

Act LXXV of 2008

on Cost-efficient State Management and Fiscal Responsibility

Parliament, in order to promote the creation and maintenance of the discipline, transparency and long-term sustainability of fiscal policy and to foster the long-term competitiveness of Hungary through fiscal means, in consideration of the requirement of justice between present and future generations and the expected growth of public expenditures owing to the aging of society in the forthcoming decades, has adopted the following Act.

FUNDAMENTAL OBJECTIVES OF RESPONSIBLE FISCAL POLICY

Section 1

- (1) The objective of responsible fiscal policy is to achieve a level of the government debt sustainable in the long term by assuring that the budget is permanently close to the equilibrium.
- (2) Fiscal policy should serve the regional and global competitiveness of Hungary in the long term by restricting government redistribution to the requisite level.
- (3) In accordance with the provisions of this Act, the short and medium term objectives of fiscal policy shall be set out in the Act on the State Budget (hereinafter: annual budget act) and in government decrees adopted pursuant to the authorisation provided in this Act.

RULES OF RESPONSIBLE FISCAL DECISION MAKING

Definition of key terms used in fiscal policy rules

Section 2

- (1) The fiscal policy rules shall be applied taking into account the definitions set out in Act XXXVIII of 1992 on Public Finances (hereinafter: PF Act) and in subsection (2) below.
- (2) For the purposes of this Act:
 - a) *deterioration of the balance*: a decrease in the surplus or an increase in the deficit,
 - b) *subject year*: the year for which the annual budget act contains the detailed breakdown of budget items,
 - c) *real value*: the nominal value divided by the price index,

- d) *price index*: the index expressing the general price level or the changes thereof. For the purposes of this Act, it shall mean the deflator of the gross domestic product where available for the period concerned, and the consumer price index in other instances.
- e) *baseline projection*: A calculation relating to the expected budget revenues and expenditures which takes into account the effects of developments in the private economy, demographic trends, promulgated legal regulations, final court rulings and value changes in the prices of the inputs necessary for government services,
- f) *factors in the private economy and demography*: factors with economic impacts which fiscal policy is unable to control directly, including in particular the number and composition of the population, the economic decisions of private sector economic actors, climatic effects or the effects of the global economy.

FISCAL POLICY RULES FOR THE CENTRAL SUBSYSTEM

Section 3

- (1) The annual budget act shall specify the requirement of the balance of discretionary items for the year following the target year in such manner that based on the most recent baseline projection for the mandatory items, the nominal value of the primary surplus is not less than the primary balance target specified, in the pervious year, for the year following the target year as defined in subsection (2).
- (2) The annual budget act shall determine the primary balance target for the second year following the subject year in such manner that
 - a) the primary balance target is not a primary deficit, and
 - b) the real value of the government debt at the end of the second year following the subject year is not expected to exceed the value of the government debt expected for the end of the year following the subject year, and
 - c) the real value of the government debt at the end of the second year following the subject year is not expected to exceed the value of the government debt at the end of the second year preceding the subject year.
- (3) For the purposes of paragraph c) of subsection (2), when performing the calculations, the difference of the actual value of the balance of discretionary items in the second year preceding the subject year and of the budgeted value set out in the annual budget act shall be added to the value of the government debt of the second year preceding the subject year as the reference value.

Section 4

- (1) The annual budget act shall specify the real value of the change allowed in the adjusted total, as set out in the Budget Act, of the primary expenditures of the central subsystem of the legal government for the second year following the subject year, as defined in subsection (2) below, compared to the adjusted sum total budgeted for the year following the subject year.

(2) For the calculation of the adjusted sum total referred to in subsection (1) above, primary expenditures shall

- a) be reduced by the proposed amount of funds originating in the budget of the European Union or relating to Hungary's European Union membership but originating in the budget of a non-European Union state,
- b) be reduced by the proposed amount of the own revenues of central budgetary institutions.

(3) If, based on the baseline projection used for fiscal planning, the primary balance is expected to be more favourable in the subject year and in the four subsequent years than the balance target defined in Section 3, the amount of the difference between the balance targets and the expected values of the balances shall be recorded, in an annual breakdown, as a Stability and Tax Reform Fund. The Government shall, by the submission of the Budget Bill to Parliament at the latest, submit a legislative amendment containing a tax cut programme corresponding to the amount of the Stability and Tax Reform Fund.

Procedural rules promoting fiscal discipline and transparency

Section 5

(1) In the course of the preparation of legislation, the drafter of the legislation shall assess the expected effect of regulation on the budget through a fiscal impact assessment.

