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Fiscal Councils in the Countries of Eastern-Central Europe

SUMMARY: Improving the efficiency of budgetary management and preventing overspending that with an adverse effect on performance are fundamental conditions of budget stability and issues of strategic importance. Rule-based budget means more than merely a stipulation that public finance managements shall observe the rules of budget planning and execution and that the real and budgetary sectors of the economy are characterised by the rule of law. Rule-based budget requires the employment of numerical and procedural regulations by institutionally ensuring their respective observance. Regarding the latter we can declare that in Eastern and Central Europe interest has grown recently in fiscal councils that have been shooting up like mushrooms and are believed to be virtually "the ultimate weapon" in fighting budgetary overspending. The demand for creating such new institutions at the same time undeniably represents criticism concerning the former processes of the planning mechanisms and their respective institutionalised solutions. This paper aspires to provide a picture as regards to what extent fiscal councils can be regarded as a new type of organisation within the family of independent fiscal institutions (IFIs) that reflect institutional development and, in the public law of the new democracies having accessed the EU following 2004, represent the best solution to be recommended, i.e. the best practice. This non-exhaustive overview deals with the course of the independent budgetary institutions of those Eastern-Central European countries that accessed the European Union in 2004, respectively their mission and concept of an institution, while it also refers to the role of these organisations in crisis management.

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THE FRAMEWORK OF RESPONSIBLE FISCAL POLICY: THE SO-CALLED RULE-BASED BUDGET AS THE PRECONDITION OF WELL-GROUNDED PLANNING

When we scrutinise public discourse or even technical articles, the abundance with which the various political and professional opinion leaders tend to deal with the newly established fiscal councils' public law inclusion, their independence, the method of enforcing their resolutions and institutional-personal competence compared to their functions in Central-Eastern Europe, is striking. At the same time less attention is being paid to the fact that fiscal councils were created thanks to the introduction of the system of the so-called rule-based budgetary framework[1] as one of the possible institutional guarantees. However, this institutional guarantee cannot always and in every country be tied to a fiscal council type[2] organisation. As a matter of fact, fiscal councils belong to the family of independent fiscal institutions (IFI). In the system of rule-based budgetary framework institutionalised rule watching ability is important and in the individual countries this can be implemented

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by lining up different means of public law, relying on different values of trust and authenticity (power), with public law tools (or even without them). The key to fulfilling this institutional guarantee role does not by all means and in every case require a brand new organisation that is even independent from other independent institutions and that relies mostly on its own professional background.

Namely, the power of the guarantees can be explained only together with the rules implemented with the purpose of ensuring the stability, the sustainability and the prevention of overspending of the budget, with the fiscal system and the characteristics of the governance of the country in question. Such service became or could become a useful part of a more well-founded fiscal policy and its annual implementation, as a logical consequence of a system of rules and by ensuring better harmony of demands and possibilities, to thus establish budget planning that serves stability. All this calls into question the concept that regards fiscal councils as a certain institutional development phase within the IFI family. At the same time it is also true that assuming specific conditions – for example loose fiscal discipline, problems regarding the substantiation of governmental planning, suspicion regarding the existing, independent organisations, etc. – this institutional solution might be the most appropriate.

INTERPRETATION OF RULE-BASED FISCAL POLICY AND GENERAL REASONS OF INTRODUCING SUCH POLICY

Rule-based fiscal policy is more than the mere regulated procedure of preparing and executing the central budget. Namely, in this approach, it means that among the possibilities offered by the social-political heritage of a given country, the framework of the budgetary responsibility employed in practice is realised via the so-called numerical rules, procedural and transparency stipulations, as well as the supervisory and sanctioning regulations related to the balance/stability of the budget.[3]

Prior to the outbreak of the 2008 financial crisis it was expected that by resorting to this system, the tensions of the balance could be confined and conditions of sustainable financing, growth and sustainable development could be maintained. It was hoped that the trend that was embodied in budgetary overspending, the unsustainable budget and the growth of public debt in the past two decades in a whole range of emerging and developed countries could be reversed. (Oblath – Szapáry, 2006).

The lessons of the crisis complemented this “classical function” with the conviction that rule-based fiscal policy can be one of the tools of crisis management (Reinhart – Rogoff, 2010; Kovács Á., 2013).

So, the introduction of the rule-based budget had and has general – let us say – reasons that are directly related to professional budget management and harmonisation of social interests that – assuming that they prevail for a longer period – serve the purpose of mitigating the inclination for crises. [4]

When preparing the budget, depending on the legal structure of the given country, its traditions, the centralisation of its governance, etc., they have to handle several tens of thousands, or even a hundred thousand pieces of data, modelling their interrelations and relations, examining their financial bridges, projecting their effects and so forth. Understanding the processes, digesting masses of information about short or longer-term external and internal socio-economic obligations, conditions, choosing political values to be followed by transforming them into numbers of the budget is difficult, even using the latest IT and modelling tools. Then, drawing the right conclusions is even more difficult and demands even more time as the outlines of the immediate and more distant risks are not equally tangible and excluding the objectivity of those participating in the procedure is also difficult. All the above indicate that wider groups of society (voters) and the political governance chosen by the voters articulating their interests and values, might overrate the importance (benefits) of direct expenditures (within one year or, at most, within the election cycle), while underestimating the long-term burdens.[5] It was because of the above that the cyclical nature of budget procedures has strengthened while short-term interests have been playing an important role among its motivations. The aspiration to maximise votes is related to elections (promises) or – more precisely – intensifies the "*asymmetrical application of the originally Keynesian concept of so-called anti-cyclical economic policy*" (serving the purpose of keeping power – Á. K.) and thus[6] sooner or later leads to the disruption of the public finance balance (Antal, 2004; Győrffy 2009; Muraközy, 2011). As for the dual goal (budgetary and real economy) of introducing the rule-based budget, we can say that, *assuming it functions properly*, the system creates not only a clearer legal framework for the functioning of the budgetary (public finance) economy but,

