

II

(Acts whose publication is not obligatory)

COUNCIL

COUNCIL DECISION

of 8 November 2005

establishing, in accordance with Article 104(8) of the Treaty establishing the European Community, that the action taken by Hungary in response to the recommendation of the Council of 8 March 2005 pursuant to Article 104(7) of the Treaty is proving to be inadequate

(2005/843/EC)

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 104(8) thereof,

Having regard to the recommendation from the Commission,

Whereas:

(1) According to Article 104 of the Treaty, Member States are to avoid excessive government deficits.

(2) The Stability and Growth Pact is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation. The Stability and Growth Pact includes Council Regulation (EC) No 1467/97 of 7 July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure⁽¹⁾, which was adopted in order to further the prompt correction of excessive general government deficits.

(3) The Resolution of the European Council on the Stability and Growth Pact in Amsterdam of 17 June 1997⁽²⁾ solemnly invites all parties, namely the Member States, the Council and the Commission, to implement the Treaty and the Stability and Growth Pact in a strict and timely manner.

(4) By Council Decision 2004/918/EC of 5 July 2004, the Council decided, in accordance with Article 104(6), that an excessive deficit exists in Hungary⁽³⁾.

(5) In accordance with Article 104(7) of the Treaty and Article 3(4) of Regulation (EC) No 1467/97, on 5 July 2004 the Council also adopted a recommendation⁽⁴⁾ addressed to the Hungarian authorities and calling on them to bring the existence of an excessive deficit to an end as rapidly as possible and to take action in a medium-term framework to achieve the objective of bringing the deficit below 3 % of GDP by 2008 in a credible and sustainable manner, in accordance with the path for deficit reduction specified in the convergence programme submitted by the authorities and endorsed in the opinion of the Council of 5 July 2004⁽⁵⁾. That recommendation established the deadline of 5 November 2004 for the Hungarian Government to take effective action regarding the measures envisaged to achieve the original 2005 deficit target of 4,1 % of GDP.

⁽²⁾ OJ C 236, 2.8.1997, p. 1.

⁽³⁾ http://ue.eu.int/ueDocs/cms_Data/docs/pressData/en/ecofin/81342.pdf#page=8 (OJ L 389, 30.12.2004, p. 27).

⁽⁴⁾ <http://register.consilium.eu.int/pdf/en/04/st11/st11218.en04.pdf#page=2>

⁽⁵⁾ <http://register.consilium.eu.int/pdf/en/04/st11/st11194.en04.pdf#page=2>

⁽¹⁾ OJ L 209, 2.8.1997, p. 6. Regulation as amended by Regulation (EC) No 1056/2005 (OJ L 174, 7.7.2005, p. 5).

- (6) On 18 January 2005, in accordance with Article 104(8) of the Treaty, on the basis of a recommendation by the Commission, the Council recognised that a number of measures had been taken to reduce the government deficit in 2004 and 2005 by the deadline of 5 November 2004. However, it considered that they were not sufficient to achieve the targets and would not avoid a deviation from the planned adjustment path of the Hungarian convergence programme of May 2004. Moreover, it considered that the continued commitment of the government to correct the excessive deficit by 2008 needed to be underpinned by decisive measures of further fiscal consolidation and a more determined pursuit of structural reforms. Against that background, the Council decided that Hungary had not taken effective action by 5 November 2004 in response to the recommendation of 5 July 2004.
- (7) In accordance with Article 104(7) of the Treaty and Article 3(4) of Regulation (EC) No 1467/97, on 8 March 2005 the Council adopted a second recommendation⁽¹⁾ addressed to the Hungarian authorities and calling on them to bring the existence of an excessive deficit to an end as rapidly as possible and to take action in a medium-term framework to achieve the objective of bringing the deficit below 3 % of GDP by 2008 in a credible and sustainable manner, in accordance with the path for deficit reduction specified in the convergence programme update submitted by the Hungarian authorities in December 2004 and endorsed in the opinion of the Council of 8 March 2005. Among other things, that recommendation established the deadline of 8 July 2005 for the Hungarian government to take effective action regarding the measures envisaged to achieve the 2005 deficit target of 3,6 % of GDP⁽²⁾.
- (8) On 13 July 2005 the Commission adopted a Communication on Hungary. On the basis of the information available at the time, including corrective measures decided by the Government in March and June totalling 1,5 % of GDP to compensate for slippages and the firm commitment of the Hungarian government to carry out further measures if necessary, it stated that the Hungarian authorities had taken effective action by the deadline of 8 July 2005, although the situation remained fragile and further measures would be needed in the future.
- (9) However, the recent developments show that the action taken by the Hungarian authorities is now proving to be inadequate:
- the 2005 target of 3,6 % of GDP referred to in the recommendation of the Council (and endorsed in the opinion of the Council of March 2005 December 2004 update of the convergence programme) will be missed by a sizeable margin and the Government has decided not to take new action to correct any slippages contrary to earlier commitments; this is confirmed by the revised EDP notification by the Hungarian authorities on 20 September 2005 of a deficit of 6,1 % of GDP for 2005. The outcome for 2005 will be worse if further slippages occur (not excluded particularly on the expenditure side) and are also not compensated by corrective measures. According to this notification, the debt-to-GDP ratio in 2005 will remain below the 60 % threshold, at 57,1 %,
 - the target for 2006 contained in the convergence programme update and the recommendation adopted by the Council on 8 March 2005 that the deficit be brought to 2,9 % of GDP has been abandoned by the authorities. The substantially higher new target of 5,2 % of GDP⁽³⁾ contained in the draft budget for 2006 could be missed in the absence of substantial expenditure reduction since the planned tax reform is expected to reduce revenue by 1,1 % of GDP and the recently adopted draft budget for 2006 does not contain comprehensive measures of a structural nature that would support such a substantial reduction in expenditure,
 - the implementation of tax cuts in 2006 in particular is contrary to the recommendation of the Council that the timing and implementation of any tax cuts be made conditional upon the achievement of the deficit targets of the convergence programme update submitted in December 2004,
 - the substantial deviation, both in 2005 and 2006, from Hungary's deficit adjustment path aiming at correcting the excessive deficit by 2008, which was set by the Hungarian government and endorsed in the recommendation of the Council of 8 March 2005, puts into question the credibility of this correction and, together with the slow progress in structural reforms, jeopardises the needed improvement in the macroeconomic imbalances.

(1) http://europa.eu.int/comm/economy_finance/about/activities/sgp/edp/com_ass_hu_22_dec_en.pdf

(2) The difference to the previous target of 3,8 % of GDP is based on the increase in the contribution to the second pillar pension scheme by 0,2 percentage point of GDP in the March 2005 fiscal notification.

(3) This includes the standard recording of the purchase of military aircraft that add 0,5 % of GDP to the announced new deficit target of 4,7 % of GDP in 2006.

(10) In line with the Resolution of the European Council of the Stability and Growth Pact, Hungary agreed to make the Council's recommendation of 8 March 2005 public,

Article 2

This decision is addressed to the Republic of Hungary.

HAS ADOPTED THIS DECISION:

Done at Brussels, 8 November 2005.

Article 1

The action taken by Hungary is proving to be inadequate in response to the recommendation of the Council of 8 March 2005.

For the Council
The President
G. BROWN