(2) The assessment of budgetary impacts shall include, in respect of at least four fiscal years from the effective date of the proposed legislation, the quantified estimation of all the material, direct or indirect effects of the proposed legislation on the revenue or expenditure items of the budget, in particular, the development of mandatory items and of the wage-type expenditures of institutions within the legal government as well as changes in the funds necessary for the performance of tasks required from self-governments in an Act of Parliament.

(3) The budgetary impact assessment shall also include

- a) the assumptions used for the calculations,
- b) the baseline projection used for the comparison, or an unambiguous reference to a baseline projection prepared and published by another organisation,
- c) the description of the methodologies used.

Section 6

(1) In order to assure the sustainability of fiscal policy, the elaboration of the budget shall be based on real economic processes and sound forecasts.

(2) The decisions of Parliament shall

- a) be based on sound budgetary impact assessments,

- b)* assure that when adopted, neither the budget balance nor the balance of mandatory items deteriorates as compared to the baseline projection of the year of its promulgation or in the subsequent calendar year.
- (3) The Government or any member of the Government shall discharge their responsibilities and competences in a manner that assures that the budget balance does not deteriorate as compared to the baseline projection up to the end of the second calendar year from the adoption of the measures or, where a decree is adopted, from the effective date thereof.
- (4) The material findings and conclusions of the budgetary impact assessment shall be attached to all draft legislation specified in subsections (2) and (3).

THE FISCAL COUNCIL

The Responsibilities and Competence of the Fiscal Council

Section 7

- (1) The Fiscal Council is a body consisting of three members supporting the legislative work of Parliament, which is subject only to the law and it shall not be bound by any instructions in the course of its activities.
- (2) The Fiscal Council
 - a)* shall prepare macro-economic forecasts;
 - b)* shall prepare baseline projections for the budget figures;
 - c)* shall prepare methodological recommendations relating to fiscal planning, forecasting and impact assessment;
 - d)* shall prepare estimates, both following submission to Parliament and before the final vote, concerning the fiscal effects of the budget bills and supplementary budget bills as well as any other bills discussed by Parliament that may have an impact on the development of mandatory items;
 - e)* may prepare estimates concerning the budgetary impacts of draft bills other than those indicated in point d) as well as of motions for amendment submitted in the first or second phase of the Parliamentary debate or before the final vote which are subject to parliamentary decision pursuant to the Standing Order of Parliament;
 - f)* shall provide information, upon request, to the President of the Republic, the parliamentary commissioners, the president of the State Audit Office, the governor of the National Bank of Hungary and the committees of Parliament concerning issues within their competence;
 - g)* may inform the budget committee of Parliament or the Government about its legislative recommendations to promote the maintenance of fiscal discipline and the transparency of the legal government,
 - h)* shall comment on draft legislation relating to fiscal accounting rules.

- (3) The forecasts, estimates and recommendations prepared by the Fiscal Council shall be published on the website of the Fiscal Council.
- (4) The Fiscal Council shall submit annual reports to Parliament on its activities and on experiences within its area of competence.

Section 8

- (1) The Fiscal Council may request, from any person or organisation in contact with the legal government, information on all such issues, have access to or request copies of such all documents and access all such data managed that may be relevant for the discharge of its duties.
- (2) In the course of the implementation of subsection (1), the Fiscal Council may gain access to personal particulars, with the exception of personal data that are to be disclosed in the public interest, in a manner that excludes the possibility of identification.
- (3) The classified status of data shall not hinder the Fiscal Council in performing its tasks, but the Fiscal Council shall also be bound by the regulations concerning the confidential treatment of such secrets. In order to perform its tasks, the Fiscal Council shall also be entitled to access data and information qualifying as tax, business, bank, securities, fund or insurance secret or classified as confidential in any other legislation. The forecasts and estimates published by the Fiscal Council shall not contain classified data or any other secrets protected by law nor shall they cause the disclosure of such.
- (4) The Fiscal Council may request any information or knowledge necessary for the discharge of its duties, irrespective of the manner or format of its recording or its itemised or aggregated nature (hereinafter: 'data') from the entity managing such data or capable of producing it with reasonable efforts. The entity shall comply with such request forthwith but within fifteen days of its receipt at the latest. If the requested information is not available and it may not be produced within a reasonable timeframe, the entity shall inform the Fiscal Council in writing to that effect.
- (5) The Fiscal Council may request, orally or in writing, the release or production of data necessary for the assessment of the fiscal impact of a motion from the Minister representing the Government in the course of the discussion of the bill, or where the bill is submitted by another proponent, from the submitting proponent or the Minister with competence over the subject matter of the bill.
- (6) If the party obliged to release the data to the Fiscal Council fails to do so within fifteen days of the receipt of the relevant request, the Fiscal Council may request the data from the minister of finance. The minister of finance shall release the data within five working days of receipt of such request, or inform the Fiscal Council about the unavailability of the data.
- (7) If the entity obliged to release data to the Fiscal Council fails to do so within the time limits specified in subsections (4)-(6), the Fiscal Council shall publish such fact.
- (8) Contact between the Fiscal Council and the entity obliged to release data may be made also by way of a document with an electronic signature attached where a relevant agreement exists.
- (9) No person acting on behalf of a body obliged to release data or of a body under the control of a minister shall be placed at a disadvantage because of informing the Fiscal Council

