Sustainable Budget and the Sustainability Appearing in the Budget

Abstract: Fiscal sustainability has become one of the most important requirements of fiscal policy over the past two to three decades. Hungary’s Fundamental Law stipulates that Hungary enforces the principle of sustainable budget management. In international practice, fiscal sustainability is often identified with preserving the solvency of the state and the sustainable financing of public debt. The risks related to the fulfilment of the constitutional requirement to reduce public indebtedness are also regularly assessed by the State Audit Office, for which it has developed its own risk analysis method. The authors of the article define fiscal sustainability as a series of budgets that provide coverage for the public goods needs of present generations while increasing the capacity and opportunity of future generations to meet their own future needs. Based on this, and building on the resolution of the National Assembly and international good practices, they present how the coverage of Sustainable Development Goals can be integrated into the respective budgets in a transparent and accountable way.

Keywords: UN Sustainable Development Goals, sustainable development, fiscal sustainability, public debt sustainability, fiscal risk assessment

JEL Codes: Q01, Q58, H10, H63, H68

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The constitutional foundations of fiscal sustainability

The sustainable development objective is declared by the Fundamental Law of Hungary in the National Avowal: ‘We bear responsibility for our descendants and therefore we shall protect the living conditions of future generations by making prudent use of our material, intellectual and natural resources.’ It is established by the Fundamental Law as part of the Foundation, in Article N) that Hungary shall observe the principle of balanced, transparent and sustainable budget management, which shall be respected by all state organs in performing their duties. It follows from this that the activity of the State Audit Office of Hungary (hereinafter referred to as audit office or SAO) shall be aimed at ensuring balanced, transparent and sustainable budget management.

The public funds chapter of the Fundamental Law gives even more concrete guidelines for this, when its Article 37 (1) of
Focus – Synergie of economy, state and society: competitiveness and sustainability

Section 5 of the Act, the SAO - in connection with the duties arising from the Fiscal Council membership of its president - may prepare analyses and studies, and by the provision of such analyses and studies it assists the Fiscal Council in performing its tasks. The duties of the audit office related to the budget are summarised by Figure 1.

The legislative framework is given. In our study we elaborate how this framework can be filled with professional content.

The concept of sustainable development

Nowadays sustainable development is a commonly used term. ‘Sustainable’ has become the qualifier of numerous processes of our day-to-day life, for example sustainable farming (e.g. coffee farming) or sustainable purchasing process. In her article written in 2015 Judit Gébert points out that sustainability has a lot of definitions, which definitions reflect a choice of values and compels us to choose, since the factors of the different definitions of sustainability may exclude each other in some cases.

The sustainability concept used by the Hungarian National Assembly and the one used by the United Nations (UN) are especially relevant from the point of view of the work of the SAO. The SAO is the supreme financial and economic audit body of the National Assembly, and consequently in course of its own activity the SAO takes the guidelines and endeavours of the National Assembly into consideration completely. The parliamentary documents related to sustainable development also rely on the definition used by the UN, which is considered by the SAO as governing in course of its international activity.

It is justified to emphasise the international aspects because the most critical area of
sustainability is the global economy, since the countries can aim at sustainable development successfully only if such efforts are not hindered by the other countries’ measures eradicating sustainability. This was recognised and declared by heads of state and government of 193 Member States of the UN when they supported sustainable development in a joint declaration in 2015. The document titled ‘Transforming our world: the 2030 Agenda for Sustainable Development’ - which was adopted by the UN General Assembly on 25th September 2015 through its resolution No. 70/1 - specified the 17 comprehensive goals of sustainable development and 169 targets related thereto. Hungary also voted for the resolution and committed itself to the implementation thereof. Thus, the resolution governs the activity of the SAO as well.

INTOSAI - the organisation joining the supreme audit institutions of certain countries (International Organisation of Supreme Audit Institutions) - is a strategic ally of the UN in the realisation of the Sustainable Development Goals. Naturally, the international organisation itself does not conduct audits, only its member organisations do, provided that they undertook the task voluntarily. The SAO - as a member of INTOSAI - is also committed to promoting sustainable development.

In December 2016 the XXIII INTOSAI Congress made a declaration on the roles of audit offices regarding the sustainable development
goals. INTOSAI considers the audit and monitoring of the goals its duty. Facilitating the realisation of the SDGs is a priority in the 2017-2022 strategic plan of INTOSAI, which was confirmed further at the UN-INTOSAI symposium in 2017. Contribution to the realisation of the SDGs is part of the 2017-2022 strategy of INTOSAI, four methods of which are highlighted by the strategy:

- Assessing the preparedness of national governments to implement, monitor and report on progress of the SDGs, and subsequently audit their operation and the reliability of the data they produce.
- Assessing and supporting the implementation of SDG 16 which relates in part to effective, accountable and transparent institutions.
- Being models of transparency and accountability in their own operations, including auditing and reporting.
- Undertaking performance audits that examine the economy, efficiency, and effectiveness of key government programmes that contribute to specific aspects of the SDGs.

Sustainable development was defined by the National Framework Strategy on Sustainable Development for 2012-2024 (hereinafter referred to as Framework Strategy) - which was adopted by the National Assembly by its decision No. 18/2013. (III.28.) - as follows: ‘sustainability should be defined in a way that any generation, while striving to create their own well-being, do not deplete their resources, but conserve and expand them both in terms of quantity and quality for future generations’ (National Framework Strategy for Sustainable Development 2012-2024, page 20). In another section the Framework Strategy describes sustainable development as follows: ‘Sustainable development is aimed at enhancing a happy and sensible human life and at expanding public well-being while containing human actions within the limits of Earth’s carrying capacity, maintaining and developing the quality and quantity of expandable human, social and economic resources.’ (National Framework Strategy for Sustainable Development 2012-2024, page 25). It is evident that the definition of the Framework Strategy is in line with the definition of the Brundtland Report, but details and elaborates it.

In Section 2 of its decision referred to above, the National Assembly declared that it intended to enforce the principles and strategic objectives included in the Framework Strategy and aimed at the long-term successful survival of the Hungarian nation continuously in law-making, upon the adoption of the budget and sectoral strategies. Section 7.5 of the Framework Strategy defines the State Audit Office as a state institutions which - acting in its own capacity - may control compliance with the limits applicable to the economic resources.
The SAO assists the National Assembly through its findings, recommendations and advice based on its audit experience. It follows from all of the above that if in its decision the National Assembly considers it necessary that the objectives serving sustainability are enforced during the adoption of the central budget, then it is the duty of the SAO to examine how this expectation could be fulfilled optimally, at the same time, ensuring the sustainability of the budget is also an essential goal.

THE CONCEPT OF FISCAL SUSTAINABILITY

Typically, budgets are financial plans for a year, while sustainability is a concept referring to a longer term. Consequently, the series of annual budgets must comply with the requirement of sustainability. Therefore, ‘fiscal sustainability’ can be understood as a series of annual budgets in compliance with the requirement of sustainability. This includes the case where the government executes a successful consolidation after a year or years weakening fiscal sustainability (for example, a year producing exceptionally high fiscal deficit). Meanwhile, the fiscal policy that sets sustainability as a goal and fortifies it with fiscal rules, and which realise sustainability in practice as well is called ‘sustainable fiscal policy’.

The financial result of the implementation of the budget is expressed by the balance of the budget. The negative balance (deficit) increases the debt of the state. As a result of this, the sustainability of a series of budgets for consecutive years can be characterised financially by the rate of government debt accumulating over the years. If serious government debt is accumulated, then it cannot be considered sustainable because it overwhelms the next generations and (government of) the country will be less and less able to fulfil debt service, or the fulfilment thereof will drain the resources from the development of the economy. The latter is a problem also because the severity of the indebtedness of the state depends not only on the amount of the debt but also on the level of income the debt burdens. The most commonly used indicator expressing this relationship is the quotient of the government debt and the gross domestic product (GDP), the so-called government debt rate, which is the most commonly used indicator for the indebtedness of states. In theory, its quotient could be another characteristic of the economic performance of the country, for example, the domestic income or the gross national product (GNI) as well. In spite all of this, GDP is used as a base of reference for government debt in both the national and the international practice. Consequently, the deceleration of the growth of the GDP has a negative effect on the development of indebtedness as well.

