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Recommendation for a

COUNCIL DECISION

abrogating Decision 2004/918/EC on the existence of an excessive deficit in Hungary

{SWD(2013) 388 final}

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 126(12) thereof,

Having regard to the recommendation from the Commission,

Whereas:

(1) The Council has decided on 5 July 2004, in accordance with Article 104(6) of the Treaty establishing the European Community (TEC), that an excessive deficit exists in Hungary and adopted a recommendation under Article 104(7) TEC with a view to bringing the excessive deficit situation to an end by 2008[1].

(2) On 18 January 2005, in accordance with Article 104(8) TEC, the Council considered that Hungary had not taken effective action in response to its recommendation and issued another recommendation based on Article 104(7) TEC on 8 March 2005, confirming the 2008 deadline for the correction of the excessive deficit. On 8 November 2005, the Council decided that Hungary had for the second time failed to comply with the recommendations under Article 104(7) TEC. Accordingly, it addressed a third recommendation under Article 104(7) TEC to Hungary on 10 October 2006, postponing the deadline for the correction of the excessive deficit to 2009. On 7 July 2009 the Council concluded that the Hungarian authorities could be considered to have taken effective action in response to the recommendation from October 2006 and, against the background of the severe economic downturn, issued a revised recommendation under Article 104(7) TEC, setting once more a new deadline for correction, i.e. 2011. On 27 January 2010 the Commission concluded that Hungary had taken effective action in response to the latest Council recommendations, with which the Council concurred in its conclusions on 16 February 2010, but alerted about considerable risks.

(3) According to the provisions of Article 126(8) TFEU, the Council decided on 24 January 2012 that Hungary had not taken effective action in response to the July 2009 Council recommendation within the period laid down in this recommendation. While

[1] All documents related to the excessive deficit procedure of Hungary can be found at: http://ec.europa.eu/economy_finance/economic_governance/sgp/deficit/countries/hungary_en.htm

the 3% of GDP Treaty reference value was not breached in 2011, this was not based on a structural and sustainable correction and hinged upon substantial one-off revenues. This was accompanied by an estimated cumulative structural deterioration of over 2% of GDP in 2010 and 2011 compared to a recommended cumulative fiscal improvement of 0.5% of GDP. Moreover, while the authorities were implementing structural measures in 2012, which were expected to largely offset the previous deterioration, the 3% of GDP Treaty reference value would again be respected in 2012 only thanks to one-off measures of close to 1% of GDP and would be breached in 2013.

(4) On 13 March 2012, the Council adopted a new recommendation in accordance with Article 126(7) TFEU for Hungary to bring the excessive deficit to an end by 2012. The Hungarian authorities were asked to undertake the following steps in particular: (i) to put an end to the excessive deficit situation by 2012 in a credible and sustainable manner; (ii) to undertake an additional fiscal effort of at least ½% of GDP to ensure the attainment of the 2012 deficit target of 2.5% of GDP; and (iii) to take the necessary additional measures of a structural nature to ensure that the deficit in 2013 remains well below the 3% of GDP threshold. At the same time, the government debt ratio was recommended to be brought back on a declining path as soon as possible so that it represents sufficient progress towards compliance with the debt reduction benchmark. The budgetary adjustment also needed to be supported by the proposed improvements in the fiscal governance framework. The Council established the deadline of 13 September 2012 for the Hungarian government to take effective action. Also on 13 March 2012, the Council decided to suspend a part of the Cohesion Fund commitment appropriations for the year 2013 for Hungary (in line with Article 4 of Council Regulation (EC) No 1084/2006).

(5) On 30 May 2012, based on the 2012 convergence programme and further specification of the savings measures, the Commission concluded that Hungary had taken effective action regarding the correction of the excessive deficit. In particular, the general government deficit was expected to reach 2.5% of GDP in 2012 and remained well below the 3% of GDP Treaty reference value in 2013 as recommended by the Council in March. Moreover, it was acknowledged that some progress had been made on enhancing the fiscal governance framework even though in this area overall progress could have been considered slow. Against this background, the Commission adopted on 30 May a proposal for lifting the suspension of the Cohesion Fund commitment appropriations. On 22 June 2012 the Council concurred with this assessment and adopted a decision lifting the suspension of the Cohesion Fund commitment appropriations.

(6) In accordance with Article 4 of the Protocol on the excessive deficit procedure annexed to the Treaties, the Commission provides the data for the implementation of the procedure. As part of the application of this Protocol, Member States have to notify data on government deficits and debt and other associated variables twice a year, namely before 1 April and 1 October, in accordance with Article 3 of Council Regulation (EC) No 479/2009 of 25 May 2009 on the application of the Protocol on the excessive deficit procedure annexed to the Treaty establishing the European Community[2].

[2] OJ L 145, 10.6.2009, p. 1.

(7) When considering whether a decision on the existence of an excessive deficit should be abrogated, the Council should take a decision on the basis of notified data. Moreover, a decision on the existence of an excessive deficit should be abrogated only if the Commission forecasts indicate that the deficit will not exceed the 3% of GDP Treaty reference value over the forecast horizon[3].