about data necessary for the performance of the tasks of the Fiscal Council provided that the rules for the protection of secrets specified in subsection (3) above are observed.

(10) The obligations laid down in this Section shall also be applicable to the employees of organisations participating in the performance of the responsibilities of the Fiscal Council.

Legal Status of the Fiscal Council and the Members of the Fiscal Council

Section 9

(1) The Fiscal Council shall be elected by Parliament for a term of nine years. The members of the Council may not be re-elected upon the end of their term. If the term served a member of the Fiscal Council was less than three years, he may be re-elected on one occasion.

(2) The President of the Republic, the President of the State Audit Office and the President of the Hungarian National Bank shall nominate one person each to be elected member of the Fiscal Council.

(3) The persons nominated for the Fiscal Council shall be heard by the budget committee of Parliament.

(4) Only such person may be elected member of the Fiscal Council who has a clean criminal record, who is a Hungarian citizen with a right to vote, has an appropriate specialised university degree, outstanding theoretical or practical knowledge of budgetary or financial matters and at least five years of managerial experience.

(5) No person shall be elected member of the Fiscal Council who

a) in the four years before the nomination, held a mandate terminating upon the end of the mandate of the Government (hereinafter: mandate tied to the mandate of the Government),

b) in the four years before his nomination, was a member of Parliament or member of the European Parliament, or held an elected senior official position in the national (central) body of any political party

c) is a close relative, as defined in the Civil Code, of a person holding a mandate tied to the mandate of the Government, member of Parliament or member of the European Parliament, or an elected senior official in the national (central) body of any political party.

(6) A member of the Fiscal Council shall enter into office upon the termination of the mandate of his predecessor or, if he was elected after the termination of the mandate of the predecessor, upon his election.

(7) If a new member is elected before the end of the mandate of the Fiscal Council, the mandate of the newly elected member of the Fiscal Council shall be terminated upon the end of the mandate of the Fiscal Council at the latest.

(8) Following his election, the member of the Fiscal Council shall take the oath before Parliament.

Section 10

- (1) The member of the Fiscal Council nominated by the President of the Republic
 - a)* shall chair the Fiscal Council,
 - b)* shall convene the meetings of the Fiscal Council and establish the agendas thereof,
 - c)* shall represent the Fiscal Council,
 - d)* shall approve the estimates on Bills to be disclosed,
 - e)* shall head the Secretariat of the Fiscal Council.
- (2) The member of the Fiscal Council nominated by the President of the Republic shall be responsible to Parliament for the soundness of the estimates prepared by the Fiscal Council.
- (3) The rules governing the operation of the Fiscal Council shall be established in the Rules of Organisation and Operation of the Fiscal Council, adopted by the Fiscal Council with a unanimous vote.
- (4) The Fiscal Council may delegate, in its Rules of Organisation and Operation, the performance of its tasks set out in points *c), f), g)* and *h)* of subsection (2) of Section 7 to the member nominated by the President of the Republic.
- (5) The Fiscal Council shall have a quorum if the majority of its members are present. It shall adopt its decisions with a simple majority of the votes of those present.

Section 11

- (1) The member of the Fiscal Council nominated by the President of the Republic shall not accept any other position or assignment except scientific, educational, artistic, literary advisory, editorial or other intellectual activities under legal protection, and shall not take up other gainful employment or accept remuneration.
- (2) The other members of the Fiscal Council
 - a)* shall engage in other activities exclusively where those are compatible with such function;
 - b)* shall not have legal relationships for performing work with the Secretariat of the Fiscal Council or with business associations in majority state ownership;
 - c)* shall not be civil servants;
 - d)* shall not accept any assignment from central budgetary institutions, business associations in majority state ownership or the Secretariat of the Fiscal Council except where such assignment is for scientific, educational, artistic, literary advisory or editorial work or other intellectual activities under legal protection;
 - e)* shall not be senior officials or members of Supervisory Boards of business associations in majority state ownership.
- (3) The member of the Fiscal Council shall not be a person holding a mandate tied to the mandate of the Government, member of Parliament or member of the European Parliament, or an elected senior official in the national (central) body of any political party, or the close relative thereof as defined in the Civil Code.