IS FISCAL SUSTAINABILITY A NEW CONCEPT?

István Benczes and Gábor Kutas start their article about fiscal sustainability by stating the sustainability can be considered as a new requirement for fiscal policy only with quotation marks, since ‘the neoclassical economy has always considered this requirement evident. This concept still seems novel in writings about economic policy, which is owed primarily to the fact that in 1970s and the 1980s a relatively large number of countries started to use procyclical fiscal policy, thereby realising excessive deficit and increasing indebtedness, while seemingly disregarding the effective limits of spending.’ (Benczes, Kutas 2010, p. 59). In other words, the fiscal policies becoming unsustainable...
induced the explicit formulation of the requirement of sustainability. However, the fact that ‘sustainability’ as a qualifier became frequent is most definitely connected to the concept of ‘sustainable development’ being put in the forefront, and related thereto, to the qualifier itself becoming popular. This represented well in that in the first edition of Joseph Stiglitz’s relevant monography titled *Economics of the Public Sector*, which was published in 1986 - i.e. before of Brudtland Report2 - does not use the word ‘sustainability’ in connection with budget and fiscal policy yet.

Looking back on the last 120 to 150 years, we can actually discover that the requirement of sustainability was implicitly in the economic thinking of that time. Without aiming to give an exhaustive list - considering also the foundation of the legal predecessor of the State Audit Office 150 years ago - we only illustrate how the requirement of sustainability appeared in Hungarian economics during the period of development of the independent Hungarian fiscal policy, i.e. after the Austro-Hungarian Compromise of 1867.

Professor Vilmos Mariska’s monography titled ‘Manual for Public Finances’ (published in 18853) defined the requirement of fiscal balance as follows: ‘The first condition of the orderliness of public finances and the most important sign that the state economy relations are reassuring: the public finances balance, meaning that the sum of the revenues shall not be lower or higher than the sum of the expenses permanently. Ensuring the public finances balance assumes the perfect substantive and formal order of the state economy.

The substantive order of the state economy lies in that in course of determining the needs of the state the government shall keep the strength of the national economy in mind, shall ensure that expenses are economical, meaning that expenses should benefit the national economy and reasonable principles shall be used regarding the cover for expenses, namely, the assets covering needs should be chosen wisely. While the formal order of the state economy requires an appropriate formal organisation of public finances, namely determining the state expenses and state revenues in advance, drafting the budget according to uniform and consistent principles and implementing the budget as accurately as possible, the proper arrangement of the financial management and the entire financial service, namely the remittance, cash desk, accounting and book-keeping service branches, as well as the conscientious and strict controlling of the management of all state finances. Only the combined formal and the substantive orders can ensure a status of state economy affairs which satisfies the requirements of reasonable finances’. (Mariska, 1899, pp. 486-487)

Despite the requirement of balance in public finances, the budget deficit and the government debt increasing as a result thereof were the focus of disputes during the years around the Austro-Hungarian Compromise of 1867. Gyula Kautz described this in 1868 as follows: ‘Government debt is undoubtedly one of those things the mere mention of which causes horror in »Hungarian« hearts; the reason behind which lies mainly in that for centuries our fathers have carefully stood clear from public loan transactions and status debts, and the debt - which could have been taken only from abroad since we are poor in capital - has always been regarding in our country as something that makes us the tributaries of foreigners and which jeopardises our national independence.’ (Kautz, 1868, p. 581)

Gyula Kautz had a much more layered personal opinion about the issue of government debt, he argued as follows in 1872, in his manual written for school and private use:

‘a) In practice, the question whether »it is right or wrong to taking out government debts« can be decided in all cases only after the current affairs, the political, public administration, etc.
conditions have been taken into consideration thoroughly; and (for instance) while one nation or country is burdened by increasing debts only slightly; another nation or state can be devastated or weakened even by a smaller burden.

b) It is a false, moreover a positively incorrect sentiment which absolutely dismisses and condemns government debts, since there are undoubtedly - and even a great number of - cases where ... creating debt is justified, moreover, even beneficial as well; in addition, it also cannot be denied that danger actually does not lie in the debt but in the thwarting circumstances which make the creation of debts inevitable in most cases.

c) The creation of debt is however inadvisable, moreover, condemnable in cases where it is done so only for reasons of passion, vanity, indulgence or the combative nature of living generations, who will waste the loaned capital carelessly and lightly.’ (Kautz, 1872, pp. 199-200)

Two decades later Vilmos Mariska already systemised the arguments for the legal basis of government debt: ‘The legal basis of government debt lies on the constant nature of the state. In theory, the state is destined for eternal life. Therefore, if there is no reasonable mean to cover any indispensable need other than taking out a loan, then the state is entitled to use the revenues of subsequent generations. …

In addition to necessity, another legal ground for taking out a loan is usefulness. The justification of a loan to be used for purposes the proceeds of which will be enjoyed by the future era and realisation of which will increase the taxation ability of the nation to a greater proportion than the sacrificed accompanied by the repayment obligation is beyond doubt, considering that such loan itself provides for those means which are necessary for paying the interests of the debt and for the repayment of the debt. …

… government debt can be reasonably accumulated only to the extent which the nation can bear the taxes necessary to obtain the interests payable. … Since due to the difficulties of looking into the future it cannot be known with absolute certainty whether the actual result of the loan will be consistent with the debt burden, and whether the nation will be to bear the increased taxes without the condition of the economy being damaged, the states should decide to take out a loan only if it had considered the power relations with common sense, had considered the expected results in a calm and collected manner, and always with the utmost precaution.’ (Mariska, 1899, pp. 526-527)

The above quotes illustrate it well that the sustainability of the budget can be considered as a ‘new’ requirement in the Hungarian economic literature only in inverted commas. We recall economic premises written more than one hundred and twenty years ago not only to demonstrate this but also because their common-sense wisdom provides a basis for today’s thinking as well.

THE DIFFERENT APPROACHES OF FISCAL SUSTAINABILITY

In their article referred to above István Benczes and Gábor Kutas present the following definition of fiscal sustainability: ‘According to the simplest approach, a fiscal policy can be considered sustainable if the present value of the sum of the primary surpluses occurring in the future is equal to the level of government debt measures now, in the present, namely, if the former covers the latter. If this condition is fulfilled, then no government has to fear the risk of insolvency.’ It should be recognised that this definition – using the terminology of mathematical economics – is the same in terms of its contents as the notions which were declared by Vilmos Mariska as the undisputed usefulness of (state) loans more than a hundred years ago: if the loan undertaken by the state is a recoverable investment, then it is implicitly sustainable. This is indeed the
simples or at least the most self-explanatory, closed-logic definition of fiscal sustainability. The fiscal policies of several countries had been built on this principle for decades. The most commonly known of these policies is the ‘Golden Rule’ introduced in West Germany in 1967, according which the budget deficit was acceptable only if it did not exceed the budget appropriations intended for investments. Starting from the 2017 budget act, this approach appeared in the Hungarian fiscal policy as well, when the budget was separated into national operational, national development and European Union development budgets, thereby declaring that the national operational budget must not be in deficit.

Despite its theoretical justification, this approach of fiscal sustainability has two practical difficulties. Firstly, in the most part not even the state-funded investments can be considered as directly recoverable investments, for example, the benefits of the construction of a motorway section or providing a hospital with modern diagnostic equipment will appear at the investor only in a small part, while most of the benefits will be distributed among those who use the infrastructure concerned. Consequently, it is almost impossible to quantify whether state investments have financial return or not. The second difficulty is – in Vilmos Mariska’s words – ‘the difficulty of looking into the future’ – namely, during a period of 10 to 15 years events could occur that change the plans which were considered well-funded. Usually, such events do actually occur, thereby rendering it impossible for the state loan considered as investments to provide returns. Governments are inclined to assume a continuously growing economic environment in their medium and long-term forecasts and to envision the decrease of state indebtedness based on such assumption. However, life usually proves these assumptions wrong, and during the years of smaller or larger economic downturns the government debt increases sharply from time to time.