(8) Based on data provided by the Commission (Eurostat) in accordance with Article 14 of Regulation (EC) No 479/2009 following the notification by Hungary before 1 April 2013, the Commission 2013 Spring Forecast and the assessment of additional corrective measures adopted on 13 May 2013 in a government decree, the following conclusions are warranted:

- In 2012, on the basis of a considerable fiscal effort, the general government deficit reached 1.9% of GDP. This was also thanks to one-off revenues amounting to ¾% of GDP, including the higher than budgeted one-off revenues of 0.2% of GDP related to further transfer of assets from the private to the public pension pillar. The adopted 2012 budget targeted a deficit of 2.5% of GDP on the basis of a 0.5% growth. The budget contained an extraordinary reserve of 1.1% of GDP and numerous consolidation measures, most notably: (i) revenue-increasing measures of around 1¾% of GDP, including hikes in indirect taxes and social security contributions; (ii) structural measures on the expenditure side of ¾% of GDP, such as a review of social benefits; and (iii) expenditure constraints of ¼% of GDP in the public sector, including a nominal wage freeze in most sectors. In order to counterbalance the constantly deteriorating growth outlook, the government adopted two main additional corrective packages in April and October (totalling 0.7% of GDP), comprising mainly further cuts in the appropriations of the budgetary institutions, of which around half was implemented. In addition, the balance of the local government sector improved by around 0.7% of GDP compared to the budgeted plans, mainly due to their low investment activity. In the context of the October 2012 EDP Progress Report, the official 2012 deficit target was revised upwards from 2.5% to 2.7% of GDP. Overall, effectively implemented corrective measures of around 3% of GDP adopted by the central government and the improvement of the local government sector's balance eventually resulted in a deficit of 1.9% of GDP, i.e. an overachievement of the original deficit target by 0.6% of GDP. The activation of the budgeted extraordinary reserves counterbalanced the budgetary slippages, partly related to the worse than earlier expected macroeconomic environment.

- The Hungarian 2013 convergence programme projects the general government deficit to stay at 2.7% of GDP in both 2013 and 2014. However, the Commission 2013 Spring Forecast foresees a deficit of 3.0% of GDP in 2013 and 3.3% of GDP in 2014, which suggests that the excessive deficit has not been brought to an end in a durable way. On 13 May 2013, following the release of the Commission 2013 Spring Forecast, the Hungarian government adopted further corrective measures amounting in gross terms to about 0.3%

[3] In line with the "Specifications on the implementation of the Stability and Growth Pact and Guidelines on the format and content of Stability and Convergence Programmes", as agreed by the Economic and Financial Committee on 3 September 2012. See: http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/coc/code_of_conduct_en.pdf

and 0.7% of GDP for 2013 and 2014, respectively. The Commission's updated fiscal assessment, which takes into account the net deficit improving effect of these additional corrective measures, projects a deficit of 2.7% and 2.9% in 2013 and 2014, respectively. Thus, the deficit is expected to remain below the Treaty reference value of 3% of GDP over the forecast horizon. In addition, according to the Commission's estimation, the cyclically-adjusted budget balance, net of one-off and other temporary measures, will stand at -¾% and -1½% of GDP in 2013 and 2014, and hence will be consistent with the Hungarian medium-term objective of -1.7% of GDP.

– The debt-to-GDP ratio was reduced from a peak of close to 82% in 2010 to 79.2% in 2012, thanks to substantial one-off capital transfers linked to the abolition of the mandatory private pension pillar and a number of consolidation measures. According to the 2013 convergence programme, the debt-to-GDP ratio will continue to decline, falling to 78.1% and 77.2% in 2013 and 2014, respectively, and remaining on a downward path thereafter. Even after incorporating the impact of the new consolidation measurres adopted on 13 May 2013, the Commission forecasts a higher trajectory for the debt-to-GDP ratio by around 1 pp for both 2013 and 2014.

(9) As to fiscal governance, the Council asked the Hungarian authorities to establish a truly binding medium-term framework and broaden the analytical remit of the Fiscal Council in view of its veto right over the annual budget. The 2013 convergence programme announces the intention to move forward in this area in autumn 2013. Progress will continue to be closely monitored in the context of the European Semester.

(10) The Council recalls that, starting from 2013, which is the year following the correction of the excessive deficit, Hungary should maintain a fiscal stance in line with its medium-term objective, including respecting the expenditure benchmark, and make sufficient progress towards compliance with the debt criterion in accordance with Article 2(1a) of Council Regulation (EC) 1467/97 of July 1997 on speeding up and clarifying the implementation of the excessive deficit procedure.[4]

(11) In accordance with Article 126(12) of the Treaty, a Council Decision on the existence of an excessive deficit is to be abrogated when the excessive deficit in the Member State concerned has, in the view of the Council, been corrected.

(12) In the view of the Council, the excessive deficit in Hungary has been corrected and Decision 2004/918/EC should therefore be abrogated,

HAS ADOPTED THIS DECISION:

Article 1

From an overall assessment it follows that the excessive deficit situation in Hungary has been corrected.

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[4] OJ L 209, 2.8.1997, p. 6.

Article 2

Decision 2004/918/EC is hereby abrogated.

Article 3

This Decision is addressed to Hungary.

Done at Brussels,

For the Council
The President