- it changes, or – at least – mitigates – the inclination to budgetary overspending and strengthens visionary thinking and the harmonisation of interests;
- lays the foundation for better medium and longer range budget planning, promotes the modernisation of IT systems, contributes to the improvement of financial work and, additionally, it generally serves transparent and accountable fiscal management by making the system of respective rules more transparent;
- it also makes it clearer and easier to follow the decisions and their respective consequences for the parliament that exercises the right of preparing the budget. It offers appropriate knowledge for the decision maker at all levels regarding the further, future consequences of today's decisions and the existing determinations;
- and contributes to improving the opinion of the country, even in the short term. Beyond the more favourable financing conditions it strengthens competitiveness, as stable budget generally encourages foreign investors;
- inspires quality developments and, at the same time, compels economic management as it creates the possibility for reserves and surpluses of the operational appropriations that are necessary for incoming developments also appearing in the yearly budget plans. It creates the possibility to make more secure development plans of a wider horizon while accounting for the expenditure consequences of the implementation.

The essential elements of rule-based budget policy are the following:

- *budget policy rules* that determine the targeted balance goals and the planning requirements serving these purposes – for example, the balance of the revenues and expenditures without debt service (in other words, the primary budget balance) shall not be negative or, public debt as a percentage of GDP shall not grow,[7] or that investments shall represent defined proportions[8] (Kopits, 2010);
- *rules of procedure*, that ensure fiscal discipline and transparency (for example, impact assessments and obligations to issue opinions);
- *transparency norms* (for example, accrual based accounting, financial reporting system);
- *institutional guarantees* to ensure the observance of budget policy and rules of procedure that are embodied in the existence of institutional functions ensuring the control and transparency of the processes.

Here belong the independent budgetary institutions that watch the observance of the rules while taking different forms and names, of different legal background and jurisdiction, and with different professional backgrounds[9] (office connected to the legislature, the SAI, or fiscal council, planning office that is independent from the government, independent fiscal council, etc.)[10] (Kopits, 2011, 2012, 2013; Török 2011a, 2011b).

A budget made in such a framework and the financing that is based on it, involves a better harmony of tasks and resources (Kopits, 2013). Now, this makes the issue of smaller or bigger public finance not only easier to interpret but also promotes the easing of the contemporary problems, the transparency and accountability of budget planning and management. Once they introduce the fiscal regulations on the basis of internal consensus and not because of external pressure, thinking ahead for several cycles will be possible.

SOLUTIONS OF RULE-BASED FISCAL POLICY IN THE PRACTICE OF EAST EUROPEAN EU MEMBER STATES

As outlined above, independently of political crisis the proactive introduction of rule-based fiscal policy – also serving the longer term balance interests of the budget – strives to prevent the expansion of the mechanism of short-term interests. In the majority of the older Member States of the EU (E-15) and, from among the newly accessed countries, in Poland, Latvia and Bulgaria it can basically be attributed to such proactive motivation that this or that form of rule-based fiscal policy (the guarantee conditions thereof) appeared a decade earlier.

The financial crisis, followed by economic downturn and the ensuing loss of resources created a difficult situation in all EU Member States. However, it was an especially big threat to the sustainability of fiscal policies in those countries where the prolonged unsustainability of economic performance and consumption was typical, where the social entitlement system functioned in an outdated structure, at the same time being wasteful and lacking resources and acting to generate debt, and where competitiveness in the complex sense of the word was weak (Báger, 2010, Kovács Á., 2013).[11] Up to the outbreak of the financial crisis in 2008 in the EU Member States budget deficit was more or less restrained – with the exception of Hungary. Following the outbreak of the crisis however, the budget overspending that marked an adverse effect on the budget and economic output and submitted it to short-term political goals, became a virtually general phenomenon. In the less competitive countries of the European Union, in the Southern countries that had accessed the EU earlier and, in Hungary that was suffering from fiscal alcoholism[12], they justified this practice by the false arguments of maintaining social peace.

Most of the Eastern-Central European countries having accessed the EU in 2004 or after, however, did not have such problems (Ódor – Kiss, 2011), mostly because they spent far less for welfare purposes than the EU average and were not burdened by heavy debts. Estonia, Poland Latvia, Lithuania, Slovakia and Bulgaria belonged to this group of countries.[13] Although, as regards the functioning of the welfare systems the situation in the Czech Republic and primarily Slovenia were more similar to that of Hungary, thanks to their relative level of development and strong economic relations with the so-called core countries of the EU, as well as their low level of indebtedness prior to the 2008 crisis, they did not belong to the group where financing public finance was facing any dangers. Now, the situation of Romania and Croatia was different. Although the latter countries could not be characterised by a high level of welfare expenditures, their significant indebtedness resulted in a compulsion to act, as the tensions in financing and the consequences of their indebtedness emerged even more forcibly under the circumstances of the crisis.[14]

It was the result of the aforementioned differences that in the Eastern-Central European countries of similar fate the demand to introduce a system of rule-based budgeting appeared at different times (Székely, 2010; Jankovics, 2012). There were some where – let us use the term – foresight[15], in others the force of indebtedness[16] led to the introduction of the rule-based budget system and there were others again where, thanks to the traditionally balanced budget, no such political and professional need emerged[17], such as in the Czech Republic.