(4) If any grounds of incompatibility arise in connection with the member of the Fiscal Council, the member shall terminate the incompatibility within 10 days after taking cognizance thereof.

(5) If the member of the Fiscal Council fails to abide by his obligation laid down in subsection (4) within the required timeframe, Parliament shall establish incompatibility in a resolution upon the motion of any member of Parliament.

(6) If the member of the Fiscal Council terminates the grounds of incompatibility during the incompatibility proceedings, incompatibility shall not be established.

Section 12

(1) The members of the Fiscal Council shall make declarations of personal wealth upon their election and subsequently every year, in accordance with the rules applicable to members of Parliament; such declarations shall be published on the website of the Fiscal Council.

(2) The declarations of personal wealth of the member of the Fiscal Council shall be registered and controlled by the parliamentary committee responsible for issues of immunity.

(3) If the member of the Fiscal Council intentionally fails to meet his obligation to make a declaration of personal wealth or intentionally misrepresents a material data or fact, the parliamentary committee responsible for immunity issues shall call upon the person concerned, in writing, to make up for such omission or to correct the misrepresented fact or information. The member of the Fiscal Council shall act upon such notice within ten days of receipt of thereof.

(4) If the member of the Fiscal Council fails to abide by his obligation laid down in subsection (3) within the required timeframe, Parliament shall establish the violation of the obligation to make a declaration of personal wealth in a resolution adopted upon the motion of any member of Parliament.

Section 13

(1) The mandate of the member of the Fiscal Council shall be terminated

a) at the end of the term of the mandate,

b) upon the age of 70 years,

c) upon resignation,

d) upon the establishment of incompatibility,

e) upon the establishment of violation of the obligation to make a declaration of personal wealth,

f) through compulsory retirement,

g) by expulsion,

h) upon death.

- (2) Resignation shall be communicated in writing to the Speaker of Parliament.
- (3) The mandate of the member of the Fiscal Council shall be terminated by compulsory retirement if member of the Fiscal Council is unable, for at least six months, to attend to his duties arising from such mandate for reasons beyond his control.
- (4) The mandate of the member of the Fiscal Council shall be terminated by expulsion if the member of the Fiscal Council fails to attend to his duties arising from such mandate for reasons within his control, or if he commits a crime as established in a final court decision, or if he becomes unworthy of the position in any other manner.
- (5) Parliament shall decide, upon the motion of any of its members, on the compulsory retirement or expulsion of a member of the Fiscal Council.

Section 14

- (1) The member of the Fiscal Council nominated by the President of the Republic shall be entitled to the same remuneration and other benefits as the president of the State Audit Office.
- (2) The remuneration of the other members of the Fiscal Council shall be 50 percent of the remuneration of the member nominated by the President of the Republic.
- (3) The member of the Fiscal Council nominated by the President of the Republic shall be entitled to 40 working days of holiday per calendar year.
- (4) The social security status of the members of the Fiscal Council shall be governed by the rules applicable to civil servants.
- (5) The term of members of the Fiscal Council shall qualify as time spent in civil service and time of service giving rise to eligibility for pension.

Section 15

- (1) Preparatory and administrative functions relating to the tasks of the Fiscal Council shall be performed by the Secretariat of the Fiscal Council.
- (2) The rules governing the organisation of the Secretariat of the Fiscal Council, including its organisational form, and its operation shall be established by the Fiscal Council.

Section 16

- (1) The Fiscal Council shall establish its own budget, which shall constitute a separate title within the budget chapter of Parliament. The powers of the head of the entity supervising the relevant chapter shall be exercised by the member of the Fiscal Council nominated by the President of the Republic.
- (2) The Fiscal Council shall compile its recommendation for its budget and the report on the implementation of such budget, which the Government shall submit to Parliament, with its contents unchanged, as part of the annual budget bill and the bill on final accounts.
- (3) The financial management of the Fiscal Council shall be audited by the State Audit Office.

- (4) The head office of the Fiscal Council shall be in Budapest.

