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Independent Fiscal Institutions in the Countries of Eastern-Central Europe

By Prof. Dr. Árpád Kovács
University of Szeged, Hungary

Abstract- Improving the efficiency of budgetary management and preventing overspending that secedes from performance, are fundamental budget stability conditions 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 the interest has grown recently for fiscal councils that have been shooting up like mushrooms and are believed to be almost like "the ultimate weapon" in fighting budgetary overspending. The demands for creating such new institutions at the same time undeniably represent criticism concerning the former processes of the planning mechanisms and their respective institutionalised solutions. This paper aspirations to provide a picture as regards to what extent can fiscal councils 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, mean the best solution to be recommended, i.e. the „best practice".

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The Hungarian Case

Prof. Dr. Árpád Kovács

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jel - code: b15, e62, h15, h61, h63, l3

I. 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 what the various political and professional opinion leaders tend to deal with the newly established *fiscal councils'* public law inclusion, their independence, the method of putting across their resolutions and institutional-personal competence compared to their functions in Central-Eastern Europe, is striking. At the same time less attention is being payed 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.* Now, this institutional guarantee though cannot always and in every country be tied to a fiscal council type[2] organisation. As a matter of fact, far from it. 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 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 token of *fulfilling this institutional guarantee role* does not require by all means and in every case a brand new organisation that„ *is independent also from other institutions"* and that is relying 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. Now, 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 or rules and by ensuring a better harmony of demands and possibilities, to thus establish a budget planning that serves stability.

All the above make up 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 in case of given conditions – for example loose budgetary discipline, problems regarding the well-grounded character of governmental planning, suspicions regarding the existing, independent organisations, etc. – this institutional solution might be the best.

Author : Árpád Kovács is a professor of the University of Szeged, Chairman of the Fiscal Council and Chairman of the Hungarian Economic Association.

II. 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 of 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 employed budgetary responsibility 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 they expected that by resorting to this system, the tensions of the balance can be confined and conditions of sustainable financing, growth and sustainable development can be maintained. They 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 line of upcoming and developed countries, can 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 rule-based budget had and has general – let's say - *reasons that are directly related to professional budget management and harmonisation of social interests that – in case of their prevailing 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 data, modelling their interrelations and relations, examine their financial „bridges", project their effects, etc. Understanding the processes, digesting masses of information about short or longer-term external and internal social-economic obligations, conditions, choosing political value to be followed by *transforming them into numbers of the budget* is difficult, even by using the latest IT and model making 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 the society (the voters) and the political governance chosen by the voters articulating their interests and values, might overrate the importance (use) of direct expenditures (within one year or, at most, within the election cycle), while they might underestimate the burdens in the long run.[5] It was because of the above that the cyclic character of budget procedures has strengthened while short-term interests have been playing an important role among its motivations. The aspiration to maximize votes are related to elections (promises) or – more precisely – they resort to *„asymmetrically employing the originally Keynesian concept of the so-called anti-cyclic economic policy* [serving the purpose of keeping the power – Á.K.] and thus intensify the aspiration[6] and sooner or later it leads to the disruption of the public finance balance (*Antal* [2004], *Győrffy* [2009], *Muraközy* [2011]). As to the double goal (budgetary and real economy) of introducing rule-based budget, we can say that, *in case it is functioning appropriately,* 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 a better medium and longer range budget planning, promotes the modernisation of the IT systems, contributes to the improvement of financial work and, additionally, it generally serves the transparent and accountable budgetary thinking 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;
- contributes to improving the opinion about the country, even in the short term. Beyond the more favourable financing conditions it would strengthen 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 appear in the yearly budget plans. It creates the possibility to make more secure development plans of a wider horizon, together with accounting with 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 in the percentage of the GDP shall not grow, [7] or that investments shall represent defined proportions[8] (*Kopits* [2010]);

- *procedural rules,* that ensure budgetary discipline and transparency (for example, impact assessments and advisory power obligations);
- *transparency norms* (for example, accrual based accounting, financial reporting system);
- *institutional guarantees* to ensure the observance of the budget policy and procedural rules 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 they might take different forms and names, be of different legal background and jurisdiction, have 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 built on it, involves the better harmony of the 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.