After the accession, when the Maastricht criteria were also applied to the Eastern-Central European countries, we can regard those as well as an obligatory and uniform application of numerical and procedural rules. Thanks to the intention to observe these rules and the various EU controls, beginning with 2004 the public finance management discipline has gradually improved in the new EU Member States, even if not to a desirable extent, with the exception of Hungary.

Even in the years prior to the crisis, countries attempting – with more or less success – to reach the Maastricht reference level of 3 per cent or below (Poland, the Czech Republic, Slovakia and Slovenia) made fewer consolidating steps and were mostly following the philosophy that with the passing of the crisis, the fiscal position will automatically improve. The majority of their measures were targeted to mitigate the unfavourable consequences of the crisis on the real economy; this is very similar to the economic policy followed by most of the old Member States (Palócz, 2010).

By 2008 the institution of rule-based budget has already existed in a number of new Member States – even if not in a mature form. Such solutions existed well before the crisis, in Latvia (1990), Estonia (1998), Bulgaria (1998) and Poland (1998). After the outbreak of the crisis they introduced rule-based budgeting in Hungary and Slovenia in 2009, in Romania in 2010 and Slovakia in 2012 and this was when they created independent budgetary institutions – fiscal councils.

When grouping the solutions offering institutional guarantees, it represents a problem to decide what institutions can be classified here and how it is at all possible to determine the degree of independence. There are a number of independent fiscal institutions functioning in the European Union as well that – as regards strictly using the principles of the framework of responsibility – are not classified by the EU or the OECD in this circle although, they have significant effect on the procedure of budget planning and execution. Here belong, first of all, those SAIs that within the constitutional regulatory framework of the given country have no mandates to examine the substantiation of budget planning. In case of SAIs (and here there is some uncertainty regarding classification) that publish their opinion or a white paper for the planning of the budget, or just examine the substantiation of the so-called macro course that served as the basis of governmental planning, the situation is different. We should note that due to theoretical considerations[18] some of the experts are averse to classifying organisations in this category that have the ability to participate in the enforcement of a rule-based budget.

Several older EU Member States have managed to dispel these concerns. Namely, it could be also a good solution when the various tasks – indication, forecasting, monitoring, etc. – related to the observance of rule-based budgeting are entrusted to an already existing, independent fiscal controlling organisation, or if an existing organisation is attached to a new, smaller or bigger body/council having internal autonomy.[19] In other cases – such as in Hungary since 2011 – the job of the fiscal council is supported by the staff of a supreme audit institution and the analyst apparatus of the central bank, instead of the former professional infrastructure that had a significant staff size and was independent and separate. No matter which solution the given country opts for, there will always be professional tasks supporting the work of the IFIs that can only be done by other institutions, or can be done cheaper using external resources. As a result, involving research institutes, financial advisory firms and asking for their opinion is becoming a more widely accepted practice. In these cases the organising, summarising and synthetising decision-making preparatory work remains the task of the fiscal council's background organisation (secretariat) employing 5–15 people.[20]

It is a contentious issue how the macroeconomic, public finance forecasting (projection) role of IFIs should prevail. Naturally, these institutions everywhere make such forecasting analyses of different depth – technically implemented using their own or external resources – as their evaluations can hardly be prepared without such a background. The real question however is whether – beyond internal professional considerations and the established procedural practice – such documents should be published either obligatorily or voluntarily. Additionally, it is also part of this real question whether these projections/forecasts have any legal or other, obligatory regulations concerning the chronology of the contents, the perspective, the procedure or the utilisation or publishing such documents.

Experience shows the picture to be multicoloured in this respect as well, even if there is an aspiration on behalf of the professional organisations of the EU to establish a more uniform practice. There are countries in the EU where even today, forecasting is a traditional or regulatory mandatory task and an integral part of the tasks of the IFIs. (For example in the UK and the Netherlands), and there are some where the respective IFI publishes such documents occasionally, when it thinks it reasonable (Portugal, Poland).[21] *(See Tables 1, 2, 3)*

According to the professional organisations of the EU, the ideal task list of the FCs in the long run should contain not only the preparation of regular, independent forecasts but also the more important recommendations regarding the evaluation of governmental impact studies concerning recommendations of policies (for example, tax laws), and/or preparing white papers, and the regular and standardised ex-post control of the observance of numerical rules (for the time being there is only ex ante control). This demand is an indication of the dynamic expansion of the role of Fiscal Councils. It shows a difference in the approach that is related to the political guidance, as well as the professionalism of budget making.

SOME REMARKS ABOUT THE COURSE OF RULE-BASED BUDGET IN HUNGARY

Following the increasing problems of Hungarian public finance that destroyed the competitiveness of the real economy, in the second half of the last decade it became obvious for the political decision-makers and trade forums that the budgeting practice in place since the political and economic changes (planning built on bargaining mechanisms, political promises and dogmas) excludes the chance of following a path of sustainable development. The inclination for deficit intensified, especially in the election periods. The ability for growth deteriorated, and the potential rate of growth was close to zero. Adjustments on the revenue side were determinant (Kovács O., 2013).

