparency falls short of international best practice (off-budget spending primarily by the MFB and its subsidiaries, has increased over the past year).
- Compliance with amendment of PFA requiring all off-budget spending reports to MoF seems uneven.
- Should be better integration of all fiscal activities of institutions currently outside of the scope of the government budget into the regular budgetary process; amending the legal basis of the current system of fiscal accounts may require some time.
- First priority should be to ensure that all off-budget spending is reported in a timely and comprehensive way to the MoF and reflected in its public reports and its final reports to parliament.

**April 2003 ROSC Update**

*Overview*

- Accounts of the APV were consolidated with those of the general government on the basis of the ESA95. However, APV remains outside of the central government budget.

APV revenue and expenditure comprise of negligible share of total consolidated general government revenue and expenditure on ESA95 basis.

- Starting in 2003, the government can no longer use APV's privatization reserves for subsidizing government activities, injecting capital in state-owned companies, or undertaking other QFAs.
- All QFAs of the MFB were eliminated. In December 2002, the central government purchased three MFB subsidiaries: NA; AAK; and DHK took over their assets and assumed their debt (involved a one-off increase to 2002 central government expenditure equivalent to 2.1 percent of GDP).
- Frequency and timeliness of data has improved.
- The consolidation of APV in the general government accounts and the elimination of QFAs of the MFB removed some of the sources of discrepancy between the fiscal and monetary accounts with regard to budget financing (considerable discrepancy still remains).
- Hungary's 2002 Pre-accession Economic Program (PEP) submitted to the European Commission included an analysis of fiscal risks.
- The revaluation of state financial assets to reflect market prices which started in January 2002 continued, but progress has been slow.
- The government began compiling fiscal data in line with the accrual-based ESA95 in preparation for Hungary's EU membership and made public in April 2002 at the time of Hungary's first formal notification to the European Commission, together with an explanation of differences between these and national data. Work underway to provide regular quarterly fiscal data to the Commission.
- In 2003, the government abandoned its budget within a medium-term framework and reverted to an annual budget basis.
- The government began developing a rolling three-year fiscal program, initially covering the 2004–06 period to serve us as a basis for its medium-term budget planning. The framework is expected to be developed by September 2003.

*Commentary*

- Important progress made to bring fiscal transparency closer to international best practice.
- Relation between the activities of the APV and the central budget was made more transparent; the discretionary use of privatization funds for supporting government activities was curtailed; and the reporting requirement was tightened.
- Consideration should be given to bringing all fiscal activities of the APV within the central government budget, subject to the same control and oversight as other budget institutions.

- The absorption of QFAs of the MFB by the central budget has significantly reduced off-budget spending, efforts are being made to bring into the budget fold, the activities of nonprofit institutions and funds that perform public services under contract to spending ministries—these institutions should either be privatized or eliminated with their services outsourced to the private sector.
- A stronger effort should also be made to quantify and report other QFAs and tax expenditures.
- Particular attention could be given to providing a comprehensive quantitative analysis of fiscal risks and moves toward performance-based budgeting.
- Remaining data quality issues should be addressed urgently and the consolidated general government accounts be made publicly available more frequently.
- More timely publication of general government accounts according to economic and functional classifications would further facilitate analysis of fiscal developments.

**April 2004 ROSC Update**

*Observations*

- Consistent with ROSC recommendations, the MoF, in cooperation with the Prime Minister's Office conducted a survey of all nonprofit institutions that essentially perform government functions and which the government and central budgetary units exercise ownership rights. Based on the survey, all those nonprofit institutions and public benefit companies that rely mainly on budget support for financing will be absorbed by the central government (work in progress). No further broadening of the fiscal coverage of general government since last year.
- From 2004, the use of privatization receipts has been limited to financing infrastructure development projects included in the central budget and approved by parliament. Some QFAs were eliminated in 2003 when the central government purchased three key subsidiaries of the Hungarian Development Bank (MFB). A major source of QFAs arising from government regulatory operations was removed when electricity and natural gas prices were raised to cost recovery levels and implicit subsidies were eliminated in 2004.
- The periodicity and timeliness of fiscal statistics in Hungary meet or exceed the requirements of the IMF's Special Data Dissemination Standards.
- A 2003 amendment to the PFA required the government to publish, beginning with the fiscal accounts of 2002, detailed explanation of the differences between the accounts based on the national definition of those reported to Eurostat on the basis of ESA95.
- The budget process is open and increasingly in conformity with EU procedures and norms. Budget preparation and execution has been strengthened (amendments to the

Public Procurement Act have fully harmonized procurement procedures with those of the EU); line ministries will have to formulate, by end-September 2004, indicators of performance that could be monitored; Hungary's 2003 Pre-Accession Economic Program (EP) submitted to the European Commission improved its analysis of medium-term fiscal risks and provided an estimate of the structural fiscal deficit).

