COUNCIL OF
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Council finds Hungary's action on excessive deficit insufficient

The Council today[1] adopted a decision, under article 126(8) of the treaty, establishing that Hungary has failed to comply with the Council's recommendation (July 2009) on measures to be taken in order to bring its government budget deficit below the EU's reference value of 3% of GDP.

The Commission is expected to present a recommendation for an updated Council recommendation under article 126(7).

Hungary has been subject to an excessive deficit procedure since July 2004, when the Council also issued a recommendation on corrective action to be taken. The Council issued further recommendations in March 2005 and October 2006, having found in January 2005 and November 2005 that effective action had not yet been taken.

The October 2006 Council recommendation set out measures for correction of the deficit by 2009, one year later than previously scheduled. With the economic downturn however, the 2009 target could not be met, and in November 2008, Hungary obtained a EUR 6.5 billion loan from the EU as part of a EUR 20 billion package of assistance from international lenders.

In July 2009, the Council issued a revised recommendation, setting 2011 as the target year for reducing the deficit below 3% of GDP.

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1 The decision was taken at a meeting of the Economic and Financial Affairs Council.

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It is expected that Hungary's general government balance turned into a 3.6% of GDP surplus in 2011, according to the Commission, but only thanks to one-off revenues of over 10% of GDP, mainly linked to the transfer of pension assets from private pension schemes to the state; without these, the deficit would have reached 6% of GDP, while the structural deficit has deteriorated as well.

According to the Commission's autumn economic forecast, the deficit is projected to reach 2.8% of GDP in 2012, only falling short of the 3% reference value thanks to one-off revenues; on the basis of a no-policy-change assumption, the deficit is projected to deteriorate again in 2013, to 3.7%, mainly on account of the one-off revenues expiring, while planned structural reforms are insufficiently specified.

The Council found that while Hungary has formally respected the reference value by 2011, it has not done so on the basis of a structural and sustainable correction, and that therefore its response to the Council's July 2009 recommendation has been insufficient.

Hungary cannot face sanctions under the excessive deficit procedure as it is not a member of the euro area. But for beneficiaries of the EU's cohesion fund, such as Hungary, failure to comply with the Council's recommendations can lead to the suspension of cohesion fund commitments.