Table 1

INDEPENDENT FISCAL INSTITUTIONS WATCHING OVER THE OBSERVANCE OF RULE-BASED BUDGET IN THE EU MEMBER-STATES PRIOR TO THE 2008 FINANCIAL CRISIS*

		Country, date of introduction of fiscal rule								
		DK	BE	LV	SW	BG	EE	PL	UK	EZ
		1962	1989	1990	1997–1998, 2007	1998	1998	1998	1998	1998
Fiscal policy rule	Deficit limit					X				X
	Structural surplus or deficit		X		X					
	Expenditure limit		X		X					
	Current balance								X	
	Average balance	X	X	X			X			X
	Efficiency analyses									
	Medium-term planning	X							X	
	Debt limit							X	X	X
	Stabilisation Fund					X	X			
Jurisdiction	Public finance	X	X	X	X	X	X	X	X	X
	National (central, federal)		X							
	Sub-national governments		X					X		
Basis of creation	Constitution							X		
	Law	X	X	X	X					
	International agreement									X
	Political guideline, agreement				X	X	X		X	
Public law classification	Independent or parliamentary organisation	X	X	X	X	X		X	X	X
	Belongs to the executive branch of power						X			
Sanctions employed by IFI	Veto right									
	Loss of reputation	X	X	X	X	X	X	X	X	
	Legal							X		
	Financial									X

*For the sake of comparison I tried to prepare the table summary bridging the differences of the use of terminology, language and public law and show the characteristic similarities and differences. The abbreviations of the individual countries: DK – Denmark, BE – Belgium, LV – Latvia, SW – Sweden, BG – Bulgaria, EE – Estonia, PL – Poland, UK – United Kingdom, EZ – countries of the Euro-zone

Source: own editing

Table 2

INDEPENDENT FISCAL INSTITUTIONS WATCHING OVER THE OBSERVANCE OF THE BUDGET ON 1ST JANUARY, 2014 IN THE MEMBER STATES OF THE EUROPEAN UNION EU-15 GROUP OF COUNTRIES*

		Country, date of introduction of fiscal rule												
		SE	UK	EZ	FR	DE	IE	PT	FI	DK	BE	AT	NL	IT
		1997–1998, 2007	1998, 2010	1998	2013	2010	2011	2012	2010	2010	1989	2012	1945	2012
Fiscal policy rule	Deficit limit			X		X	X	X						
	Structural surplus	X												
	Primary expenditure limit	X												
	Current balance		X											
	Average balance			X	X	X	X	X	X	X	X	X	X	X
	Efficiency analyses												X	
	Medium-term planning		X							X			X	
	Debt limit		X	X	X							X		
	Sustainability											X		X
Jurisdiction	Public finance	X	X	X	X	X	X	X	X	X	X	X	X	X
	National (central, federal)					X							X	
	Sub-national governments					X		X			X	X	X	
Basis of creation	Constitution					X								
	Law	X			X		X	X	X	X	X	X	X	X
	International agreement			X										
	Political, professional agreement	X	X											
Public law classification	Independent or parliamentary organisation	X	X	X	X	X	X	X	X	X	X	X	X	X
	Belongs to the executive branch of power													
Sanctions employed by IFI	Veto right													
	Loss of reputation	X	X		X	X	X	X	X	X	X	X	X	X
	Legal					X								
	Financial			X										

*The abbreviations of the individual countries: SE – Sweden, UK – United Kingdom, EZ – Euro-zone countries, FR – France, DE – Germany, IE – Ireland, PT – Portugal, FI – Finland, DK – Denmark, BE – Belgium, AT – Austria, NL – Netherlands, IT – Italy

Source: own editing

Table 3

INDEPENDENT FISCAL INSTITUTIONS WATCHING OVER THE OBSERVANCE OF THE BUDGET ON 1ST JANUARY, 2014 IN THE MEMBER-STATES OF THE EUROPEAN UNION* EU-13 GROUP OF COUNTRIES (COUNTRIES HAVING ACCESSED THE EU IN THE PERIOD OF 2004-2013)

		Country, date of introduction of fiscal rule								
		BG	EE	PL	LV	HU	HR	RO	SK	SL
		1998	1998	1998	1990	2009	2011	2010	2012	2009
Fiscal policy rule	Deficit limit	X								
	Stabilisation Fund	X	X							
	Total expenditure limit	X								
	Average balance		X	X	X		X	X	X	X
	Debt limit			X		X	X	X	X	X
	Sustainability									X
Jurisdiction	Public finance	X	X	X	X	X	X	X	X	X
	National (central, federal)					X				
	Sub-national governments			X						
Basis of creation	Constitution			X		X			X	
	Law				X	X		X		X
	Political, professional agreement	X	X				X			
Public law classification	Independent or parliamentary organisation	X	X		X	X	X	X	X	X
	Belongs to the executive branch of power			X						
Sanctions employed by IFI	Veto right				X					
	Loss of reputation	X	X	X	X	X	X	X	X	X
	Legal			X	X	X				

*The abbreviations of the individual countries: BG – Bulgaria, EE – Estonia, PL – Poland, LV- Latvia, HU – Hungary, HR – Croatia, RO – Romania, SK – Slovakia, SL - Slovenia

Source: own editing

It only compounded problems that in the course of fiscal consolidations the system approach was not adequately enforced, the chosen macroeconomic function proved to be more and more counter-productive and there was no internal commitment or political consensus regarding even how to reach the numerical deficit and debt goals. Up to 2010 the consolidations focused primarily on the revenue side and when it came to steps focusing on the expenditure side the composition was not appropriate. As a consequence, such experiences proved to be short lived. Balancing on the edge of unsustainability prevailed.

