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Hungary: Council lifts cohesion fund suspension

The Council today[1] adopted a decision lifting the suspension[2] of cohesion fund commitments for Hungary.

It concluded that Hungary has taken measures to correct its excessive government deficit by 2012, in line with the Council's recommendation of 13 March. Hungary's excessive deficit procedure nevertheless remains open.

In particular, the Council determined that official deficit targets and planned fiscal efforts outlined in Hungary's annual update of its convergence programme, submitted on 23 April, complied with the recommendation.

In a communication issued on 30 May, the Commission found that Hungary had taken the necessary corrective action and that its budget deficit is expected to reach 2,5 % of GDP in 2012 and to remain well below 3 % of GDP, the EU's reference value for government deficits, in 2013. The Commission expects Hungary's 2013 deficit to reach 2,7 % of GDP. And on the basis of the Commission's spring 2012 economic forecast, Hungary's general government debt is expected to decrease to 78,5 % of GDP in 2012 and slightly further in 2013.

In its March recommendation to Hungary, the Council set 2012 as the target year for achieving a credible and sustainable correction of Hungary's deficit, with a deadline of 13 September for taking effective action to this effect. The Council called for an additional fiscal effort to meet Hungary's deficit target of 2.5% of GDP in 2012, and for additional structural measures to ensure that the deficit in 2013 remains well below the 3% of GDP threshold, even after the phasing-out of one-off measures.

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1 The decision was taken at a meeting of the Economic and Financial Affairs Council.
2 Decision 2012/156/EU suspending part of the commitments from the cohesion fund.

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Suspension of cohesion fund commitments – also decided by the Council in March – followed Hungary's failure to comply with the Council's previous recommendations under the EU's excessive deficit procedure. It was the first time since the cohesion fund was established in 1994 that a clause enabling the suspension of commitments for a beneficiary country had been invoked[1].

The suspension would have taken effect as of 1 January 2013, affecting EUR 495.2 million of commitments, amounting to 0.5% of the country's nominal GDP and 29% of cohesion fund commitments scheduled for 2013.

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 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 3% of GDP. Whilst Hungary formally met that target in 2011, this was only thanks to one-off revenues amounting to almost 10% of GDP linked to the transfer of pension assets from private pension schemes to the state. Consequently, the Council in January 2012 considered this not to be a structural and sustainable correction of the deficit, and therefore found that Hungary's response to its recommendation had been insufficient.

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[1] 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.