CLOSING PROVISIONS

Entry into force

Section 17

- (1) This Act, with the exceptions set out in subsections (2)-(4), shall enter into force on 1 January 2009.
- (2) Subsections (1), (3) and (4) of Section 18 of this Act shall enter into force on the day following its promulgation.
- (3) Section 3 of this Act, with the exception set forth in subsection (4) below, points *c*) and *d*) of subsection (2) of Section 2/A of the PF Act amended in subsection (2) of Section 22 of this Act, as well as subsection (1) of Section 36/B of the PF Act amended in subsection (9) of Section 22 of this Act, as well as subsection (3) of Section 22 shall enter into force on 1 July 2009.
- (4) Point *c*) of subsection (2) of Section 3 of this Act as well as Sections 5, 6 and 22, with the exceptions set forth in subsection (3) above, shall enter into force on 1 January 2010.

Transitional provisions

Section 18

- (1) The value of the adjusted and consolidated primary expenditure total of the central subsystem of the legal government budgeted for 2009 shall not exceed the value budgeted for 2008 and calculated in the same manner.
- (2) For the years 2010 and 2011, the Government shall submit a Budget Bill that assures that the budgeted value of the adjusted primary expenditure total of the central subsystem of the legal government, in real terms, increases over the value budgeted for the previous year and calculated in the same manner by no more than fifty percent of the expected growth rate of the gross domestic product in real terms.
- (3) For the calculation of the adjusted sum total referred to in subsections (1) and (2) above, primary expenditures shall
- a*) be reduced by the budgeted amount of funds originating in the budget of the European Union or relating to Hungary's European Union membership but originating in the budget of a non-European Union state,
 - b*) be reduced by the budgeted amount of the own revenues of central budgetary institutions.

- (4) For the calculation of the consolidated expenditure total of the central subsystems of the legal government as defined in subsection (1) above, primary expenditures shall
- a) be reduced by the budgeted amount of central budget expenditures for those transfers to the Pension Insurance Fund which serve to compensate for contributions foregone due to persons transferring to private pension funds and to cover expenditures of the Pension Insurance Fund,
 - b) be reduced by those transfers to the Health Insurance Fund which represent the budgeted amount of the cash assets handed over from the central budget as contributions,
 - c) be reduced by the budgeted amount of the payments of extra-budgetary funds into the central budget.
- (5) In the years 2010 and 2011, the Government shall submit a Budget Bill that assures that the value of the Maastricht deficit indicator as defined in point 2 of subsection (1) of Section 116 of the PF Act decreases as compared to the prior year value.

Section 19

- (1) Nominations for the members of the Fiscal Council shall be made for the first time within thirty days of the entry into force of this act.
- (2) The Fiscal Council shall perform the functions set out in points a) and c) of subsection (2) of Section 7 from 1 July 2009 onwards.
- (3) The Fiscal Council shall perform the functions set out in point b) of subsection (2) of Section 7 from 1 July 2010 onwards.
- (4) The Fiscal Council shall perform the functions set out in points d) and e) of subsection (2) of Section 7 from 1 July 2010 onwards, but until 1 January 2011, it shall do so only in respect of the Budget Bill.
- (5) The estimates described in points d) and e) of subsection (2) of Section 7 need to contain the data relating to changes in the funds necessary for the performance of tasks required in an Act of Parliament from self-governments as of 1 January 2011.
- (6) The provisions set out in Section 22 shall be taken into account during the preparation and adoption of the annual budget act of 2010.
- (7) The Government shall adopt the decree set forth in point zsg) of subsection (2) of Section 124 of the PF Act after 1 January 2010 for the first time.

Authorisations

Section 20

The minister of finance is authorised to determine, in decree, the detailed rules pertaining to the content and methodology of the budgetary impact assessment, which are required to be in line with the methodological recommendations published by the Fiscal Council.

Repeals

Section 21

(1) On 1 January 2010, subsection (1) of Section 1, Section 5, subsection (2) of Section 7, subsection (1) of Section 8, subsection (2) of Section 35, Section 40 and subsection (2) of Section 47 of the PF Act shall be repealed.

(2) On 31 December 2011, subsection (3) of Section 4 of this Act shall be repealed.

Amendments

Section 22

(1) Section 2 of the PF Act shall be replaced by the following provision:

“Section 2

(1) The legal government consists of central government and self-government subsystems.

(2) The central government subsystem of the legal government shall comprise

a) the Hungarian State as the subject of obligations and powers under public law (including state functions financed under fund-type arrangements), and

b) the following legal entities:

ba) the Hungarian State,

bb) central budgetary institutions,

bc) all those legal entities classified by an Act of Parliament into the central government subsystem,

bd) unless otherwise provided in an Act of Parliament, budgetary institutions founded by the Government or by an entity within the central government subsystem.