Poorly substantiated budget planning in itself became one of the barriers to disciplined execution. The political and professional realisation of this fact also contributed in 2006 – well before the crisis – to the ripening of the idea that by adopting the most important elements of the international practice regarding rule-based budgets, the preparatory work should begin. Regarding both the essence of numerical rules and institutional guarantees they followed two courses of thinking. The act on responsible budget management passed at the end of 2008 fundamentally handled debt increasing tied to budgetary expenditures and not to GDP as regards the regulations (Kopits–Romhányi, 2010). Thus the regulation – thanks to its conception and intervention mechanism – was called "ceiling law".[22]

Although there was an agreement that the new body, having the fundamental characteristics of a fiscal council, shall give the appropriate institutional guarantee, the debate on those institutional guarantees was a sharp exchange. According to the original ideas having taken shape in 2006, it is not a new analyst staff representing significant professional capacity that would be the guarantee of formulating independent corporate opinion rather, the persons who were leading independent organisations of great social prestige and what organisations, with their analyst capacities, might assist their leaders as members of the council.[23] According to the other view represented by the government parties at the time and foreign (IMF) experts, subjective, methodological and technical professionalism and emphatic independence could be ensured only by having a pool of experts of significant macroeconomic analytical power, responsible only to the Fiscal Council and run with independent budgetary resources.[24] Finally, the latter concept prevailed in the form of the so-called law on ordinary votes passed in 2008. No doubt, the professional recommendations also played a part in this.

After two years the concept underwent a change. According to the regulations of 2010 the functioning model of the FC returned to the original idea outlined back in 2006. In 2011 the new Fundamental Law fixed the so-called debt rule. Additionally, the two-third majority law on Hungary's economic stability was born. Instead of resorting to the former solution of endorsing budgetary responsibility effective in 2009–2010 and preferring the concept of thinking about ceilings and forecasts for the longer term, the new regulation focused on decreasing the proportion of public debt to the gross national product and strong attachment to the yearly budgetary planning process.[25] To make sure that this rule was observed, the law gave public law authorisation to the Council as an independent fiscal institution – in other words, the right to veto[26]. The law also built the analyst capacities necessary for the functioning of the council basically on the professional background of the State Audit Office of Hungary and the Central Bank of Hungary (Domokos, 2012). Beginning with 2013 – the creation of the Council's secretariat – these are assisted, to an ever growing extent, by external scientific and analyst capacities.

The EU Commission recommendations keep requiring the strengthening of the analysing capacities of the Hungarian FC and the preparation of multi-annual forecasts. This approach is not prompted primarily by what the EU organisations consider European *best practice* rather, they think that the obligatory provision of the recommended tasks would be important for the transparent and accountable exercising of the veto right that is highly unique and formal in international practice. That is why, in the opinion of the organisations of the EU, in the case of the Hungarian FC it is less relevant how many independent institutions publish their own forecasts in the EU (as a matter of fact, more and more) as, thanks to the exceptionally strong veto right, higher professional expectations are justified in case of a Hungarian institution. There are no regulatory barriers regarding institutional development in this respect.[27] It is the aspiration of the Council – also in harmony with the expectations of the EU Commission regarding the strengthening of analyst capacities – that when necessary, in the long run, it should publish separate forecasting evaluations of the expected trend of the macroeconomic basic course of public finance and of the medium-range budgetary positions.

RULE-BASED BUDGET AS AN INSTITUTIONAL TOOL OF CRISIS MANAGEMENT

Eastern-Central European countries that prior to the crisis had rapidly growing economies have suffered setbacks of various degrees in the period of the crisis, which resulted in a marked deterioration of their fiscal positions. The exception to this was Poland, which had a significant domestic market. However, by 2010–2011 growth had returned to their economies and, after this, it surpassed the European average rate of growth – with the exception of Hungary and Slovenia. Since that time the crisis has deepened in the latter.[28]

As to whether it was the identities or the differences that were more characteristic in the crisis management techniques, undoubtedly we can say that as regards the employed solutions, there were rather more identities than differences and this was also true for those Eastern-Central European countries that accessed the EU later.

The differences were and are manifested rather as regards the measure of the interventions, the number of intervention fields, of being more activist, operating with individual solutions or normative and more cautious in nature. Looking at any of the accessing countries, on the basis of the encountered literature and documents, we cannot state that they had conducted the various crisis management steps on the basis of a model built on a consistent theoretical foundation. They tried to adopt the well-known models of economic literature, the proven elements used in earlier crises that had been more or less successful in managing the problems of national balance and adjustment of the followed course. Also, the loans received from international organisations were linked occasionally to the adoption of the recommendations concerning a rule-based budgeting system and – as part of it – the type of the institution that would give the guarantees.

The European Union also saw the most effective tool of maintaining fiscal discipline, economical management, of preventing unexpected situations caused by the crisis, in the so-called numerical and procedural rules, and in institutions that were watching over the observance of such rules. The question is, whether a certain correlation between fiscal application of the rules, the firmness of public finance stability and successful crisis management can be demonstrated. Although determining the exact measure would require further research, the various international qualifications, macroeconomic data, deficit indicators and numbers of indebtedness, it seems to be clear that such a relation does exist.

On the basis of the various international evaluations and improving results concerning indebtedness and economic performance apparent from the statistics, it is not an exaggeration to reach the conclusion that in the four countries where IFIs have been functioning for a longer period, the sustainability of budgetary balance was more prevalent and crisis management was more confident. The favourable effect of the budgetary framework system was also manifested in the recognition that there is a relation between the introduction of fiscal rules, the efficient functioning of IFIs, and the solving of deficit related problems (Ódor, 2014). In the second half of the crisis this served as an example for other countries to introduce rule-based budget and create a fiscal council as its institutional guarantee.