Despite the difficulties, the approach to fiscal sustainability which considers budget deficit as investment is not in vain, since it gives a professional foundation for determining additional requirements for fiscal policy. A good example for this is the OECD’s 10 principles for good budgetary governance: From these, Framed section 1 highlights those which are directly related to fiscal sustainability.

The ability to be measured and analysed is an important aspect in the economic sciences as well, therefore there are definitions of fiscal sustainability which can be analysed with the help of quantifiable indicators and can be used in practice better. The Handbook published by the World Bank in 2005 approaches the sustainability of the budget – which the Handbook identifies as the sustainability of the fiscal policy concerned – from solvency (the ability to pay) and understanding it as ‘the ability of the a government’s ability to service its debt obligations without explicitly defaulting on them’. It deduces the concept of fiscal sustainability from this: ‘the government’s ability to indefinitely maintain the same set of policies while remaining solvent’, (Burnside 2005, p. 11). The definition is easier to understand if approached from unsustainability: if pursuing a certain combination of fiscal policy for an indefinite period led to insolvency, then it can be considered unsustainable. Based on this definition, the Handbook presents several analysis methods which explore the different aspects of fiscal sustainability.

In their study published as a working paper of the IMF in 2013, Enzo Croce and V. Hugo Juan-Ramon use a definition with contents similar to that of the definition presented in the Handbook. This approach is suitable for analysing subsequently whether the countries
examined pursued sustainable fiscal policies, as well as to predict whether it is sustainable in the longer or shorter term if a country continues its fiscal policy pursued in the past. Moreover, this approach can also estimate the primary budget balance that the government pursuing unsustainable fiscal policy has to achieve in order to ensure the sustainability of its budget (its permanent and continuous solvency). In his article published in Public Finance Quarterly in 2014, Csaba Tóth G. presented the calculation methods, the most commonly used indicators and the results of his calculations in detail, therefore it is not necessary to present these methods again. We are allowed to do so because according to the final conclusion of the article, the classification accuracy of only one of the five forecasting methods proved to be acceptable (74 percent), while all the other remained below 50 percent.

In our opinion, the problem may be caused by assuming that the fiscal policy will remain unchanged, in addition to the simplifying assumptions of mathematical models. Namely, if the solvency risks increase, then the governments are compelled to change their fiscal policies, and if the internal resolve is not enough, then international organisations which provide help in solving payment
problems will convince the governments to make changes.

In course of the retrospective examination of fiscal policies it is the deconstruction of government debt indicators that have important information content, as they are able to quantify the extent to and the manner in which the elements (e.g. principal balance, real interest, inflation, economic growth) and the factors affecting such elements influenced the process of indebtedness of the state (Csaba Tóth G., 2012). Thus they can give useful information, moreover, incentive to the prevailing fiscal policy.

It follows logically from this approach which identifies fiscal sustainability with the solvency of the state that the sustainability of the budget is assessed from the point of view of the investors who buy the debt of the state. This is explained by Levente Pápai and Ákos Valentinyi as follows in their article about fiscal sustainability: ‘Essentially the same rules apply to government debt and private debt: the ability of the state to take out loans is determined by the investors’ willingness to invest. If the investor deems the government solvent, then it will be willing to keep the government bonds. The fiscal policy is called sustainable and the government is called solvent if the investors are willing to keep government bonds and purchase new issued.’ (Pápa, Valentinyi, 2008, p. 400).

In the following parts of the article the authors examine the issue of fiscal sustainability from this point of view, with the help of mathematical models.

Investors usually do not wait until a state becomes insolvent but start to charge a risk surcharge in case the repayment risk increases, which surcharge increases the interest burdens of funding the government debt. This increases the unsustainability of the budget even further and forces the state concerned to change its policy. This is elaborated in more detail by Bencze and Kutas in their article referred to above. However, the forced adjustment has a rather severe social and economic price, therefore it is very much in the interests of all states to keep their budgets on a sustainable course or set their budgets on such course in time.

The World Bank and International Monetary Fund studies referred to above were written when the insolvency of a state could still be imagined only in case of developing countries. The global financial crisis which erupted in 2008 however brought even developed countries to the brink of their solvency, moreover, even beyond that. (A state is considered insolvent if it is unable to finance its debt from the open money market, i.e. if it needs the help of international organisations.) It became evident that a financial shock jeopardises the solvency of severely indebted developed countries as well. As a result, the analysis of fiscal sustainability concentrated all the more on the question whether the accumulated government debt can be financed in the medium and the long term.

The Directorate General for Economic and Financial Affairs of the European Commission has been preparing a report on the fiscal sustainability of the Member States with this content every year since 2016. In course of the starting point is the definition of the sustainability of government debt determined by the IMF in 2013: According to this definition, ‘public debt can be regarded as sustainable when the primary balance needed to at least stabilize debt under both the baseline and realistic shock scenarios is economically and politically feasible, such that the level of debt is consistent with an acceptably low rollover risk and with preserving potential growth at a satisfactory level. Conversely, if no realistic adjustment in the primary balance - i.e., one that is both economically and politically feasible - can bring debt to below such a level, public debt would be considered unsustainable’ (IMF 2013, page 4).
The presentation of the fiscal sustainability analyses of the Directorate General for Economic and Financial Affairs of the European Commission and the IMF would exceed the frameworks of this article. However, it shall be highlighted that both analyses focus on the identification of risks and both calculate with the effects of negative scenarios as well. Analysis methodologies are compelled to accept it as a fact that the government debt of numerous EU Member States and the government debt of even more other countries significantly exceeds the level prescribed or deemed desirable, consequently, their medium and long term fiscal sustainability depends primarily on whether they are able to decrease their indebtedness by the necessary rate (which manifests in the improvement of the primary balance of their budgets) gradually, both economically and politically. The same analyses concentrate on one element of fiscal sustainability, specifically on the issue of financial viability of government debt. The IMF promptly calls the methodology developed by it ‘debt sustainability analysis’. The fiscal sustainability reports of the European Commission contain the term debt analysis in parentheses, thereby implying that the analysis focuses on the financial viability of the government debt. The report published in early 2020 already published with the title ‘Debt Sustainability Monitor’, thereby making it unambiguous that it discusses only one section of fiscal sustainability.

In addition to international organisations, other countries are also dealing with the issue of fiscal sustainability intensively. For example, the Office for Budget Responsibility was set up in the United Kingdom in 2010, which prepares and publishes reports in the sustainability of public finances every year, and which renews its relevant long-term (50-year perspective) forecast every two years.

**ANALYSES OF THE STATE AUDIT OFFICE RELATED TO FISCAL SUSTAINABILITY**

The principle of balanced, transparent and sustainable fiscal management declared in Article N) of the Fundamental Law of Hungary is specified by Article 36 of the Fundamental Law. Subsections (4)-(6) of this Article prescribe the requirement related to sustainability:

‘(4) The National Assembly may not adopt an Act on the central budget as a result of which the government debt would exceed half of the total gross domestic product.

(5) As long as the government debt exceeds half of the total gross domestic product, the National Assembly may only adopt an Act on the central budget which provides for a reduction of the ratio of government debt to the total gross domestic product.

(6) Any derogation from the provisions of paragraphs (4) and (5) shall only be allowed during a special legal order and to the extent necessary to mitigate the consequences of the circumstances triggering the special legal order, or, in the event of an enduring and significant national economic recession, to the extent necessary to restore the balance of the national economy.’

Further rules for the practical implementation of this are specified in Act CXCIV of 2011 on the Economic Stability of Hungary.