(3) The self-government subsystem of the legal government shall comprise the following legal entities:

a) local self-governments,

b) minority self-governments,

- c) budgetary institutions of self-governments,
- d) all those legal entities classified by an Act of Parliament into the self-government subsystem,
- e) budgetary institutions founded by an entity within the self-government subsystem.”

(2) Section 2/A of the PF Act shall be replaced by the following provision:

„Section 2/A

(1) Definitions relevant for the financial management of both legal government subsystems:

- a) *budget*: a financial plan serving as the basis for the financial management of the legal persons specified in subsections (2) and (3) of Section 2 as being part of the legal government which contrasts the budget expenditures to be used for the discharge of state or self-government tasks with budget revenues,
- b) *budget revenue*: addition to the stock of cash assets as a result of transactions, including supplementary items not involving cash movement and recorded in accordance with subsection (4) of Section 8/B but excluding items arising from the exchange of financial assets,
- c) *budget expenditure*: reduction of the stock of cash assets as a result of transactions, including supplementary items not involving cash movement and recorded in accordance with subsection (4) of Section 8/B but excluding items arising from the exchange of financial assets,
- d) *primary revenue*: budget revenues without interest receipts arising from financial instruments representing a credit relationship,
- e) *primary expenditure*: budget expenditures without interest payments relating to debt,
- f) *balance*: the difference of revenues and expenditures,
- g) *surplus*: the positive amount by which revenues exceed expenditures,
- h) *deficit*: the positive amount by which expenditures exceed revenues,
- i) *debt*: payables arising from a credit relationship, at nominal value.

(2) Definitions relevant for the financial management of the central government subsystem of the legal government:

- a) *state budget*: the consolidated budget of the central government subsystem of the legal government,
- b) *government debt*: the consolidated debt of the central government subsystem of the legal government,
- c) *mandatory items*: budget revenues and expenditures that cannot be influenced directly by the annual budget acts, as defined in Section 3,
- d) *discretionary items*: primary revenues and expenditures not classified as mandatory items.”

(3) Section 3 of the PF Act shall be replaced by the following provision:

„Section 3

(1) Only such budget items shall be considered mandatory items which are explicitly defined as such in this Act.

- (2) Those primary revenues and expenditures may be classified as mandatory items
- a) which serve to facilitate the implementation of a legal provision creating an individual entitlement or obligation, and
 - b) the amount of which, for the relevant year, is unambiguously determined by a legislative provision as defined in paragraph a) and by developments in the private economy or demographic trends.
- (3) Primary revenues and expenditures serving the performance of explicit outlay obligations defined in an international convention promulgated in law shall be considered mandatory items.”

(4) The following subsections (5)-(9) shall be added to Section 8 of the PF Act:

„(5) The part of the accounting profit/loss of business associations in majority state ownership relating to the state holding shall be recorded as budget items in the year when the balance sheet is drawn up. Losses shall be recorded as expenditures, profits as revenues.

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

- a) the value of the asset named in the agreement shall be recorded as a budget expenditure when the investment is capitalised in the accounts;
- b) the value of the asset recorded as budget expenditure pursuant to point a) shall be recorded as budget revenue in time proportionate instalments, annually, during the remaining term of the agreement starting in the year it is capitalised;
- c) if the agreement is terminated before the contractual deadline, the portion not recorded pursuant to point b) at the time of termination shall be recorded in a lump sum as a revenue item.

(7) If the agreement for the purposes set out in subsection (6) is for an indefinite term, it shall be considered as having a term of 5 years for the purposes of point b) of subsection (6).

(8) The provisions of subsections (6) and (7) shall also apply if a majority state owned business association engages in an investment as described in subsection (6) above based on an owner’s decision rather than an agreement.

(9) The provisions set out in subsections (6)-(8) shall be applicable to agreements concluded after 1 January 2010.”

(5) The following points k)-l) shall be added to subsection (3) of Section 8/A of the PF Act:

/Financial operations for financing purposes are as follows: /

“k) withdrawal of dividends of business associations in majority state ownership (including advances on dividends);

l) increase or decrease of the equity of business associations in majority state ownership.”

(6) The PF Act shall be supplemented with the following Section 8/B:

„Section 8/B

(1) When recording the actual budget revenues and expenditures, the following principles shall be applied:

- a) every budget expenditure and revenue shall be recorded (principle of completeness);

b) only expenditures and revenues supported by accounting documents shall be recorded (principle of sound accounting)

c) the method of recording most suitable for the presentation of actual economic processes shall be selected (substance over form).