Fiscal rules – together with varying institutional anchors – are manifold and have been proliferating rapidly all over the world and in Europe. The institutional palette is multicoloured, although in the countries of Central-Eastern Europe we can speak about fiscal council-type institutions as a characteristic form. Among the institutions watching over the maintenance of budgetary equilibrium and the observation of fiscal rules while we can find both those fulfilling the function of the watch-dog or those giving early warnings, as well as those having weaker or stronger public law tools and sanctioning power at their disposal. It will be the strength of the rules (and the formal and informal environment of employing these rules), the political readiness for consensus, the ability to recognise longer term interests and values, the discipline of finances and manage-ment and the gradually increasing strength of the IFIs professional respect that will ultimately determine how the institutional guarantees of rule-based budget shall prevail.

It has to be mentioned that it is not a good idea to have an over-complicated structure of fiscal tools. Reviewing the different regula-tions we can say that today this is more typi-cal. Just like stating that while the opinion of the EU Commission regarding the function-ing of the individual fiscal councils relies on the contents of the EU Stability and Growth Pact, the operation of the FCs is based on na-tional regulations (Ódor, 2014).

The operational cost of the professional background capacities of the new institu-tions has always been an issue. According to experience, establishing the framework of rule-based budgeting does not make the pro-cedure of accepting the budget simpler or cheaper, even with a strong aspiration to be efficient. The operation of a newer system of rules and forums requires resources and those resources can come only from the budget. It takes a longer time to find out how the extra ties and expenditures compare to the advan-tages originating from the better foundation of budget planning, and the control of its ex-ecution. These advantages though have to be sought not only in the narrow sense of fiscal management but also in shaping the approach of society, as a rule-based budget can have an impact only when enjoying wide-range social, political and professional support that will then gradually pervade the real economy as well. The above are complicated issues mainly in those countries where it is not the recog-nition but the pressure of the fiscal crisis or, even, the pressure of fulfilling international expectations or the pressure of following ex-ample that have called for the introduction of this new system of rules.

Notes

[1] There are subtle differences in the usage of the terminology; for example, institutions of the EU mostly use the term numerical fiscal rules. Following the adoption of Act LXXV in 2008 on Cost-Efficient State Management and Fiscal Responsibility, György Kopits and Balázs Romhányi wrote "… the National Assembly introduced a rule-based budgetary-political framework system…" (Kopits – Romhányi, 2008, p. 573) or, Imre Székely wrote about the framework system of "national budgetary responsibility" in the context of Romania (Szé-kely, 2010), Gábor Kutasi writes about "rule-based fiscal policy" (Kutasi, 2012), but we can also find the definition "budgeting under expenditure rules" (Adema, 2008). To me the use of the terminology "rule-based system of budgetary framework" is the closest; this terminology can perhaps be further illustrated by the expressions "responsible system of budgetary framework" or "rule-based system of budgetary framework".

[2] On the basis of the opinions of global and EU institutions, as well as that of the respective technical literature, the term fiscal council is more than a mere name. It stands for such a new, smaller or bigger body (consisting of a minimum of three

members but could incorporate as many as two dozen) the members of which are people of high professional prestige who are independent from the government or the national assembly, operating with a background of analytical capacities that enable them to prepare alternative evaluations, forecasts or technical projections versus the macroeconomic calculations and forecasts of the government and, thanks to their respect, are also able to assert their opinions.

[3] "Rule-based budgeting sets the framework of fiscal responsibility through the rules of procedures and transparency and the mechanisms of supervision and sanctioning. The applied frame of fiscal responsibility should be built from these rules and mechanism adjusted to the country characteristics." (Kutasi, 2012, p 1)

[4] The enforcement of fiscal discipline can be expected from the professional and responsible fiscal policy and, to a lesser degree, from the effects of the market, the investors and the pressure to adapt. Obviously it would be a mistake to base everything solely on the latter. In the beginning the market (foreign investors included) generally reacts in a passive way when facing loosing budgetary discipline then, unexpectedly, forces adjustment, even at the price of creating crisis-like conditions. The introduction of budgetary rules took place in several countries exactly with the purpose of avoiding such situations and thus narrows the possibilities in the sphere of public finance debt or changes, endangering the longer term sustainability of expenditures, debts and taxation. In the European Union it is the Stability and Growth Pact that fulfils this role. Among the employed regulations we can equally find constitutional rules, acts or international agreements. The regulation is usually valid for more than one parliamentary cycle thus, it is mandatory for future governments as well (Bulgaria, Estonia, and the United Kingdom). The regulation could also appear in the form of a combination of an act and a professional guideline (Sweden). The relevant regulation can be both very detailed and comprehensive, defining the framework.

[5] this goes even more easily as the momentarily rational interests such as enforcing the generational interests of the aging society or shifting burdens to the emerging offspring, meets with less resistance. As a consequence, intervention by the experts – the harmonisation of interests (the risk of civilian resistance) - in itself narrows and political decision-making might be related to an ever narrowing circle of persons, leaders on the one hand, while on the other hand, the order of preferences might suffer more distortion when it comes to the enforcement of longer term interests.

[6] This means that while in recession governments are spending a lot to prevent recession but, in times of a boom this is not coupled with an effort to achieve budget surplus (Győrffy, 2009).

[7] Poland develops the main trends of its fiscal policy according to the country's constitution. The constitution declares that government debt shall not exceed 60 per cent of GDP, that the parliament shall decide only on the composition of the revenues and expenditures, while establishing the target deficit is the right of the government. The Act on Public Finances establishes several threshold values and intervention obligations: if the debt rate exceeds half of the gross national product but remains under 55 per cent then the budget plan for the year following the subject year shall not contain a bigger increase of debt. In case of a debt ratio higher than 55 to 60 per cent additional debt increase shall be excluded. Above 60 per cent a government shall not borrow, and is obliged to keep the balance of the budget, or shall have to accumulate a surplus. In practice Poland has kept its government debt ratio continuously below 50 per cent prior to the crisis and the ratio has remained below 55 per cent even in the period since: at the end of 2012 it was 52.7 per cent then, in 2013, they exceeded the 55 per cent psychological threshold. Pursuant to the Polish public finance act

spending cut measures were introduced and the private pension system was changed.