- Some reversals: government did not proceed as planned in developing a rolling three-year fiscal program with ceilings on overall expenditure and subceilings on the main expenditure components; a 2002 amendment to the PFA, which permits additional spending without supplementary budget appropriations and parliamentary approval, provided that the deficit does not exceed the budgeted amount by more than 5 percent of total expenditure-allowed additional expenditure and a higher deficit in 2004.
- Important progress has been made to strengthen audit and financial control and procedures related to the use of public funds and property.
- A new government decree strengthened the internal audit of public budgetary organizations by establishing procedures for their financial, system-based and performance audits in line with internationally-accepted standards.
- For the internal audit system, the Minister of Finance will have to present a comprehensive report to the government on the quality of financial management and internal controls in the government sector.
- New regulations require the public budgetary organizations to develop and put in place a system of financial management and control, establish an audit trail and undertake regular risk assessment of their own activities.

*Commentary*

- Further progress last year in bringing fiscal transparency closer to international best practices, with some of these changes prompted by the EU accession.
- Noteworthy progress in enhancing transparency and accountability in the management and use of public funds and property.
- As part of the "Glass Pockets" program, more information on the use of public funds is now being made available.
- More information on the use of public funds is now being made available, the scope of the ex post supervision by the SAO has been expanded and the internal audit procedure of public budgetary organizations has been significantly strengthened.
- Important first steps were taken toward performance-budgeting, the public procurement policy has been tightened to comply with EU norms and the activities of many nonprofit institutions and public benefit companies are being brought into the budget fold.
- Improvements made in data consolidation, reconciliation and reporting.

- Authorities were considering a three-year rolling budgetary framework with expenditure ceilings.
- The practice of allowing additional budgetary spending without supplementary appropriations and parliamentary approval should be discontinued.
- Some of the QFAs of the MFB have been eliminated, however, MFB lending to small and medium enterprises are to new family doctors is still of a quasi-fiscal nature and should be discontinued.
- No progress has been made in quantifying and reporting tax expenditures and a number of data quality issues remain.

## Appendix II. A Summary Assessment of Practice

| Code Reference | Summary Assessment | Comment |
|---|---|---|
| **Overall summary**<br>Hungary complies with the *Code of Good Practices on Fiscal Transparenc*y in many respects, and has improved compliance in a number of areas in recent years. A number of areas require further improvement, the most important being the discontinuation of the use of transactions to improve the apparent, but not the actual, fiscal position. | | |
| Clarity of roles and responsibilities | | |
| 1.1.1 | General government is defined in a manner that is largely consistent with ESA95 and Government Finance Statistics (GFS) principles. | Significant improvements have been made since the previous ROSC. |
| 1.1.2 | The fiscal roles of the executive, legislative and judicial branches are clearly defined in law. The responsibilities of different levels of government are relatively clearly defined. | |
| 1.1.3 | Mechanisms for the coordination and management of budgetary and extrabudgetary activities are well defined. | |
| 1.1.4 | There is a clear separation between the monetary and fiscal authorities, and the MNB has a high degree of independence. | |
| 1.1.5 | Government regulation of the nonfinancial private sector is complex, but efforts are being made to simplify business regulation. The legal framework for privatization is clear. | Some improvements have occurred in respect to business regulation, but much remains to be done. |
| 1.2.1 | The legal framework for management of public funds is mostly clear and comprehensive. | The transactional coverage of the budget has been extended substantially in recent years. |
| 1.2.2 | The legislative basis for taxation is clear and comprehensive. | |
| 1.2.3 | A well-defined code of conduct for civil servants is lacking. | Some improvements in legal provisions in respect to conflict of interest have occurred. |
| Public availability of information | | |
| 2.1.1 | The budget documents and annual budget execution reports cover most general government fiscal activities, and report the consolidated fiscal position of government. | |
| 2.1.2 | The budget documents disclose the main fiscal aggregates for the two prior years, but do not present projections of expenditure, revenue or financing for coming years. | |
| 2.1.3 | The budget documents do not provide information on quasi-fiscal | |