(2) In order to enforce the principles set out in subsection (1), the following principles shall be applied wherever professionally possible:

a) consistency and comparability shall be assured in respect of the methods of recording (principle of consistency);

b) with the exceptions regulated in an Act of Parliament, budget revenues and expenditures shall not be netted off (principle of gross accounting).

(3) The budget shall be prepared in accordance with the principles set out in subsections (1)-(2).

(4) In addition to items related to cash flow operations such supplementary items not involving cash flow shall also be recorded as budget revenue or budget expenditure the recording of which is necessary for the implementation of the principle set out in subsection (1) paragraph c).

(5) The entirety of the fiscal accounting rules constitutes the methodology for determining, from the accounting data, the items of the budget balance and of the debt, and the relationship between the budget balance and the debt.

(6) Professional recommendations concerning the content of the fiscal accounting rules shall be made by a body of experts, nominated jointly by the Fiscal Council and the President of the State Audit Office for a term of no more than one year and entitled to no fee or other remuneration.”

(7) Section 12 of the PF Act shall be replaced by the following provision:

„Section 12

(1) Every cash flow in the subsystems of the legal government shall be accounted for.

(2) Unless otherwise provided for by an Act of Parliament, budgetary economic management within the subsystems of the legal government shall comprise the obligation to fulfil revenue appropriations and the right to utilise expenditure appropriations. There shall be no obligation to utilise expenditure appropriations.

(3) Revenue appropriations may be exceeded without any amendment to the appropriations where, in the course of the year, there is no change in the provisions of legal regulations relating to such revenues. Otherwise, the appropriations shall be amended by the entity authorised to do so.

(4) In the central government subsystem, budget expenditures can be made exclusively on the basis of legislative authorisation.

(5) Mandatory expenditures and interest payments can be made without the explicit authorisation of the annual budget act.

(6) Unless the annual budget act provides otherwise, no discretionary expenditure in excess of the budgeted amount can be made except if the expenditure was authorised by a previous annual budget act and that authorisation has not been restricted by an act of Parliament or a Government decree issued pursuant to legislative authorization.

(7) The annual budget act may authorise expenditures in excess of the budgeted amount only in case of the following discretionary expenditures:

- a) in case of expenditures to be made in foreign currencies, up to the extent of exchange rate changes,
- b) in case of expenditures arising from irrevocable commitments based on legislation or agreements.

(8) Outlays arising from final court decisions may be made in excess of the budgeted amount.

(9) If the revenues of a budgetary organisation exceed the budgeted level, then in the cases and to the extent specified in the annual budget act, but not exceeding the level of the surplus revenues, the expenditures of such budgetary organisation may also exceed the budgeted level.

(10) The over-performance of mandatory revenues may not give rise to a legislative change that would worsen the primary balance as compared to the most recent baseline projection.

(11) Where revenue appropriations fail to be realised or other expenditures are over-performed or the balance of discretionary items departs from the requirement set out in the budget act of the year before the target year, expenditure appropriations may be reduced, blocked or cancelled, in accordance with the provisions of legal regulations.

(12) Blocking shall mean the temporary and conditional limitation or suspension of the utilisation of a part or the whole of the appropriation in the given budget year.”

(8) Subsection (1) of Section 29 of the PF Act shall be replaced by the following provision:

“(1) Parliament shall debate the budget bill jointly with the opinion of the State Audit Office and of the Fiscal Council.”

(9) The PF Act shall be supplemented with the following Section 36/B:

„Section 36/B

(1) Upon the submission of the budget bill, the Government shall inform Parliament about the detailed restrictions it intends to impose, in line with the medium term plans for at least three years, on commitments during the subject year if the bill is accepted.

(2) After the promulgation of the annual budget act, the Government shall adopt a regulation, in a structure corresponding to the annual budget act, on the numerical limits as defined in subsection (1) and on the procedural rules assuring the enforcement of the obligation ceilings.

(3) After the promulgation of the annual budget act, the Government shall determine, in a structure corresponding to that of the annual budget act, the budgeted amount of budget revenues and expenditures for the two years following the subject year, in a decree.”

(10) Section 41 of the PF Act shall be replaced by the following provision:

„Section 41

(1) The Government shall submit a supplementary budget to Parliament if the expected primary surplus, as compared to the approved figure, declines by more than 0.2% of the gross domestic product taken into account for the planning of the annual budget act, and such deterioration of the balance is not the result of processes in the private economy or demographic trends.