8 Since 1967, the German constitution for example, has included the golden rule tied to the level of gross investments, according to which the government shall borrow only up to the limit of gross public investments. The only exception is when circumstances interfering with the macroeconomic balance occur. The phrasing of this latter stipulation, however, is very vague and has presented a number of problems. Namely, it is difficult to decide when the balance is being threatened. Since the introduction of this regulation there were two cases when the constitutional court had to decide if the government had infringed the law. First, in 1989 the court decided that it is the sole responsibility of the government to interpret the exception. The judgement in 2007 also acquitted the political actors but went on to recommend the amendment of the rule. In the summer of 2009 a new law was introduced, valid from 2010: according to this the deficit of the structural balance can be 0.35 per cent of GDP on a federal level. In 2012 and 2013 the debt-to-GDP ratio decreased in Germany.

9 Accordingly, the related professional tasks can be tied equally to new and existing institutions, bodies and offices, and to the professional background supporting the above, whether independent organisations or those employing external capacities. For example, this background organisation could be a new analytical apparatus, a commissioned scientific (academic) research institute, auditor, a research analyst firm, or the analytical department of the SAI or the central bank of the given country.

10 As to how either an external or even internal professional background lays the ground for the fulfilment of the guarantee function of the given force and to what extent the chosen solution is cost-efficient, should be examined individually, in the course of the process. The repeated supervision of the professional organisations of the European Commission and of the OECD should be evaluated from the same aspect as well, keeping in mind that naturally, these organisations might also have their professional preconceptions as they do not work in a "vacuum" and such examinations have their antecedents.

11 The worries concerning the long-term financing of outdated and over-consuming welfare systems, and public finance structures burdened by newer and newer demands that had been financed mostly by external resources (such as in Greece, Spain, Portugal, Latvia and – naturally – Hungary) were mitigated before 2008. On the basis of the October 2008 EDP report based on 2007 data, the government deficit in the EU–27 was 0.9 per cent, as a percentage of GDP, while government debt was 58.7 per cent. Hungary had the highest ratio of deficit (–5 per cent), followed by Greece (–3.5 per cent). The deficit of the rest of the countries did not exceed the 3 per cent limit, in fact, 12 countries even produced a surplus. The debt ratio was highest in Italy (104.1 per cent) and Greece and Hungary ranked fourth (65.8 per cent). Eight countries exceeded the 60 per cent limit. On the basis of the October 2013 EDP report based on 2012 data, the government deficit was already 3.9 per cent in the EU–28 countries while the debt ratio reached 85.1 per cent. At the time Spain had the highest budget deficit (10.6 per cent) followed by Greece (9.0 per cent) and Ireland (8.2 per cent). Hungary (2.0 per cent) occupied a very favourable position, ranking 21st though this result was largely attributable to the utilisation of a major part of the private pension funds. In 12 countries the deficit was below the 3 per cent limit, in 15 the rate improved and in 12 countries it deteriorated when compared to the deficit ratio of 2011. The highest government debt ratio in 2012 was in Greece (156.9 per cent) but the data from Italy (124.1 per cent); Portugal (124.1 per cent) and Ireland (117.4 per cent) were not encouraging either. At this time Hungary ranked 11th (79.8 per cent). Fourteen countries were above the 60 per cent threshold. The situation of 22 countries deteriorated, and the indicators of

only six countries improved. In 10 countries both indicators are above the threshold and in six the corresponding figures are below. All in all, we can say that as regards the annual deficit indicators improvement can be detected since the 2010 EU peak; however, the debt level keeps increasing as regards the total of the Member States. This was confirmed by the 2013 preliminary data. (The data source is the presentation of Gabriella Vukovics and István Bedekovics of 7 April, 2014 for the EDO report, prepared for the Fiscal Council.)

[12] The notorious and pithy definition by György Kopits about the sudden changes, i.e. first committing budgetary laxities then employing rigour, and the inclination to act in such a way.

[13] Not to mention in what proportion these countries had paid the price of this favourable situation earlier and to what extent it is attributable to the socialist heritage created decades prior, together with having been cut off from the world politically and economically.

[14] In the second decade of the 21st century there are four challenges, following from each other and interrelated, seeking answers (Muraközy, 2012). Namely, the lack of optimally sized, financeable public services might result in significant losses of growth that would make steadfastness in the face of global competition of social models and economies very difficult. This is paired with the changing demographic situation of the next decades and – in several European countries, among them also in Hungary – the borrowing that is the result of postponing adjustment and is related to social consumption that, in the earlier periods, could not be financed from internal resources and that was not in proportion to economic performance, together with the ensuing, differentiated debt crisis that results in serious burdens and that would make recovery difficult even in the risk community of the EU and not only in the directly concerned countries.

[15] In particular Poland, Estonia, Latvia, Bulgaria and, later, Slovakia can be included in this list.

[16] This compulsion is clear for example in case of Hungary, Romania, Croatia and Slovenia.