The provisions of the Fundamental Law quoted above made it unambiguous that it is advisable to put the feasibility of the government debt rule in the focus of audit office’ analyses related to the sustainability of the budget, since this is the requirements set by the Fundamental Law for state bodies. Another argument for this is that the government debt-to-GDP ratio - which is the basis of the government debt rule - is a synthetic indicator in which the effects of almost all elements of the fiscal policy and the economic policy are reflected.
On the principle level the Fundamental Law establishes it clearly that presents generations must not burden future generations with debts exceeding 50 percent of the GDP. The practical implementation of this principle however posed a great challenge to fiscal policy, since at the time of the entry into effect of the Fundamental Law on 1st January 2011, the figure of the government debt indicator exceeded 80 percent. Consequently, in analysing the Hungarian fiscal sustainability it was advisable to focus on whether the conditions of the continuous decrease of the government debt indicator were given or not. As it was presented in detail in previous chapters, international organisations use numerous methods to analyse the sustainability of government debt. Several of these methods (European Commission, OECD, IMF) applies to Hungary as well, therefore conducting the analysis by applying these methods would have caused unnecessary parallelisms. It was justified to choose an analysis topic and method which

- is in line with mandate and expertise of the SAo,
- utilises the experience of fiscal sustainability analyses, but which
- creates new value compared to those analyses.

The SAo’s mandate extends to the preparation of analyses related to its audit power, but the SAo has no authorisation to prepare forecasts. The SAO controls the public sector, the spending of public funds and the use of national assets, consequently its analyses can extends primarily to these topics, and the SAO has to approach all topics from the point of view of the utilisation of public funds. The SAO traditional carries out risk analyses when it prepares preliminary studies in support of audit office audits. For this reason it was logical that it concentrated on risks in course of fiscal sustainability analysis as well. The SAO Research Institute had already developed a method for the analysis of fiscal risks, therefore we could rely on that. Another argument for the risk-centred approach was that risk analysis was the commonly used method of sustainability studies in the international practice. If compared to fiscal sustainability risks analyses, the analyses of the SAo can give added value by not focusing on the development of the government debt indicator but on the examination of the risks of those factors which affect the numerator and the denominator of the indicator.

In order to explain the background of the SAO’s risk analysis, it is advisable to distinguish between the two large groups of negative risks:

- the risks of unexpected negative future events,
- the risk of the future escalation of negative processes which have already started in the past.

The following is an example to explain this. The first group of risks includes the case where the water levels of rivers rise due to heavy rain. Meanwhile, the second group includes the case where ground-squirrels dug a dense network of holes on the river-dike, and as a result the river-dike weakened, meaning that it would be unable to withstand a larger mass of water. The occurrence of both risks cause severe damages, and both should be prevented. Moreover, the means of prevention could also be similar (the river-dike has to be reinforced in both cases).

At the same time, the analysis approach of the risks belonging to the two groups is significantly different. In case of the risks belonging to the first group, the occurrence of unexpected events has to be estimated. In contrast to the first group, in case of risks of the second group we have to assess what damages (and with which degree of probability) could occur if the processes that had started in the past continued. The different approaches of the two types of risk analyses are illustrated by Figures 2 and 3.
Figure 2

THE SCHEMATIC DRAWING OF THE ANALYSIS OF UNEXPECTED FUTURE RISKS

Source: Pulay, Simon (2020, p. 36)

Figure 3

THE SCHEMATIC DRAWING OF THE ANALYSIS CARRIED OUT BY BREAKING THE PHENOMENON EXAMINED DOWN INTO FACTORS

Source: Pulay, Simon (2020, p. 36)
Considering that the SAO does not prepare forecasts, its risk analyses are aimed at the exploration of the second type of risks. The SAO’s analysis look for the answer to the question to what extent do processes started in the past jeopardise the future, i.e. the survival of the results of the present. They identify the positive risks as well, i.e. they also assess the extent to which favourable processes started in the past can contribute to preserving, moreover, to enhance the results. Going back to the example we can establish that the SAO helps the preparations for the flood (i.e. the management of the risks) not by predicting when the heavy rain would come but by examining the condition of the protective river-dikes and by pointing out the points of weakness or possible cracks thereof. It is an important rule in case of this type of analyses that the past period analysed has to be at least three times longer than the period for which the analysis intends to forecast the risks. Therefore, a retrospective analysis does not mean the lack of topicality at all. Conclusions for the future can never be well-founded if they are based on the present (on a specific point in time), however, tendencies that had occurred in the past affect the future as well. At the same time, the retrospective-like risks analysis is also suitable for utilising the audit findings of the SAO.

In the order to ensure the systematic assessment of the risks of continuous compliance with the government debt rule, the SAO adapted the ‘value tree model’ which was developed for the private sector. The key feature of the model is that breaks down complicated phenomena to the direct components thereof (first branch), and then it breaks these down to further components (second branch), in theory until the model reaches a factor on which the decision-maker has direct influence. From the analysis standpoint the value model is significant because it helps in understanding, separating those factors which affect complicated phenomena and in quantifying the effects thereof. Figure 4 illustrates the first two branches of the adapted version of the value tree model.

In April 2019 the SAO published the analysis titled ‘The Sustainability of Debt Reduction’ - which was conducted based on the value tree model - on its website, therefore the results reached are available to everybody. Therefore we present only the most important conclusions of the analysis. We summarised the classification of the factor groups in Table 1. The analysis discovered that the continuous decrease of the government debt indicator - while the government debt increased with a slower pace - was caused by the dynamic growth of the GDP in recent years. In line with this, four of the six groups of factors affecting the GDP (competitiveness was broken down to two groups) were classified as positive risks. In contrast, only one of the three groups of factors affecting the numerator received positive classification.

The SAO plans to carry out three type of analyses every two years. The new risks analysis is being prepared now. The title of these analyses (The Sustainability of Debt Reduction) expresses also that the SAO does not identify the continuous decrease of the government debt indicator with fiscal sustainability.

THE SUSTAINABILITY OF LOCAL GOVERNMENT BUDGETS

When analysing fiscal sustainability, it is also advisable to address the sustainability of local government budget management, all the more so as local governments may actually find themselves in situations of insolvency. The settlement of this has been regulated by Act XXV of 1996 on the Debt Settlement
Figure 4

THE FIRST TWO BRANCHES OF THE VALUE TREE OF THE GOVERNMENT DEBT INDICATOR

Table 1

<table>
<thead>
<tr>
<th>Name of group of factors</th>
<th>Classification of the group of factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget deficit</td>
<td>Stable</td>
</tr>
<tr>
<td>Government debt management - Foreign currency debt</td>
<td>Positive</td>
</tr>
<tr>
<td>Government debt management - Hungarian Forint debt</td>
<td>Stable</td>
</tr>
<tr>
<td>Competitiveness - external</td>
<td>Positive</td>
</tr>
<tr>
<td>Competitiveness - internal</td>
<td>Stable</td>
</tr>
<tr>
<td>Development</td>
<td>Stable</td>
</tr>
<tr>
<td>Employment</td>
<td>Positive</td>
</tr>
<tr>
<td>Consumption</td>
<td>Positive</td>
</tr>
<tr>
<td>Economic-social sustainability</td>
<td>Positive</td>
</tr>
</tbody>
</table>

Source: SAO (2019), own edited based on page 4
Procedure of Local Governments since 1996. The effectiveness of debt settlement was assessed in the SAO’s analysis published by in 2018, and the SAO also prepared several proposals for further development. However, the analysis also showed that the risk of local government bankruptcies is low, since debt settlement procedures have been initiated in 69 local governments since the entry into force of the act referred to above and until the end of the period analysed (until 30th June 2017).

The sustainability of the local government budget management is also supported by the fact that the gross debt of the entirety of the local government subsystem did not reach even one percent of the debt of the government sector. However, this has not always been the case. Table 2 shows the development of the gross debt of the local government subsystem between 2000 and 2019.