III. Solutions of „Rule-Based" Fiscal Policy in the Practice of East European EU Countries

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

The financial crisis, followed by economic recession and the ensuing loss of resources created difficulties in all EU member states. *However, it was an especially big threat to the sustainability of fiscal policies in those countries where the lasting unsustainability of economic performance and consumption was weak, where the social entitlement system functioned in an outdated structure, being wasteful and lacking resources at the same time and, where competitiveness in it complex sense was also weak* (*Báger* [2010], *Kovács Á.* [2013]) [11]. Up to the outbreak of the financial crisis in the EU countries budget deficit was more or less restrained – with the exception of Hungary. Following the outbreak of the crisis however, the budget overspending that marked the seceding of the budget and economic output and submitted it to short-term political goals, practically became a 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*[a]*,* they justified this practice by the false argument of thus 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[12] belonged to this group of countries. Although, as regards the functioning of the welfare systems in the Czech Republic and primarily, the situation of 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 Rumania and Croatia was different. Although the latter countries could not be characterised by the high level of welfare expenditures, their significant indebtedness *resulted in a compulsion to act,* as *the tensions in financing and the consequences of their respective indebtedness* have emerged even more forcibly under the circumstances of the crisis.[13]

It was the result of the aforementioned differences that in the Eastern-Central European countries of similar fate that the demand to introduce a system of rule-based budgeting *appeared at different times* (*Székely* [2010], *Jankovics* [2012]). There were some where – let's use the term - foresight[14], in others the force of indebtedness[15] 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[16], like in the Czech Republic.

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

After the accession, when the Maastricht criteria were applied also to the Eastern-Central European countries, we can regard those also 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 the 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 lever of 3% or below (Poland, the Czech Republic, Slovakia and Slovenia) made less 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 the mitigation of 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 solution 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 Rumania in 2010 and Slovakia in 2012 and this was the time 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 anyway, how is it possible to determine the degree of „independence". There are a number of independent fiscal institutions functioning also in the European Union that – as regards strictly using the principles of the framework of responsibility – are not classified by the EU or the OECD into 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 foundations of budget planning. In case of SAIs (and here, there are some uncertainties regarding the classification) that publish their opinion or a white paper for the planning of the budget, or just examine the foundations 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[17] some of the experts are averse to classifying in this category organisations that have such abilities, respectively, to participating in the validation of a rule-based budget.

Several older EU member states have overstepped these worries. Namely, it could be also a right 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 respectively, they attach to the existing organisation a new, smaller or bigger body/council having internal autonomy. [18] In other cases – like in Hungary since 2011 – the job of the fiscal council is supported by the staff of a supreme audit institution and the central bank, instead of the former professional background that had a significant size of staff and was independent. No matter which solution the given country opts for, there shall always be such professional tasks of supporting the work of the IFIs that can be done only by other institutions respectively, can be done cheaper by external capacities. So, involving research institutes, financial advisory firms and asking for their opinion, is getting more and more an accepted practice. In these cases the organising, summing-up and synthetizing decision-making preparatory work remains the task of the fiscal council's background organisation (secretariat) employing 5 – 15 people.[19]

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 – using their own resources of commissioning technically and external organisation – as their respective 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 chronology of the contents, the prospective, the procedure or the utilisation or publishing such documents.

According to the experiences the picture is multi-coloured 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 organic 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). [20] (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

Global Journal of Management and Business Research (B) Volume XIV Issue VII Version I Year 2014

governmental impact studies concerning recommendations of policies (for example, tax laws), and/or preparing white papers respectively, the regular and standardised ex-post control of the observance of numerical rules (for the time being there is only ex ante control). Such a demand is indicating the dynamic expanding of the role of Fiscal Councils. It shows a difference in the approach that is related to the political guidance respectively, the professionalism of budget making.

IV. Some Remarks about the Course of Rule-based budget in Hungary

Following the increasing problems of the 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 fora that the budgeting practice having existed since the political and economic changes (the planning built on bargaining mechanisms, political promises and dogmas) excludes the chance of following a path of sustainable development. The „inclination for deficit" has intensified, especially in the election periods. The ability for growth deteriorated, the potential rate of growth was close to zero. Amendments on the revenue side were determinant. (*Kovács O.* [2013]).