[17] Prior to the crisis, in Lithuania it was the task of the so-called Senior Cabinet Committee to make recommendations regarding the target numbers of the budget and strategic plans. In the Czech Republic it was the minister of finance and the prime minister who determined the expenditure limits of the individual ministries, but only being aware of the expenditure needs (Kutasi, 2008a, 2008b). Since then, there is no information about the Czech Republic and Lithuania that would indicate any significant consideration being given to introduce a rule-based budget. From the documents published by the EU Commission, the OECD and the IMF, it is obvious that, as regards the EU 13, they are basically calling for the establishment of new, fiscal council type guarantee institutions, as well as thinking of transforming the existing institutions into such organisations (for example in Poland), while in the practice of the old Member States they acknowledge the widest range of solutions. This double standard – explicitly or implicitly - depends on the perception of the institutional stability of the concerned countries; this is quite clear from the context of the documents. (See the country reports and the repeated comparative evaluations.)

[18] Generally the reference is that serving rule-based budget requires fundamentally different know-how and develops such knowledge in the course of controlling the execution of the central budget or, of the asset management of the public sector, than the macroeconomic analysis of the budget. In other cases the opposition can be traced back to practical reasons that reflect justified or groundless professional or personal distrust, or the fear of its preponderance of power.

[19] It was the practical simplicity of establishing professional background capacities and the endeavour

to save costs that justified the choice of France, Latvia and Finland from among the EU members.

[20] According to the information received at the off-the-record conversations of the conferences organised by ECFIN (Directorate-General for Economic and Financial Affairs of European Commission), it is a general endeavour of the institutions working with a large staff as their own background support (40 to 100 people) to cut back on the internal staff and solve a growing proportion of their tasks by involving external experts and analyst organisations.

[21] There are a wide variety of solutions from the role of official forecaster (for example, the United Kingdom), to the outlook used solely in own jurisdiction (for example, Poland) but the rule of procedure developed by the Hungarian FC also represents a direction that could lead to progress. In Hungary such white papers, prepared in the sphere of authority of the SAO and the MNB, together with thematic analyses prepared upon the commission of the FC Secretariat which documents are all public, the experience is built into the opinion of the FC in a way that ensures comparison but does not become an official prognosis.

[22] Act LXXV of 2008 on Cost-Efficient State Management and Fiscal Responsibility.

[23] Its members are the respective president/governor of the SAO and the MNB who form their opinion relying on a secretariat operating on the base of the State Audit Office together with an expert representing the head of the state.

[24] The concept of the operational model shaped from 2006 onward originally preferred a model with modest costs built on an existing organisational infrastructure. This concept changed gradually; however, no decision was made. In 2008, within two weeks of the negotiations for loans with international organisations this idea was hastily abandoned, almost as if meeting the side conditions of the agreement. The National Assembly then accepted the latter model and made it the law. In this act representatives of this view wanted to save the independence of the FC by maintaining distance even between itself and other, appropriate organisations participating in the control and analysis of the preparation of the budget – first of all the SAO (Kopits, 2007b). They did not want to see the heads of the aforementioned organisations personally rather, only experts recommended by them and chosen by the National Assembly, who emphatically were not representing these organisations and whose opinion prevailed – primarily – thanks to their reputation.

[25] According to the Fundamental Law, the so-called stability act (Act CXCIV of 2011 on the economic stability of Hungary) passed at the end of 2011 expanding the related tasks and authorities, as long as government debt exceeds half of the gross domestic product (as the measure that the Fundamental Law stipulated), the National Assembly can accept only a central budget that contains the mitigation of the government debt relative to the gross domestic product. The preeminent task of the FC is to oversee the observance of this rule by giving its prior consent only to such budget act that – according to the body's conviction – shall result in the mitigation of the proportion of the government debt.

[26] Any budget act or bill containing an amendment that would increase the budget deficit shall be submitted for final vote only with the prior approval of the Council. If the Fiscal Council refuses to grant its prior approval the procedure has to be repeated until the Fiscal Council gives its prior approval necessary for the acceptance of the bill. It is obvious that bearing such responsibility is possible only with an infrastructure of appropriate analyst skills in place, by evaluating the short and long-term macroeconomic processes, identifying the factors influencing the sustainability of a balanced budget, by revealing their tendencies

and relying on so-called technical projections. This is why a number of skill development steps have been introduced over the past two years to assist the work of the Council. Apart from the fundamental support of the analyst capacities of the SAO and the MNB, these have opened up avenues for considering additional, alternative analyses organised by the FC Secretariat, for a wide range of background studies carried out by research institutes, academic and university studies, as well as the preparation of forecasts related also to the business sector. These help the long-term and more exact evaluation and forecasting of the budgetary positions.

[27] Even today the Council is empowered to prepare a medium-term outlook when it considers preparing such a forecast to develop medium-term planning and to establish more solid substantiation for medium-term ideas. Point e), Article (1) § 23 of the Stability Act authorises the Council to act on its own, without the need to amend the respective law. However, at the moment this is not a mandatory task of the Fiscal Council and at present such endeavours of the Council are realised indirectly and not in regularly published special projections. In harmony with this the Council's opinion shall always reflect the studies prepared in its jurisdiction and containing medium-term outlooks, regularly published at the FC website, prepared by the SAO, the MNB or, upon the commission of the FC Secretariat, by external research institutes concerning macroeconomic relations. In 2013 three such papers were made and in 2014 six papers have been commissioned. According to the stipulations of the Act on the economic stability of Hungary, in its opinion concerning the annual budget as well as in laying the ground for its consent, the Council shall use a line of risk analyses and formulate its standpoint on this basis by also looking ahead to the longer term.

[28] Hungary differs from the majority of the EU–10 countries. The country stood out with its fiscal irresponsibility up to 2006, by financing welfare systems without coverage. This period was then followed by the most severe adjustments only to stand out again with its maverick management of economic policy. (Kovács Á., 2013; Palócz, 2010).

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