The table shows that until the mid-2000s, the indebtedness of the local government subsystem was modest. Starting from then however, growth in gross government debt accelerated, nearly quadrupling between 2004 and 2010. At that time debt still accounted for only about one-twentieth of the gross debt of the government sector, however, the composition and rapid growth of the debt, as well as the ratio of debt to free revenues of local governments posed a serious risk. In 2011, the State Audit Office started the system-level audit of local governments. Based on risk analysis, the first round of audits covered 19 counties, 23 cities with county rights and the capital, and 63 of the 304 cities were audited by the auditors based on the on-site audit of local governments chose through representative sampling. Based on the experience of the audits, the SAO prepared a summary analysis for the National Assembly, and the leaders of the SAO assessed the situation that had occurred in several lectures and articles. These analyses process audit

Table 2

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross debt (Billion HUF)</th>
<th>Year</th>
<th>Gross debt (Billion HUF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>130.4</td>
<td>2010</td>
<td>1,259.0</td>
</tr>
<tr>
<td>2001</td>
<td>165.1</td>
<td>2011</td>
<td>1,213.0</td>
</tr>
<tr>
<td>2002</td>
<td>259.9</td>
<td>2012</td>
<td>1,075.0</td>
</tr>
<tr>
<td>2003</td>
<td>279.4</td>
<td>2013</td>
<td>466.8</td>
</tr>
<tr>
<td>2004</td>
<td>340.5</td>
<td>2014</td>
<td>49.2</td>
</tr>
<tr>
<td>2005</td>
<td>416.1</td>
<td>2015</td>
<td>66.4</td>
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<td>2006</td>
<td>570.0</td>
<td>2016</td>
<td>89.5</td>
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<td>2007</td>
<td>783.3</td>
<td>2017</td>
<td>135.9</td>
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<tr>
<td>2008</td>
<td>1,039.2</td>
<td>2018</td>
<td>207.5</td>
</tr>
<tr>
<td>2009</td>
<td>1,086.5</td>
<td>2019</td>
<td>284.6</td>
</tr>
</tbody>
</table>

Source: Hungarian Central Statistical Office (2020) 3/d tables
documents specifically, and thus they embody an important genre of fiscal sustainability analyses. Risk-based selection, the validation and evaluation of the data using analytical methods are characteristics which can be good additions to those sustainability analyses that evaluate statistical data through mathematical, econometric methods. We highlight only the most important thoughts of the articles based on analyses of the State Audit Office.

Domokos (2012) found that the financial equilibrium situation of the Hungarian local governments unambiguously deteriorated between 2007 and 2010, the financial risks increased, and the debt - especially the foreign currency debt - increased dynamically. The majority of the local governments are unable to provide sufficient funds to pay the debt service obligations. The bank exposure increased, and the amount of overdue debts rose sharply. It was a serious problem that the business associations with majority local government ownership also accumulated a significant debts. Paradoxically, the financial situation of local governments was also adversely affected by the increased investment activity related to EU tenders, since the funding was provided from a loan, and the funds for the repayment and operation were not available.

Referring to the SAO’s audit experience, Domokos (2014) argues that in 2010 the financial situation of local governments was catastrophic and it was characterised by a disruption of the balance of budgets for operational and development purposes.

The SAO’s audits and the risk-based analyses based on the audits also contributed to that - as the most substantial elements of the post-2010 budget - the situation of the local government subsystem was resolved. Domokos (2014) highlighted two components of this settlement:

- establishing harmony between local government duties and funding,
- take-over of the debts of local governments by the state.

The data related to the assumption of the debts of local governments are summarised by Table 3.

The article highlights that the take-over of local government debts increased central government debt at a similar rate, however, the risks of debt management are lower overall at this level than when thousands of local government have to overcome debt service difficulties individually. The risk of future indebtedness in case of local governments is reduced significantly by that the legal

<table>
<thead>
<tr>
<th>Manner of consolidation</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Take-over</td>
<td>197.7</td>
<td>0</td>
<td>589.3</td>
<td>403.6</td>
<td>1,190.5</td>
</tr>
<tr>
<td>Payment</td>
<td>0</td>
<td>73.7</td>
<td>36.2</td>
<td>68.5</td>
<td>178.4</td>
</tr>
<tr>
<td>Total</td>
<td>197.7</td>
<td>73.7</td>
<td>625.5</td>
<td>472.1</td>
<td>1,368.9</td>
</tr>
</tbody>
</table>

Source: Domokos (2014), page 5
regulations also changed as of 2012, according to which

- apart from a few exceptions, local governments may take out credits only with the authorisation of the government, and guarantees and suretyships by local governments are also subject to authorisation;
- local governments must not approve any annual budget which includes any operational deficit.

Nevertheless, the risks did not cease entirely. On the one hand, the funding of local government developments made it necessary for local governments to take out loans for this purpose. However, this took place only to a limited extent, as local governments typically realise their developments within the framework of programs supported by the EU as well, while the government provided favourable constructions for financing the own contribution and advancing the EU aids. On the other hand, there was a risk that local governments with poor financial management would become indebted in a more hidden manner, such as through an increase in supplier debt or through business associations held in the 100 percent ownership of local governments. In order to avoid the latter, the SAO systematically inspects the business associations with majority local government ownership. In addition, the SAO continuously analyses the risks of the financial and asset management of local governments, in order to prevent all forms of reoccurring indebtedness.

The data in Table 2 show that the containment of such risks was successful, and local government indebtedness has not accelerated since the consolidation. The gross debt of HUF 200-300 billion accumulated in recent years does not indicate indebtedness but reflects that a reasonable amount of development loans have been taken out.

**THE BROADER INTERPRETATION OF FISCAL SUSTAINABILITY**

Despite the fact that a significant part of the economic literature puts the financial viability of government debt - and to that end, keeping the government debt within certain limits - in the focus of the examination of fiscal sustainability, there are also examples for the broader approach of fiscal sustainability.

According to the wording of the OECD, ‘Fiscal sustainability is the ability of a government to maintain public finances at a credible and serviceable position over the long term. (OECD, 2013, p. 50) At the same time the study immediately adds that ensuring long-term fiscal sustainability requires that governments engage in continual strategic forecasting of future revenues and liabilities, environmental factors and socio-economic trends in order to adapt financial planning accordingly.

According to the definition of the European Commission, ‘fiscal sustainability is the ability of a government to sustain its current spending, tax and other-related policies in the long run without threatening its solvency or defaulting on some of its liabilities or promised expenditures’ (European Commission, 2017, p. ).

The two definitions can also be interpreted so that the long-term preservation of the solvency of the state is a necessary but not a sufficient condition for fiscal sustainability, since the primary goal of fiscal policy is ultimately to provide the funds necessary for the implementation of policies. There is an increasing emphasis among these policies on the ones that promote environmental, social and economic sustainability. In this respect, we consider the definition presented by the European Commission to be too static. In the long term, the goal is not to maintain current policies but to implement policies (and therefore create the ability of being funded) which ensure sustainable development. If
illustrated by a specific example, then the long-term goal is not to keep taxes paid by the citizens at a certain percentage of GDP but to create a tax system that contributes to sustainable development (e.g. through environmental taxes) and also provides the tax revenues necessary. Therefore, a more dynamic definition of fiscal sustainability which also includes the promotion of sustainable development would be necessary.

The authors of the article deduce the concept of fiscal sustainability from the definition of the sustainable development in the Brundtland Report as follows: ‘a series of budgets that provide coverage for the public goods needs of present generations, while also increasing the capacities and opportunity of future generations to meet their own future needs’. The first part of the definition is self-explanatory, and if applied to public goods, in terms of content it repeats that of the definition of sustainable development. The second half of the definition however may require explanation, since it goes beyond the ‘do no harm to future generations’ spirit of the definition of sustainable development. An argument for the wording that expresses more requirements is that budget planning, adoption and implementation constitute a conscious decision-making process, and as a result decision-makers are expected not only not to jeopardise the chances of life of future generations but also to give them a chance for a better life. It is also worth considering that the old-age living conditions of the currently economically active generations will largely depend on the opportunities they have were able to provide to the generations that follow. (Including if they even want to stay in their own countries at all.) The budget - as a financial plan - must distribute public funds in a way that creates opportunities, that is, it must promote the development of physical, intellectual and natural resources as well. In this approach it is ‘only’ a minimum requirement or necessary condition that the present generation should not place an overwhelming debt burden on the shoulders of future generations.

What does this mean for the analysis and assessment of fiscal sustainability? It means that in addition to analysing the evolution of public debt, it is also necessary to examine whether the budget allocates public funds in accordance with the requirements and goals of sustainable development. Of course, the question arises as to whether an audit office can decide this. Our answer is a firm yes, based on the following reasons.