It only compounded the problems that in the course of fiscal consolidations the system-like approach could not prevail enough, the chosen macroeconomic function proved to be more and more counter-productive and there was no internal commitment and political consensus regarding even as to how to reach the numerical deficit and debt goals. Up to 2010 the consolidations were primarily focusing on the *„revenue side"* and when it came to steps focusing on the *„expenditure side"* the composition was not adequate. As a consequence, such experiences proved to be short living. Balancing on the edge of unsustainability prevailed.

Budget planning built on weak ground in itself became one of the barriers of 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 of the institutional guarantees they were following two courses of thinking.* The act on responsible budget management passed at the end of 2008 fundamentally handled debt increasing tied to the budgetary expenditures and not to the GDP as regards the regulations (*Kopits–Romhányi* [2010]). Thus the regulation – thanks to its conception and intervention mechanism – was called „ceiling law".[b]

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 should be not a new analysing staff that represented significant professional capacity and 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 analysing capacities, might assist their leaders as members of the council.[21] According to the other view represented by the government parties at the time and foreign (IMF) experts, the subjective, methodological and technical professionalism and emphatic „independence" could be ensured only by having a pool of experts of significant macroeconomic analysing power, responsible only to the Fiscal Council and run by independent budgetary resources.[22] Finally, the latter concept won in the form of the so-called 'law on ordinary votes'. No doubt, the professional recommendations were playing a part in this too.

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 Basic 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",* the new regulation put in the focus the *decreasing of the proportion of public debt to the gross national product* and *yearly budget procedures*.[23] 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[24]. The law also built the analysing 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 analysing capacities.

The EU Commission recommendations keep requiring the „strengthening of the analysing capacities" of the Hungarian FC respectively, the preparation of multi-annual forecasts. This approach is not being prompted primarily by what the EU organisations consider European best practice rather, they think that the obligatory provision of the recommended tasks

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

would be important for the transparent and accountable exercising of the veto right that is very unique and formal in international practice. That's 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 are publishing their own forecasts in the EU (as a matter of fact, more and more), as thanks to the outstandingly 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.[25] It is the aspiration of the Council – also in harmony with the expectations of the EU Commission regarding the strengthening of the analysing capacities – that when necessary, in the long run, it should publish separate forecasting evaluations about the expected trend of the macroeconomic basic course of public finance respectively, of the medium-range budgetary positions.

V. Rule-Based budget as an Institutional Tool of Crisis Management

Easter-Central European countries that prior to the crisis had rapidly growing economies, have suffered set-backs of different scale in the period of the crisis. The exception was Poland that had a significant domestic market. This set-back has considerably spoilt the fiscal positions of the concerned countries as well. However, growth has returned in their economy by 2010 – 2011 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.

As to saying 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 true for those Easter-Central European countries that accessed the EU later.

The differences were and have been manifested rather as regards the measure of the interventions, the number of intervention fields, in their character of being more „activist" than normative and operating with more caution. Looking at any of the assessing countries, on the basis of the encountered literature and documents, we cannot state that they'd conducted the various crisis management steps on the basis of a model built on consistent theoretical foundation. They tried to adopt the well-known models of the economic literature, the proven elements used in earlier crises and 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 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 budgetary responsibility, economical management, of preventing unexpected situations caused by the crisis, in the so-called numerical and procedural rules respectively, 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 number of indebtedness, it seems to be clear that such relation does exist.*

On the basis of the various international evaluations and improving results concerning indebtedness and economic performance apparent from the statistics, it does not sound as an exaggeration to reach the conclusion that in those four countries where IFIs have been functioning for a longer period, the sustainability of budgetary balance was more prevalent and crisis management was more self-assured. The favourable effect of the budgetary framework system was also manifested in the recognition that there is 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 *creating 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 also in Europe. The institutional palette is multi-coloured, 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 maintaining of balanced budget and the observation of fiscal rules while we can equally find those fulfilling the function of the watchdog or those giving early warnings, as well as those that have 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 management and the gradually gaining strength of the IFIs professional respect that in the end will determine, how the institutional guarantees of rule-based budget shall prevail.

