COUNCIL OF
THE EUROPEAN UNION

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Brussels, 13 March 2012
7516/12
PRESSE 103

# Hungary: EUR 495.2 million in cohesion fund commitments suspended

The Council today adopted a decision suspending EUR 495.2 million in scheduled commitments for Hungary under the EU's cohesion fund, taking effect as of 1 January 2013.

It also issued a recommendation[1] under the EU's excessive deficit procedure[2], setting 2012 as the target year for correction of Hungary's deficit.

Adoption of these measures follows a decision taken in January[3] deeming action taken to correct its excessive deficit to be insufficient.

This is the first time that a clause enabling the suspension of commitments has been invoked since the cohesion fund was established in 1994[4]. Beneficiary countries can face such a measure if the conditions of sound government finances are not maintained.

Commitments suspended for Hungary amount to EUR 495.2 million and the maximum level of 0.5% of nominal GDP. This corresponds to 29% of scheduled commitments for 2013.

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1 The decisions were taken at a meeting of the Economic and Financial Affairs Council.
2 Article 126, paragraph 7, of the Treaty on the Functioning of the European Union.
3 Under article 126, paragraph 8, of the Treaty on the Functioning of the European Union.
4 The cohesion fund provides assistance for environment and trans-European transport network projects in member states with a per capita GNP of less than 90% of the EU average, with the aim of strengthening economic and social cohesion and promoting sustainable development.

However, the Council agreed to return to the matter at its meeting on 22 June with a view to lifting the suspension if Hungary applies the necessary corrective measures.

Hungary has been subject to an excessive deficit procedure since July 2004, when the Council also issued a recommendation on action to be taken in order to bring its government deficit below the EU's reference value of 3% of GDP. 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 Hungary obtained a EUR 6.5 billion loan from the EU in November 2008 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 the 3% of GDP reference value.

It is expected that Hungary's general government balance turned into a surplus in 2011, but only thanks to one-off revenues of almost 10% of GDP linked to the transfer of pension assets from private pension schemes to the state.

So whilst it would appear that Hungary formally respected the reference value in 2011, the Council in January 2012 considered it not to have done so on the basis of a structural and sustainable correction. The Council therefore found Hungary's response to its July 2009 recommendation to be insufficient.

Meanwhile, Hungary has requested further financial assistance from the IMF and the EU.

The recommendation adopted by the Council sets 2012 as the target year for putting an end to the current excessive deficit situation. It calls on Hungary to bring its deficit below the 3% of GDP reference value in a credible and sustainable manner.

More specifically, the recommendation calls for an additional fiscal effort to meet a deficit target of 2.5% of GDP in 2012, and for additional structural measures to ensure that the deficit in 2013 remains well below 3% of GDP, even after the phasing-out of one-off measures. It sets a deadline on 13 September for the government to take effective action to this effect, and to specify the measures that will be necessary to progress towards a durable correction of its deficit.