The leaders of the 193 countries of the world are committed to the UN Sustainable Development Goals, therefore these countries develop strategies in line with these goals and adopt the action plans necessary to achieve them, as well as specify the financial resources for the implementation of the measures. Consequently, the audit offices of these countries can control whether the funds specified have been planned for in the current budget, whether the action plans have been implemented, and whether the systems necessary to monitor the implementation of the strategies have been set up, and finally, whether the strategies have achieved the objectives and results set out. Therefore, the audit offices do not devise what would be good for sustainable development but ‘just’ check whether the governments are effectively implementing what they have decided themselves in the interest of sustainable development.

‘Only the combined formal and the substantive orders can ensure a status of state economy affairs which satisfies the requirements of reasonable finances’. - as we quoted Vilmos Mariska. This statement will remain valid as long as public finances exist. The statements about the substantive and formal order are just as valid: ‘expenses should be economical, should benefit the national economy and reasonable principles shall
be used regarding the manner of covering needs.’ Vilmos Mariska adds that all these ‘require the conscientious and strict controlling of the management of all state financial affairs’. As we explained above, the same recognition led to the conclusion of the strategic alliance between the UN and INTOSAI.

REAL RESULTS INSTEAD OF SOLEMN PROGRAMMES

The main motive behind INTOSAI’s involvement was that the commitment of some countries to the SDGs should not be limited to deciding to launch solemn programmes but these programmes should bring real results, i.e. should contribute to the actual fulfilment of the SGD concerned. In the framework of so-called performance audits the INTOSAI member organisations - i.e. the individual audit offices - are able to objectively assess whether their own country’s sustainable development programmes were effective. However, this prerequisite of this is that reliable indicators should be available to measure the result. The performance audit methodology of the audit office defines effectiveness as the achieving the goals set. The goals should always be set by the approver of the programme, who should also set those indicators with the help of which the extent to which the quantified goals have been met can be determined. The UN complied with this requirement and allocated numerical indicators to each SGD. However, every audit office can evaluate the programmes of their respective countries only, and the contribution of the evaluated programmes to the UN Sustainable Development Goals can be established only once the indicators measuring the effectiveness of national programmes are the identical or very similar to the indicators allocated to the SGD. This is also a condition that allows multiple audit offices to carry out a joint (coordinated) audits in the interest of the implementation of any SGD or the comparative evaluation thereof. Audits carried out on the same subject, with almost the same method and simultaneously in multiple countries allow not only an objective international comparison of the results but also sharing the good practices revealed during the audit.

By adopting the Sustainable Development Goals the UN did not require the harmonisation of national and international indicators due to the economic, social, social and environmental differences of the countries. For this reason the signatory countries use so-called substitute indicators for certain indicators, which describe the change in status for a given goal well, but which also apply to the areas that are relevant at national levels. A further challenge is that the entirety of the policy strategy cannot be audited entirely but only the effectiveness of the programmes designated to implement the strategy can be evaluated through audits. The three levels are illustrated in Figure 5.

The SAO has developed a method with the help of which the consistency of international (including those defined by the UN), national and programme-level indicators can be explored and demonstrated relatively easily. A matrix (see Figure 6) was put in the centre of the method, from which matrix - once completed - it can be deduced whether the identities or at least the similarities between the indicators make it possible to audit the extent to which domestic programmes have contributed to the realisation of the targets of any UN Sustainable Development Goal.

At the international (in our case, the one declared within the framework of the UN), national and programme levels, the identity of targets is a fundamental condition of controllability. Thus, the targets belonging to the given Sustainable Development Goal are indicated in the columns of the matrix.
**Figure 5**

**THE RELATIONSHIPS BETWEEN SUSTAINABILITY GOALS AND PROGRAMMES IN CASE OF ANY GIVEN SGD**

![Diagram showing relationships between sustainability goals and programmes](image)

Source: own edited

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**Figure 6**

**A MATRIX AIDING THE DETERMINATION OF WHETHER A SUSTAINABLE DEVELOPMENT GOAL CAN BE AUDITED INTERNATIONALLY AND NATIONALLY**

<table>
<thead>
<tr>
<th>Descriptions</th>
<th>International level (UN)</th>
<th>National level</th>
<th>Programme level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-goals</td>
<td>c1</td>
<td>c2</td>
<td>c3</td>
</tr>
<tr>
<td>International indicators</td>
<td>I11</td>
<td>I12</td>
<td>I21</td>
</tr>
<tr>
<td>National indicators</td>
<td>I21</td>
<td>I23</td>
<td>I31</td>
</tr>
<tr>
<td>Programme-level indicators</td>
<td>–</td>
<td>I31</td>
<td>I35</td>
</tr>
<tr>
<td>Controllability</td>
<td>Not relevant</td>
<td>E</td>
<td>N</td>
</tr>
</tbody>
</table>

Source: Pulay et al. (2020) page 8
The figure shows that in the case presented, the targets c3, c4 and c5 were the ones that were set at the international, national and program levels as well. Target c1 is irrelevant for Hungary, therefore it is not included in the national targets. Target c2 also appears among the national goals as well, but it was not included among the specific objectives of the development programme. Targets c6 and c7 are not part of the targets of the international level, these are only important from a national point of view.

In the three rows of the matrix below the goals, the international, national and programme-level indicators were indicated and allocated to each goal. Indicators with the same content were given the same serial number. In this way, the matrix shows the targets the achievement of which is measured at the international, national and program level with the same indicator. In the case shown in the figure, two of these indicators can be seen, namely indicators I31 and I42. Consequently, targets c3 and c4 are the two targets for which an audit can be carried out on the basis of a common indicator, in order to assess the contribution of the national programme to the national and international target. We marked this by the letter L (can be carried out) in the last line of the matrix. The letter R stands for partial controllability. Controllability is partial if only the international and programme-level indicators are identical. In such cases it is possible to assess the extent to which the national programme has contributed to the achievement of the international sustainability target. However, there is no national indicator with the same content, consequently the audit is unable to determine to what extent the overall development in Hungary - which depends not only on the effectiveness of the audited programme - contributed to the improvement of the international indicator.

The letter E marks the case where international and national indicators are identical, but there is no programme-level indicator identical to them; with that the letter E stands for analysability. This means that based on the data collection in Hungary, the SAO can request the Hungarian data from the Hungarian Central Statistical Office or another competent organisation, but the SAO will not have specific audit evidence. This is also relevant in case of an internationally coordinated audit, since the presentation of comparable indicators of the participating countries is usually an important part of the joint audit report (study).

It is also a relevant case for the SAO where only the national and programme level indicators are identical, as this means the existence of an important condition of the purely national audit. For this reason we marked this case by the letter H. The letter P indicates that an indicator is available for the controlling of the programme concerned, which is a basic condition for auditing the performance of the programme. However, based on the effectiveness of the programme it will not be possible to make quantified and well-founded findings regarding the approach to national or international sustainability goals. The letter N marks that due to the lack of indicators or the differences thereof, none of the basic conditions for carrying out an audit exist.

In the next months the SAO will explore the availability of comparable indicators in case of several SDGs, and based on that it SAO will able to specify those SDG targets the conditions in case of which the conditions are fulfilled to allow the assessment of the contribution of Hungarian programmes to the implementation of the given SGD through audits by the audit office.

The audit of sustainable development programmes has already been a priority among the activities of the State Audit Office. Among other
things the SAO audited child protection, higher education, the implementation of measures related to clean air, the financial management of national parks, waste management, as well as the preventive measures against ragweed. Through its audits and consulting activity the SAO facilitated the realisation of two of targets related to SGD 16 the most: 16.5 ‘Substantially reduce corruption and bribery in all their forms’ and 16.6 ‘Develop effective, accountable and transparent institutions at all levels’. An example may be the integrity survey conducted on yearly basis since 2011, as well as and the extensive audit of the establishment and operation of integrity controls in budgetary agencies and local governments.

The State Audit Office organized the IX EUROSAI - OLMCEF conference between 9-11th September 2020, where one of the topics was the implementation of the Agenda 2030 goals, with special regard to the epidemic situation. The conclusions of the conference can be summarised as follows:

- The COVID-19 epidemic poses significant risk in terms of the realisation of the Sustainable Development Goals. As a result of the pandemic it can be expected that there will be a deceleration in the realisation of the Sustainable Development Goals, especially in poorer countries and in countries most affected by the epidemic.