It has to be mentioned that it is not lucky to have an over-complicated building of fiscal tools. Reviewing the different regulations we can say that today this is more characteristic. Just like stating that while the opinion of the EU Commission regarding the functioning of the individual fiscal councils relies on the contents of the EU Stability and Growth Pact, the operation of the FCs is based on national regulations. (Ódor, 2014])

The operational cost of the professional background capacities of the new institutions has always been an issue. According to the experiences, establishing the framework of rule-based budgeting does not make the procedure of accepting the budget simpler or cheaper, even with a strong aspiration to be efficient. The operation of a newer system of rules and fora 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 advantages originating from the better founding of budget planning, respectively the control of its execution. These advantages though have to be looked for not only in the narrow sense of budget management but also in shaping the approach of the society, as rule-based budget can have its impact only when enjoying a wide-range social, political and professional support that will then gradually pervade real economy too. The above are complicated issues mostly in those countries where it is not the recognition but the pressure of the fiscal crisis or, even, the "pressure of fulfilling international expectations" or the pressure of "following example" have called for the introduction of this new system of rules.

Table 1 : Independent Fiscal Institutions Watching over the Observance of Rule-Based Budget in the EU Member-States prior to the 2008 Financial Crisis[c]

	Country, date of introducing fiscal rule	DK	BE	LV	SW	BG	EE	PL	UK	EZ
		1962	1989	1990	1997-98, 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	
	General 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	

[c] 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 – Swede, BG – Bulgaria, EE – Estonia, PL – Poland, UK – United Kingdom, EZ – countries of the Euro-zone

Public law classification	Independent, respectively 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 fame	X	X	X	X	X	X	X	X	
	Legal							X		
	Financial									X

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**[d]

		SE	UK	EZ	FR	DE	IE	PT	FI	DK	BE	AT	NL	IT
	Country, date of introduction of fiscal rule	**1997-98, 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											
	General balance			X	X	X	X	X	X	X	X	X	X	X
	Efficiency analyses												X	
	Medium-range 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, respectively 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 fame	X	X		X	X	X	X	X	X	X	X	X	X
	Legal					X								
	Financial			X										

Table 3 : Independent Fiscal Institutions Watching over the Observance of the Budget on **1st January, 2014** in the Member-States of the European Union[e]

EU-13 Group of Countries (Countries having assessed the EU in the period of 2004-2013)

	Country, date of introduction of fiscal rule	BG 1998	EE 1998	PL 1998	LV 1990	HU 2009	HR 2011	RO 2010	SK 2012	SL 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, respectively 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 fame	X	X	X	X	X	X	X	X	X
	Legal			X	X	X				

e Abbreviations of the individual countries: BG – Bulgaria, EE – Estonia, PL – Poland, LV- Latvia, HU – Hungary, HR – Croatia, RO – Rumania, SK – Slovakia, SL - Slovenia

Annotations

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 (*Székely* [2010]), Gábor Kutasi writes about *„rule-based fiscal policy"* (*Kutasi* [2012]), but we can find the definition *„budgeting under expenditure rules"* as well (*Adema* [2008]). To me the use of the terminology *„rule-based system of budgetary framework"* is the closest; this terminology possibly can be further concretised by the expressions of *„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 new, smaller or bigger body (consisting of a minimum of three members but could incorporate as much as two dozen members) the members of what are people of high professional prestige and are independent from the government or the national assembly, with a background of such analysing capacities that against the macroeconomic calculations and forecasts of the government, are able to prepare alternative evaluations, forecasts or technical projections and thanks to their respect, are also able to prove their opinion.

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 budgetary discipline can be expected from the professional and responsible budget policy and, to a lesser degree, from the effects of the market, the investors and the pressure to adjust. Obviously it would be a mistake to build 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 narrow 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 Act that fulfils this role. Among the employed regulations we can equally find constitutional rules, acts or international agreements. The regulation usually is valid for more than one parliamentary cycle thus, it is mandatory for future governments as well (Bulgaria, Estonia, and United Kingdom). The regulation could appear also in the form of a combination of an act and a professional guideline (Sweden). The respective regulation can equally be very detailed and comprehensive, defining the frames.

