

Interview with Árpád Kovács

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You have a PhD in economics, but you started out as an engineer. With this background, you were elected President of the Hungarian Economic Association. What are the advantages of an engineering degree when it comes to economic issues?

I started my career as a junior highway design engineer at UVATERV, and later worked in the ministerial supervision of road projects. It is perhaps not immodest of me to mention that, in connection with the financing and organisational issues of the latter, I also have a PhD in engineering. It was then that I learned that the essence of engineering is to strive for safety. Whatever we create, the biggest risks come at the implementation stage, including securing and spending funds. It is far from enough to determine how the project should look like in the end; we also need to plan carefully, taking into account the conditions and how we will achieve our goals. I think that the experience of these ten years, my reflexes that guided and helped me to be aware of the risks and implementation opportunities, are still alive and well in me after my career change, when my work is linked to financial and public finance issues, to the “economics of construction” that is going on here. I am grateful for the years that gave me motivation.

You were President of the State Audit Office for 12 years, during which time you served under successive coalition governments. The SAO has produced several highly critical reports. Despite this, the SAO and you were held in public esteem. Parliament adopted the SAO's annual reports mostly by unanimous votes in favour. How did you manage to develop a relatively harmonious relationship with all governments and parliamentary parties despite harsh criticism?

I am a team player. It would be indecent of me to attribute any part in the distanced and unconditionally professional achievements of the SAO's work at the time to myself. After the political changes in 1989-1990, I had the opportunity to work with István Hageimayer, the founding president, and learn humanity from him. I learnt that those who are audited should be respected and supported. Also that audits should

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not result in retaliating for mistakes, but in reducing their number, so that not only the audited but also other economic operators in similar situation can learn from them. However, I have to accept the criticism that I am certainly too understanding and compromising. To me, it is accurate fact-finding, indicating the risks and making helpful suggestions based on this that is decisive, and I consider this more important than commenting on them in an expository and adjectival manner. I was and am lucky, because, so far, those in parliament and in government positions, even if they have sometimes missed “toughness” due to their political “glasses” or rather “point of view”, have supported this attitude of less, but carefully argued and unconditionally helpful attitude.

You were not only President of the SAO, but also President of the International Organisation of Supreme Audit Institutions (INTOSAI) for three years. What has Hungary, the Hungarian State Audit Office and you personally done to deserve this honour?

It was the international recognition of the country, and in particular of the Hungarian State Audit Office, that earned me the privilege of being the President of INTOSAI as the head of this organisation between 2004 and 2007. The nomination was in Seoul in 2001 with strong US, British, German and French support. To give you an idea of the way to get there, I should mention that INTOSAI's highest professional recognition, the Kandutsch Prize, was awarded to the organisation as early as 1992. In the process of EU accession, the first of the *acquis communautaire* audits to be closed was the one qualifying audits. English and Dutch experts worked at the SAO. In the EU's so-called pre-accreditation process, the auditor was not a global international audit firm, but was entrusted to the institution. The organisation was assigned to audit the finances of the US FBI Academy in Budapest, and I had the opportunity to report to the appropriate committee of the Bundestag on the use of German aid to the country. Some of our staff members were posted for longer or shorter periods to international organisations, the UN, the NATO Board of Auditors, or studied in the USA, Canada, Germany and the UK. Prior to my INTOSAI presidency, I myself was for many years a member of the Board of Directors of an American professional organisation, the ICGFM, and a regular participant in various conferences in the USA. Colleagues worked in various audit methodology committees of INTOSAI. The list is long and incomplete. Hungary, and the SAO as a professional organisation, was at the forefront of democratic transformation and professionalism, which was the basis for this extraordinary honour.

Why are international relations important for the SAO?

For one thing, this network offered staff members the opportunity to participate in international professional activities, to study global best practices and to compete internationally, which paid off in terms of excellent and high-quality professional work. For another thing, it enabled so-called cross-border cooperation, the investi-

gation of so-called joint projects co-financed by the EU, such as the reconstruction of the destroyed bridge between Esztergom and Párkány, or parallel audits by Slovakia, Switzerland, Germany, Slovenia and others on the same topics, which strengthened confidence in the country's finances in a broader context.

The SAO also comments on the draft budget bill and audits the final budget accounts. So Mr President, as President of the SAO, also had an insight into budgetary processes. How is your current job as President of the Fiscal Council (FC) different?