- The new standards introduced or developed in order to prevent COVID-19 cases also encourage organisations to keep up with digitalisation, to be receptive to innovation and not to back down when they encounter obstacles.

- The first effect of the pandemic was that the world development slowed down, however, through appropriate technological catch-up and attitude we could make rapid progress during the next period. It is important to establish that the global and national impact of the pandemic on the Sustainable Development Goals.

The epidemic could change public policy principles, which will in turn affect the SGD. As a result, it would be important for the audit office to examine the extent to which the new principles developed by the pandemic and the long-term effects of policy decisions are in line with the Sustainable Development Goals. In order to achieve these goals, one of the most important tasks of the audit offices is to facilitate and monitor whether the decision-makers take the Sustainable Development Goals into account when they make rapid policy decisions arising from the pandemic.

SUSTAINABILITY IN THE BUDGET

It is obvious that the achievement of SDGs depends on whether the funding of the various programmes and strategies prepared for this purpose appears in the budgets of the countries. For this reason the organisations monitoring the achievement of the goals pay close attention to this issue.

Recently, two studies containing international comparisons were published, which assessed the integration of sustainable development strategies into budget of the countries. The first is a study of the European Parliament study titled *Europe’s approach to implementing the Sustainable Development Goals: good practices and the way forward*; this study examined whether the EU Member States integrated the UN Sustainable Development Goals into their national strategies and whether the Sustainable Development Goals are reflected in budgetary processes. This European Parliament study names ten countries that have directly or indirectly linked SGD to their budgets.

The analysis of the IDDRI (Institut du développement durable et des relations internationales) titled *Integrating SDGs...*
into national budgetary processes discusses the adaptation of the UN Sustainable Development Goals into the national budgets, and it mentions several countries as good examples (IDDRI 2018).

However, we should note here that the UN resolution declaring the SGDs - in addition to emphasising joint commitment to the goals - does not expect the Member States to realise all 169 targets precisely. In contrast, Section 21 of the UN resolution stipulates the following: ‘21. ... All of us will work to implement the Agenda within our own countries and at the regional and global levels, taking into account different national realities, capacities and levels of development and respecting national policies and priorities. We will respect national policy space for sustained, inclusive and sustainable economic growth ...’. All Member States may specify those targets from the 169 targets which are relevant for them, as well as the programmes they will realise in order to realise such targets, while taking into consideration the general principles of the UN resolution (for example, respecting human dignity, the empowerment of exploited people).

Consequently, this is a two-step process. In the first step the national Sustainable Development Goals should be determined based on the circumstances and priorities of the country concerned, in line with the Sustainable Development Goals of the UN. In the second step the appropriations necessary for the funding of the programs realising the national Sustainable Development Goals can be built in the central budget. Similarly to several other countries, Hungary had determined its own sustainable development strategy already before the declaration of the SGDs by the UN. In 2013 - i.e. two years before the announcement of the Sustainable Development Goals of the UN - the Hungarian National Assembly adopted the 2012-2024 National Framework Strategy on Sustainable Development of Hungary. The Framework Strategy distinguishes four resources: human, social, natural and economic resources. The Framework Strategy specified 34 strategic objective and 77 instruments for the four national resources. Therefore, the question arises so that how does the announcement of the SGDs and Hungary’s high-level commitment to the implementation thereof justify the amendment and modification of the previous objectives.

In Hungary, this task was performed by the National Council for Sustainable Development (in Hungarian: Nemzeti Fennállható Fejlődési Tanács, hereinafter referred to as NCSD), consistent with that the NCSD considers it its duty to facilitate the regular renewal and implementation of the Hungarian strategy on sustainable development, in addition to promoting the realisation of the SGDs. The NCSD presents the implementation of the Framework Strategy to the society and the National Assembly in monitoring reports every two years. In Appendix 2 of its first monitoring report approved in December 2015, the NCSD compared the objectives of the Framework Strategy and the Sustainable Development Goals of the UN. The NCSD established that 83 of the 169 targets of the UN document fall within the scope of the Framework Strategy, and these correlate well with the objectives of the Framework Strategy. The second and third monitoring reports adopted by the NCSD in 2017 and 2019, respectively, evaluate in separate appendices to what extent Hungary managed to approach the relevant SGDs. The titles of the appendices: Status report on Hungary based on the Sustainable Development Goals of the United Nations.

It should be noted here that the Deputy Commissioner for Fundamental Rights, Ombudsman for Future Generations issued an opinion in 2017 on certain ombudsman’s
recommendations which are relevant for the Hungarian realisation of the UN Sustainable Development Goals. In addition to a theoretical foundation, the opinion also includes rather specific recommendations as to the developments which would be necessary to implement in order to realise each SGD in Hungary.

Following the adoption of the above-mentioned UN resolution, a coordination mechanism was established at the governmental level as well, with the participation of the ministries and the Ministry of Foreign Affairs and Trade - which is responsible for the coordination of the Hungarian implementation - within the framework of the already existing Interdepartmental Coordination Committees for International Development Cooperation Coordination. In 2018, the government prepared its first voluntary national report on the implementation of the SGDs in Hungary. A new platform was established for the preparation of this report, which included representatives of the Hungarian Central Statistical Office and civil society organisations, the representatives of the academia and the private sector, in addition to government actors. The voluntary report lists the measures taken by the Hungarian state to realise the SGDs in approximately 50 pages. All this shows that the endeavour to realise the Sustainable Development Goals relevant to Hungary is present in the operation of the ministries.

IDENTIFIABILITY OF THE FUNDING OF STRATEGIES FOR SUSTAINABLE DEVELOPMENT IN THE CENTRAL BUDGET OF HUNGARY

In its Decision No. 100/2007 (XI.14.) on the Duties of the Planning and Conciliation Process Related to the Long-term Sustainable Development of the Republic of Hungary the National Assembly had already called the government to prepare the plans, strategic and policy documents to be developed in accordance with the strategy for sustainable development, and to have the programmes to be renewed revised while taking this strategy into account. The strategies summarise the actions to be implemented in the designated sector, which appear in National Assembly or government decisions.

The principles and procedural rules of governmental strategic management are laid down in Government Decree No. 38/2012 (III.12.) on Governmental Strategic Management, according to which strategic thinking has become an essential element of organisational operation. According to Point 7 of Annex 1 to the Decree, the responsible entity shall publish the strategic planning document approved on its website immediately after the approval thereof.

According to Point b) Subsection (2) Section 39 of Government Decree No. 94/2018 (V.22.) on the Duties and Powers of the Members of the Government, the ministers - within the scope of their duties as defined by law and the government decree - shall prepare strategic documents and programmes for implementation thereof and shall and coordinate implementation of such programmes.

This multi-element regulation has led to a number of strategic documents related to sustainable development. In 2019, the SAO identified 59 sectoral or functional strategies that can be assigned to the objectives of the Framework Strategy. The implementation of each sectoral strategy has its own responsible government entities, which are also the governing bodies of a chapter of the central budget. In principle, in this way consistency is ensured between the funding of the strategies and the central budget, since ministers can plan
in their own budget chapters the appropriations necessary to implement the strategies they coordinate. This task is usually determined by government decisions approving action plans for the implementation of the strategies as well. Currently, there is no legal requirement in Hungary according to which the resources related to the implementation of government strategies and/or sustainable development goals should be included in the central budget - in a visible manner. This is reason it could happen that the financial resources necessary to implement the strategies were put in a given budget chapter as part of a multi-purpose appropriation or not as a separate heading or subheading. It could also happen that the appropriations planned by the competent minister fell victim in whole or in part to budget negotiations, i.e. not enough money was left for them.

On 24th November 2018 Point c) Subsection (3) Section 22 of Act CXCV of 2011 Public Finances (Public Finances Act) entered into force, which stipulates that ‘In the reasoning of the bill on the central budget, the Government - as part of the budget planning - shall provide an assessment of the long-term sustainability of key government policies and shall present the policies which have direct long-term impact, and therefore the Government shall in particular present the long-term development of public pension, health, education and other age-related expenditures’. The amendment of the Public Finances Act may help - with view to including the sustainable development goals in the budget - to analyse and monitor the long-term sustainability of domestic government policies / strategies.