5 This goes even more easily as the momentarily rational interests like, for example, the enforcement of the aging society's generation-interests or shifting of the burdens to the growing up successors, meets with less resistance. As a consequence, the intervention by the experts – the harmonisation of interests (the risk of civilian „resistance") - in itself gets narrower and the 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 endeavour to reach 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 percent of the GDP respectively, that the parliament shall decide only on the composition of the revenues and expenditures, while establishing the targeted deficit is the right of the government. The public finance act establishes several threshold values and intervention obligations: if the debt rate exceeds half of the gross national product but remains under 55 percent then the budget plan for the year following the subject year shall not contain a bigger increase of debt. In case of a debt rate higher than 55 to 60 percent additional debt increase shall be excluded. Above 60 percent a government shall not borrow, and is obliged to keep the balance of the budget, or shall have to accumulate surplus. In the practice Poland has kept its government debt rate continuously below 50 percent prior to the crisis and the rate has remained below 55 percent even in the next period: at the end of 2012 it was 52, 7 percent then, in 2013, they exceeded the 55 percent psychological threshold. According to the Polish public finance act they introduced spending cuts respectively changed the private pension system too.

8 Since 1967, the German constitution for example, has included the golden rule tied to the level of gross investments, according to what the government shall borrow only up to the limit of the gross public investments. The only exception is when circumstances „interfering with the macroeconomic balance" occur. The phasing of this latter stipulation however is very vague and 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 with 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 recommended already 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 percent on federal level. In 2012 and 2013 the GDP-proportionate debt decreased in Germany.

9 Accordingly, the related professional tasks can be tied equally to *new* and *existing* institutions, bodies and offices respectively, professional background supporting the above and that could be independent organisations or those, employing external capacities. For example, this background organisation could be a new analysing apparatus, commissioning a scientific (academic) research institute, auditor, a researching-analysing firm, or the analysing section of the SAI or the central bank of the given country.

10 As to how either an „external" or even „internal" professional background establishes the fulfilling of the guarantee function of the given force and to what extent the chosen solution is economical, 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 are not working in a „vacuum" and such supervisions have their antecedents as well.

11 The worries concerning the long-term financing of outdated and over-consuming welfare systems, burdened by newer and newer demands that had been financed mostly by external resources (like, for example, in Greece, 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 percent, in proportion of the GDP, while government debt was 58, 7 percent. Hungary had the highest rate of deficit (-5%), followed by Greece (-3, 5%). The deficit of the rest of the countries did not exceed the 3 percent limit moreover, 12 countries even produced surplus. The debt rate was highest in Italy (104, 1%) and Greece. Hungary ranked fourth (65, 8%). Eight countries exceeded the 60 percent limit. On the basis of the October 2013 EDP report based on 2012 data, the government deficit was already 3,9 percent in the EU-28 countries while the debt rate reached 85,1 percent. At the time Spain had the highest budget deficit (10, 6%) followed by Greece (9, 0%) and Ireland (8, 2%). Hungary (2, 0%) occupied a very favourable position, ranking 21 though this result had to be attributed to the utilisation of the significant part of the private pension funds. In 12 countries the deficit was below the 3% limit, in 15 the rate improved and in 12 countries it deteriorated when compared to the deficit rate of 2011. The highest government debt rate in 2012 was in Greece (156, 9%) but the data from Italy (124, 1%); Portugal (124, 1%) and Ireland (117, 4%) were not

encouraging either. At this time Hungary ranked 11 (79, 8%). 14 countries were above the 60 percent threshold. The situation of 22 countries deteriorated, and the indicators of only 6 countries improved. In 10 countries both indicators are above the threshold and 6 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 emphasised by the 2013 preliminary data. (The data source is the presentation of Gabriella Vukovics and István Bedekovics of 7th April, 2014 for the EDO report, prepared for the Fiscal Council.)

[12] Not to mention, in what proportion had these countries paid the price of this favourable situation earlier and to what extent can we attribute it to the „socialist heritage" created decades prior to this date, together with having been cut off from the world politically and economically.