(2) Any change in the balance requirement or balance target as defined in Section 3 of the Act on Fiscal Responsibility or of the expenditure limit as defined in Section 4 thereof shall be considered a supplementary budget.

(3) The bill on a supplementary budget shall propose the redefinition of the provisions of the annual budget act relating to the determination of appropriations.

(4) A bill that proposes an amendment to the annual budget act for reasons other than those mentioned in subsection (1) and that is not made according to the provisions of subsection (2) shall not be considered a supplementary budget bill or – on its entry into force – an act on supplementary budget.

(5) If Parliament adopts an act that modifies the projected amounts of various mandatory items without the deterioration of the projected balance for the year in the fiscal impact assessment that was the basis of the adoption of the act, then the Government shall provide, in a decree, for the reallocation of the relevant mandatory items of the state budget based on the budgetary impact assessment that was the basis of the adoption of the act concerned.”

(11) Section 50 of the PF Act shall be replaced by the following provision:

“Section 50

The minister of finance shall, by 15 April, prepare and lay before the Government the main directions of budgetary policy based on his economic policy ideas for the subsequent years, as well as the budgetary principles determining the overall framework of budgetary planning.”

(12) Section 50/A of the PF Act shall be replaced by the following provision:

„Section 50/A

(1) Every half a year, the Government shall submit a report on the current position of government finances and of the economy in the subject year to the budget committee of Parliament.

(2) 15 days before the day of voting, in Hungary, in the first round of the general parliamentary elections,

a) in respect of the entire legal government, the minister of finance,

b) in respect of their own areas of competence, the ministers and the heads of bodies not under the direction of a minister,

shall publish a detailed report on the financial position of the legal government and the financial obligations undertaken in the period following the inauguration of Parliament and accruing in later years.

(3) The report specified in subsection (2) shall be sent to the State Audit Office, for preliminary review, at least 15 days before its publication.

(4) 30 days before the date of the general election of members of the representative bodies and of mayors, the mayor, the lord mayor and the chair of the county assembly shall publish a detailed report on the financial position of the local self-government and on the financial obligations incurred since the inauguration of the representative body and accruing to subsequent years.”

(13) Subsection (2) of Section 51 of the PF Act shall be replaced by the following provision:

„(2) The minister of finance shall, by 31 August, lay before the Government the draft of the annual budget bill.”

(14) Subsection (1) of Section 52 of the PF Act shall be replaced by the following provision:

„(1) In the last fiscal year of the annual budget act, the Government shall, by 30 September submit to Parliament its Budget Bill containing the appropriations for the next year or next several years determined by fiscal year in accordance with the provisions of subsection 3 of Section 7 of this Act, and shall append to this bill by way of information the summary tables and balance sheets that demonstrate the financial position of the legal government Detailed tables concerning individual chapters and their explanatory texts shall be submitted to Parliament by 15 October.”

(15) The PF Act shall be supplemented with the following Section 53/B:

“Section 53/B. The annual budget act shall specify the date when various provisions cease to be effective.”

(16) Chapter five of the PF Act shall be replaced by the following provision:

“The budgets of self-governments”

(17) Subsection (2) of Section 62 of the PF Act shall be replaced by the following provision:

„(2) Minority self-governments shall fund and provide for their tasks, as determined in the Act on the rights of national and ethnic minorities as well as other acts, from the budget.”

(18) Section 110 of the PF Act shall be replaced by the following provision:

“Section 110

(1) The debt of the general government shall be the aggregate value of the public debt and the debt of self-governments, for the calculation of which the debt of the subsystems to each other shall be consolidated.

(2) The debt of self-governments means the aggregate debt of local and minority self-governments, for the calculation of which the debt of the various local self-governments to one another shall be consolidated.

(3) The Maastricht debt indicator means the debt indicator to be notified pursuant to Council Regulation (EC) No 3605/93 of 22 November 1993 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community.”

(19) Section 111 of the PF Act shall be replaced by the following provision:

“Section 111

(1) The Minister of finance shall be responsible for management, fulfilment and recording of obligations stemming from the public debt.

(2) Self-governments shall be independently responsible for the management, fulfilment and recording of obligations stemming from debts borne by them.”

(20) Subsection (2) of Section 124 of the PF Act shall be supplemented with the following point *zsg*):

/(2) The Government is hereby authorised to determine in decrees/

„*zsg*) the fiscal accounting rules in concert with the professional recommendation of the expert body referred to in subsection (6) of Section 8/B.”