In line with its constitutional obligations, the SAO has investigated and continues to investigate the appropriateness of budget planning, budget implementation and compliance with the budget, and since 2011, following the adoption of the Stability Act, it has been assisting the work of the Fiscal Council with its supporting analyses. The role of the President of the Council is to synthesise this experience and other analyses carried out within the Council's remit and to assess macroeconomic trends, developments affecting the stability of public finances and issues of financial balance. Based on this work across multiple perspectives, complemented by a wealth of international and national analyses and information, and in teamwork with experts from the FC Secretariat, the preparatory drafts are prepared, which are then transformed into the Council's decisions and independent opinion on the whole process of budget planning and implementation. The President is responsible for coordinating all this and for running and representing the Council. So am I today. I see it as an exceptional professional challenge to be given the opportunity and responsibility to contribute to this work for the public good, affecting the finances of the whole country.

The creation of the FC was closely linked to the introduction of rules-based budgeting. What do you see as the benefits of a rules-based budget? Has it produced results in Hungary? Isn't the rules-based approach too rigid in rapidly changing circumstances?

The principles of rules-based budgeting are now applied in nearly 60 countries around the world and virtually everywhere in the European Union. This is about more and something else than just complying with the laws on the budget and public finances. In addition to these requirements, "rules-based budgeting" is a system that applies fiscal policy rules (e.g. expenditure and/or debt and deficit limits) and procedural and technical rules (e.g. reconciliation obligations and contribution mandates) laying down the path to financial stability. And as the overseer of compliance with all this, a new fiscal supervisory institution is created by the executive, and exceptionally, as in our case, one independent of the legislature. The experience of the pandemic and then the war has shown that financial difficulties, overspending, indebtedness and then destabilisation are not only the result of financial, managerial and economic mistakes. Increasing the flexibility of the regulatory system in a

way that preserves the basic functions of a rules-based framework, but allows for the development of back-on-track correction mechanisms more adapted to national conditions and giving a greater role to enforcement guarantee institutions, notably the RTs, has thus become justified and is progressing in the European Union.

The FC has always taken its decisions by consensus. What is the secret?

There is no secret here. The members of the Council and the experts who work behind the scenes have always and still do, work on the basis of solid facts and well-founded forecasts, without preconceptions and as a service. In such cooperation, it is easy to reach agreement.

The SAO presented and published its “Theses on Public Finance Regulation” to Parliament in 2007. What positive changes has this triggered in Hungarian fiscal regulation and management?

The theses formulated by the State Audit Office have not yet contemplated a radically new set of rules. They drew attention to the ever more striking flaws in public finance planning and implementation, to the unsustainability of a public finance management that was detached from reality, thinking day by day in newer and newer programmes of unimplementable measures, and staggering towards bankruptcy. And they proposed regulatory solutions to solve the problems. The theses were eventually discussed by the appropriate committee of Parliament. They thanked us for our work. Nothing else happened. At the same time, the preparation of the theses with the involvement of a number of eminent experts has in itself contributed to the fact that, following the pioneering ideas of György Kopits, a radically different set of rules, including a new body for macro-prudential supervision of fiscal finances, has been in place since 2009, following a joint initiative of the SAO and the MNB. The principles of rules-based budgeting were enshrined in the Fundamental Law in 2011, and at the end of 2011 the current regulation came into force in the Act on the Economic Stability of Hungary.

If you, as the President of the Fiscal Council, were to undertake today to formulate theses on public finance regulation, what would you highlight first and foremost, where do you see the most need for progress?

Today’s Hungarian fiscal rules follow the European Union’s standards, so the approach of more than a decade and a half ago would hardly be justified. But life and daily problems always demand new and new solutions. I consider the solution for compensating the MNB for losses from budgetary sources, which is necessary to protect the forint, or the question of including EU subsidies as budgetary sources and not as separate funds.

It was you who took over the publishing rights of the Financial Review from the Ministry of Finance on behalf of the SAO and developed it into a nationally and internationally recognised journal. Why do you think it is important to have a high-quality journal that focuses on public finance? What prospects do you see for the Financial Review?

In fact, the idea came from the Ministry of Finance at the time. They suggested that the SAO should take over the journal. At that time, the SAO's institute on budgetary issues had been operating for years with an excellent professional background and strong academic links. Many of the SAO's audit staff and managers held academic degrees and taught at universities. It was obvious that the paper should go to the organisation. I regretted when the SAO's institute for public finance and audit methodology, the Research Institute of the State Audit Office of Hungary, which produced thematic studies to support the SAO's work, was dismantled in 2011, taking away the academic background for careful editing. However, I still think it is important that the world of budgeting, public finance and, above all, auditing should have a professional and academic forum, similar to that of monetary or statistical or even administrative disciplines. I believe that this mission statement in itself gives us a perspective, and we can trust that Corvinus University will provide the academic and professional background for this, in addition to its publishing activities. ■