[13] In the second decade of the 21st century there are four, ensuing from each other and interrelated, challenges seeking answers (*Muraközy* [2012]). Namely, the lack of optimum size, financeable public services might result in significant losses of growth that would make persistence in the 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 the adjustment and is related to social consumption that, in the earlier periods, could not be financed from internal resources and that were not in proportion to the economic performance, together with the ensuing, differentiated debt crisis that results serious burdens and that would make recovery difficult also in the risk community of the EU and not only in the directly concerned countries.

[14] In particular we can list here Poland, Estonia, Latvia, Bulgaria and, later, Slovakia.

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

[16] Prior to the crisis, in Lithuania it was the task of the so-called *Senior Cabinet Committee* to make recommendations for the target numbers of the budget and for the 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 are no information about the Czech Republic and Lithuania that would indicate any significant considerations to introduce rule-based budget. From the documents published by the EU Commission, the OECD and the IMF, it is obvious that, as regards the 13 states of the EU, they are basically thinking about establishing new, fiscal council type guarantee institutions, to encourage the establishing of such organisations, respectively the transformation of the existing institutions into such organisations (for example in Poland), while in the practice of the old members states they acknowledge the most different solutions. This „double standard" – explicitly or implicitly - depends on the judgement 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.)

[17] 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 such practical reasons that reflect justified or groundless professional or personal distrust, or the fear of its „pre-eminence".

[18] It was the practical simplicity of establishing professional background capacities and the endeavour to save on costs that justified the choice of France, Latvia and Finland, from among the EU members.

[19] 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 the internal staff and solving a growing proportion of their tasks by involving external experts and analysing organisations.

[20] There are a wide variety of solutions from the role of official forecaster (for example, the United Kingdom), to the outlooks 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 towards moving forward. In Hungary such white papers, prepared in the sphere of authority of the SAO and the Central Bank, together with thematic analyses made upon the commission of the FC Secretariat which documents are all public, the experiences are built into the opinion of the FC in a way that ensures comparison but does not become an „official" prognosis.

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

[22] The concept of the operational model being shaped from 2006 onward, originally preferred a model with modest costs, built on an existing organisational background. This concept has been changing gradually, however no decision was made. In 2008, following the negotiating for loans with international organisations this idea was hastily abandoned within two weeks, almost like part of 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 to 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 – first of all – thanks to their reputation.

[23] According to the Basic Law, respectively the so-called stability act endorsed at the end of 2011 that expanded the related tasks and authorities, as long as government debt exceeds half of the gross domestic product (as the measure that the Basic Law stipulated), the National Assembly can accept only such central budget that contains the mitigation of the government debt compared 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 law that – according to the body's conviction – *shall result the mitigation of the proportion of the government debt.*

[24] Any budget act or bill that contains 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 granting 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 when the background of appropriate analysing abilities exists, by evaluating the short and long-term macroeconomic processes, identifying the factors influencing the sustainability of a balanced budget, by revealing their respective tendencies and relying on the so-called technical projections. This is why a number of ability-developing steps have been introduced in the course of the past two years to assist the work of the Council. Apart from the fundamental support of the analysing capacities of the SAO and the Central Bank these have opened up avenues for considering additional, alternative analyses organised by the FC Secretariat, for a wide range of background researches carried out by research institutes, academic and university researches respectively, the preparation of forecasts related also to the business sector. These are helping the long-term and more exact evaluation and forecasting of the budgetary positions.

[25] Even today the Council is empowered to prepare a medium-term outlook when it considers preparing such forecast important to develop medium-term planning and to establish a more solid base for the medium-term ideas. Point e), Indent (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 always shall

reflect the studies prepared in its jurisdiction and containing medium-term outlooks, regularly published at the FC website, prepared by the SAO, the Central Bank 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 Stability Act, in its opinion concerning the annual budget as well as in setting the ground for its consent, the Council shall use a line of risk analyses and formulates its standpoint on this basis by also looking ahead to a longer term.

[26] 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 cover. This period was followed then by the most severe adjustments only to stand out again by its maverick management of economic policy. (*Kovács Á.* [2013], *Palócz* [2010]).

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