| Code Reference | Summary Assessment | Comment |
|---|---|---|
| | activities, and contain quite limited information on contingent liabilities and tax expenditures. | |
| 2.1.4 | Information on debt and financial liabilities in made available. | |
| 2.1.5 | The consolidated fiscal position of general government is reported. | |
| 2.2.1 | The publication of fiscal information is not a legal obligation. | |
| 2.2.2 | Advance release dates for fiscal information are announced. | |
| Open budget preparation, execution, and reporting | | |
| 3.1.1 | Medium-term fiscal policy objectives are clearly stated, but the link between these objectives and the concrete fiscal policy measures in annual budgets is unclear. | |
| 3.1.2 | No fiscal rules have been articulated. | |
| 3.1.3 | Budget forecasts and underlying macroeconomic assumptions are clearly presented in the budget. | |
| 3.1.4 | Estimates of the cost of new initiatives and of ongoing government policies are not clearly distinguished in the budget documents. | |
| 3.1.5 | The budget documents contain little information on, or discussion of, fiscal risks, other than in respect to government guarantees. | |
| 3.2.1 | Expenditure is classified by economic, functional and administrative category. | |
| 3.2.2 | The objectives and expected results from government activities are discussed only in general terms. | |
| 3.2.3 | The overall balance of general government is reported. | |
| 3.2.4 | The public sector balance is not reported. | |
| 3.3.1 | There is a comprehensive accounting system. | |
| 3.3.2 | Procurement rules and practices are clear and well-known and conform to international best practice. Civil service employment procedures are not clear and consistent. | |
| 3.3.3 | Internal audit processes could be more effective. | A number of recent positive steps have been taken to improve internal audit processes. |
| 3.3.4 | The national tax administration is not given full legal protection from political interference. | |
| 3.4.1 | The legislature does not undertake a mid-year budget review, and is not presented with in-year budget execution reports. | |
| 3.4.2 | Audited final accounts are presented to the legislature within eight months of the conclusion of the budget year. | |
| 3.4.3 | No performance information is presented to the legislature. | |
| Assurances of integrity | | |
| 4.1.1 | Budget estimates are not a reliable indicator of the actual budget outcome. | |

| Code Reference | Summary Assessment | Comment |
|---|---|---|
| 4.1.2 | Accounting policy is generally well defined but no formal statements of accounting policy are included in the budget documents and final accounts. | |
| 4.1.3 | The process of accounts reconciliation is largely effective. | |
| 4.2.1 | External audit is independent of the executive branch, and provides timely reports to the legislature and public on the financial integrity of government accounts. | |
| 4.2.2 | No significant external scrutiny of macroeconomic models and assumptions is carried out. | |
| 4.2.3 | The national statistics office is provided with legislative assurance of independence. | |

## Appendix III. Public Availability of Information—A Summary

| | Budget and fiscal report element | Included in budget/report documents | Available to the public | Para ref. | Code ref. |
|---|---|---|---|---|---|
| 1. | Central government (CG) budget estimates. | Yes, following legal government definition (Box 1). | Yes. Published/ press/internet. | 39 | 2.1.1 |
| 2. | CG Defense Expenditures | Yes | Yes. | 39 | 2.1.1 |
| 3. | CG EBFs | Partially. Including Social Security Funds and other “Extrabudgetary Funds” defined in the PFA. But a number of central government bodies outside legal government which are true EBFs are not covered in the budget documents (Box 1). | Yes. Published/ press/internet. | 39 and 3 | 2.1.1 |
| 4. | CG Budget outturns | Yes. Budget documents include main aggregates for the state budget sector for: the fiscal outturn 2 years prior to the budget year; and previous year budget appropriation. | Yes. Published/ press/internet. | 41 | 2.1.2 |
| 5. | CG Budget forecasts | No | | 41 | 2.1.2 |
| 6. | CG Contingent liabilities | Annex on debt guarantees of debt budget sector, with probable cost estimate, and appropriation in the budget. No other contingent liabilities reported. | Yes. Detailed reporting on guarantees. Published/ press/internet. | 42 | 2.1.3 |
| 7. | CG Tax Expenditures | Some information. | Some information. | 42 | 2.1.3 |
| 8. | CG QFAs | No | No | 42 | 2.1.3 |
| 9. | Macroeconomic assumptions | Yes. Annex to the budget. | Yes | 22 | 3.1.3 |
| 10. | Analysis of fiscal | Partial. Annex on debt | Yes | 25 | 3.1.5 |

| | Budget and fiscal report element | Included in budget/report documents | Available to the public | Para ref. | Code ref. |
|---|---|---|---|---|---|
| | risks/sensitivity analysis | guarantees of state budget sector (see above). No other risk analysis is performed. | | | |
| 11. | CG Financial Assets | Yes. Information in final accounts and in financial accounts published by MNB. | Yes | 44 | 2.1.4 |
| 12. | Sustainability Analysis | Partial. Annex on medium term pension expenditures. | Yes | 23 | 3.1.1 |
| 13. | General government budget estimates | Partial. Annual estimates of main fiscal aggregates of legal government (Box 1). Only overall balance on general government under ESA95 (no detail). No medium-term estimates in budget documents, but available in Convergence Program.<br>No QFAs; tax expenditures; contingent liabilities (except state budget sector guarantees). | Yes | 38 | 2.1.5 |
| 14. | CG Monthly reports on fiscal outturn | Yes. Published three weeks after the end of the month. | Yes. Published/ press/internet. | 33, 45. | 3.4.1 |
| 15. | General government quarterly reports on fiscal outturn | Submitted to the EU but not published. | No | 33 | 3.4.1 |
| 16. | CG Final Accounts | Partially. Final accounts of legal government, audited by SAO, go to parliament within eight months after year-end. | Yes | 36 | 3.4.2 |
| 17. | Consolidated general government Final Accounts | No. | Yes/internet. | 38 | 3.4.2 |