In Point two of its Decision No. 18/2013. (III. 28.) the National Assembly confirmed that the principles and strategic objectives contained in the Framework Strategy, aiming at the long term, successful existence of the Hungarian nation, must be continuously enforced in legislation as well as in creating policy strategy and programmes. Therefore, in the framework of an analysis, the audit office examined whether the appropriations for the implementation of the objectives and measures set out in the sectoral and functional strategies related to sustainable development and approved by the government can be found or identified in the 2019 central budget. Three strategies have been selected: the National Forest Strategy for 2016–2030 (hereinafter referred to as Forest Strategy), the Second Climate Change Strategy (hereinafter referred to as NÉS-2) and the National Water Strategy (hereinafter referred to as Water Strategy).

The analysis revealed that the three strategies selected defined the goals to be achieved, the subsidies required for these goals and the developments, for which the national budget and EU funds were specified as coverage. In the following we present one by one how and to what extent the budget appropriations for the implementation of the objectives of these three strategies appeared in Act L of 2018 on the 2019 Central Budget of Hungary.

Two of the ten target areas specified in the Forest Strategy (‘Reforestation, Forests in Climate Change’ and ‘Sustainable Forest Management, Forestry Environmental Education’) were specified as titles in the central budget (see Table 4). In addition, two other titles of the central budget were related to another target area of the forest strategy, i.e. the development of state forest management: the capital increase of state forest management companies and the support of its professional duties.

NÉS-2 specified the carbon dioxide quota revenue, the Green Investment System, the Green Economy Funding System and the Economy Greening System as the national sources for the implementation of the strategy. These appeared as independent title groups in 2019 central budget (see Table 5).
Duties to be financed from the domestic sources listed in the **WATER STRATEGY**: termination of the state of danger occurred in the Transdanubian Mountains due to the rise of the karst water level; ensuring the security of water bases, compensation measures; reconstruction of the water utility network, development and operation of the monitoring system.

The resources available for the duties established or the amount of such resources were not specified in detail and in an identifiable manner in the central budget. The reasoning for this chapter of the 2019 central budget...

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**Table 4**

<table>
<thead>
<tr>
<th>The domestic sources specified in the forest strategy</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reforestation, Forests in Climate Change</td>
<td>Revenue</td>
</tr>
<tr>
<td>Sustainable Forest Management, Forestry</td>
<td></td>
</tr>
<tr>
<td>Environmental Education</td>
<td></td>
</tr>
</tbody>
</table>

---

**Table 5**

<table>
<thead>
<tr>
<th>The domestic sources specified in NÉS-2</th>
<th>Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green Investment System</td>
<td>Revenue</td>
</tr>
<tr>
<td>Green Economy Funding System</td>
<td></td>
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<tr>
<td>Economy Greening System</td>
<td></td>
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</tbody>
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Source: own edited based on the data of the 2019 central budget.
budget contains that in order to achieve the goals set out in the water strategy the operation, maintenance and development duties of water management facilities are performed by the water directorates, under the professional leadership of the General Directorate of Water Management.

A significant part of the developments related to each strategy can be linked to EU funds. The three strategies specified cohesion policy Operational Programs for 2014–2020 and the Rural Development Program among the appropriations managed by the EU Developments chapter. These appropriations are included in Chapter XIX - EU Developments of the 2019 central budget, however, the appropriations were not broken down to purposes. In the reasoning of Chapter XIX - EU Developments lists the appropriations within the operational programs by priorities. However, these appropriations can be linked to multiple strategic goals.

The annual development framework of the operational programs is included in a government decision, which specifies the calls to be announced or already announced in the year concerned, the title of the construction, the funding available and the planned date of the announcement. Therefore, in principle there would be no reason why the central budget could not present the purposes for which the consolidated appropriation may be used in greater detail. This would primarily improve transparency and would not deprive the government of the right to make transfers between appropriations wherever justified.

Having reviewed the national and the EU resources of the three strategies, it can be established that the individual strategies and the goals set in the strategies do not appear or appear only partially in the central budget. The financial resources needed to achieve the objectives set out in the strategies are largely related to operational programmes, however, the amount of aids related to the strategy concerned cannot be decided exactly from the operational programmes.

The central budget clearly does not allocate/name the amounts of national/EU funds for the implementation of the measures set out in each strategy. The figures of the central budget do not show how much national and EU funding had been allocated to the entities responsible for the strategies in order to help achieve the objectives set out in the strategies. The individual strategies are interconnected and also overlap each other, which makes it difficult to make separate the statements or to divide the resources.

**opportunities for including and controlling budget appropriations designated for sustainability purposes**

International good practice offers a number of solutions for the unambiguous and transparent connection of strategies for achieving sustainable development goals and central budget appropriations. Funds for the implementation of each strategy can be included

- in the annual central budget,
- the medium-term fiscal frameworks,
- in separate budget documents
- on the public finances website

Which of these should be implemented in Hungary? All good practices have their own strengths. The inclusion of funds for sustainability strategies in the annual central budget increases transparency and accountability. Only one of the places listed has legal relevance. The amendment of the Public Finances Act referred to above paved the way for longer-term commitments to be included in the reasoning of the annual budget bill. Using this as an example, it would be possible to supplement the reasoning of the central
budget bill with an annex which presents the budget appropriations for the implementation of strategies related to sustainable development systematically.

The implementation of strategies related to sustainable development typically requires the implementation of multi-year programmes. Consequently, it is justified to include the budgetary coverage of these programmes a scheduled and transparent manner in the documentation of the government decision which sets out the medium-term budgetary frameworks.

By presenting the funds for the strategies in a separate budget document, the appropriations concerned can be shown systematically, in groups according to several aspects. This is not necessarily a separate solution, since such a document could be a part of both the reasoning of the annual central budget bill and the calculation material of the medium-term budgetary framework. This document can also serve as a basis for preparing the relevant part of the ‘citizens’ budget’.

Displaying the budget appropriations designated for sustainable development strategies on the public finances website would allow those citizens who are interested in and committed to the entirety or any component of sustainable development (e.g. preservation of nature, climate protection) to ascertain directly that the government deems it important to achieve the sustainability goals, and it devotes significant sums from the central budget for these purposes. It is advisable to implement all international good practices in Hungary as well.

The SAO can evaluate the fulfilment of the systematic inclusion of strategies designated for the achievement of sustainable development goals in the central budget act mostly in the case of those strategies the SAO had selected in course of commenting the budget bill.

The transparency of the budget is significantly improved if the data included in the documents of the budget have appropriate structure, level of detail and if such data are searchable. If in case of the strategies designated to promote sustainable development transparency is also manifested in this way, then it will contribute to informing the National Assembly and the citizens better. In order to ensure that the strategies designated to promote sustainable development are actually implemented, it would be a good solution if their resources appeared in both the medium-term budgetary framework and the annual budget in a transparent and accountable manner.

Notes

1 SGD 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels The SAO could contribute a lot to the following related targets: 16.5 ‘Substantially reduce corruption and bribery in all their forms’ and 16.6 ‘Develop effective, accountable and transparent institutions at all levels’.

2 It was published by KJK-KERSZÖV under the Hungarian title ‘A kormányzati szektor gazdaság-tana’.

3 We have the fourth edition which was published in 1899, therefore the quotes are from this edition as well.

4 Taxpayer (contribution payer)
5 Original English text.

6 According to the narrower interpretation: creditworthy and able fulfil debt service.

7 An international research workshop and platform seated in Paris.

8 The first voluntary report of the Hungarian government on the realisation of SGD s in Hungary also highlights the importance of these principles.

9 The National Council for Sustainable Development (NCSD) was established on 10 October 2008 based on a five-party consensus and initiated by the Parliament to work as an advisory and interest reconciliation body. The president of NFFT is the incumbent speaker of the National Assembly. Its members are the social groups included in the relevant resolution of the National Assembly. The members of the NCSD are delegated of the government, the political parties, the scientific community, economic interest groups, civil and religious organisations.

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