Council of the
European Union

Brussels, 11 June 2019
(OR. en)

10005/19

ECOFIN 585
UEM 197

LEGISLATIVE ACTS AND OTHER INSTRUMENTS

Subject:	COUNCIL DECISION establishing that no effective action has been taken by Hungary in response to the Council Recommendation of 4 December 2018

COUNCIL DECISION (EU) 2019/…

of …

establishing that no effective action has been taken by Hungary in response to the Council Recommendation of 4 December 2018

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Council Regulation (EC) No 1466/97[1], and in particular the fourth subparagraph of Article 10(2) thereof,

Having regard to the recommendation from the European Commission,

[1] OJ L 209, 2.8.1997, p. 1.

Whereas:

(1) On 22 June 2018 the Council found in accordance with Article 121(4) of the Treaty that a significant observed deviation from the adjustment path toward the medium-term budgetary objective of -1,5 % of gross domestic product (GDP) existed in Hungary. In view of that established significant deviation, on 22 June 2018 the Council issued a Recommendation[1], recommending that Hungary take the necessary measures to ensure that the nominal growth rate of net primary government expenditure[2] did not exceed 2,8 % in 2018, corresponding to an annual structural adjustment of 1 % of GDP.

---

1 Council Recommendation of 22 June 2018 with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Hungary (OJ C 223, 27.6.2018, p. 1).

2 Net primary government expenditure is comprised of total government expenditure excluding interest expenditure, expenditure on Union programmes fully matched by Union funds revenue and non-discretionary changes in unemployment benefit expenditure. Nationally financed gross fixed capital formation is smoothed over a four-year period. Discretionary revenue measures or revenue increases mandated by law are factored in. One-off measures on both the revenue and expenditure sides are netted out.

(2) On 4 December 2018 the Council concluded that Hungary had not taken effective action in response to its Recommendation of 22 June 2018. On that basis, on 4 December 2018 the Council issued a revised Recommendation[1] for Hungary to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 3,3 % in 2019, corresponding to an annual structural adjustment of 1 % of GDP. It also recommended that Hungary use any windfall gains for deficit reduction, and stated that budgetary consolidation measures should ensure a lasting improvement in the general government structural balance in a growth-friendly manner. The Council established a deadline of 15 April 2019 for Hungary to report on the action taken in response to the Recommendation of 4 December 2018.

[1] Council Recommendation of 4 December 2018 with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Hungary (OJ C 460, 21.12.2018, p. 4).

(3) On 20 March 2019 the Commission undertook an enhanced surveillance mission in Hungary for the purpose of on-site monitoring under Article -11(2) of Regulation (EC) No 1466/97. After having transmitted its provisional findings to the Hungarian authorities for comments, on 5 June 2019 the Commission reported its findings to the Council. Those findings were subsequently made public. The Commission report finds that the Hungarian authorities do not plan to act upon the Council Recommendation of 4 December 2018. The authorities confirmed during the mission that their budgetary target for 2019 remains a headline deficit of 1,8 % as included in the 2019 budget adopted in July 2018, despite the more favourable macroeconomic scenario and the better-than-expected fiscal outturn in 2018.

(4) On 15 April 2019 the Hungarian authorities submitted a report on action taken in response to the Council Recommendation of 4 December 2018. In the report, the authorities reiterated that their target for 2019 remained a headline deficit of 1,8 % of GDP in 2019, a reduction of 0,4 percentage points of GDP compared to the 2018 outturn. The report does not contain any plan to comply with the fiscal adjustment recommended by the Council. In addition, the broad range of economic programmes with fiscal impact listed in the report remain largely unquantified, and the report does not include any budgetary projection for 2019. Therefore, the report does not comply with the reporting requirement of the Council. The improvement in the underlying structural deficit falls significantly short of the requirement stated in the Recommendation of 4 December 2018.

(5) Based on the Commission 2019 spring forecast published on 7 May 2019, the growth of net primary expenditure is projected to amount to 6,5 % in 2019, well above the recommended rate of 3,3 %. The structural balance is set to improve by 0,4 % of GDP relative to 2018, falling short of the recommended adjustment of 1 % of GDP. Therefore, both indicators point to a deviation from the recommended adjustment. The expenditure benchmark points to a deviation of 1,2 % of GDP. The size of the deviation indicated by the structural balance is somewhat smaller, amounting to 0,6 % of GDP. The structural balance is negatively influenced by some revenue shortfalls. The reading of the expenditure benchmark is strongly negatively impacted by the medium-term potential GDP growth applied in its calculation, which includes very low potential GDP growth in the aftermath of the crisis. In addition, the GDP deflator underlying the expenditure benchmark does not seem to account properly for the increased cost pressures affecting government spending. After adjusting for those factors, the expenditure benchmark appears to adequately reflect the fiscal effort but still points to a deviation from the recommended adjustment.

(6) Since the Commission autumn 2018 forecast, which was the basis for the Council Recommendation of 4 December 2018, the Hungarian authorities have announced new expansionary measures on the expenditure side. In addition, following faster-than-expected public wage growth in 2018, new wage increases for some categories have been announced since autumn 2018. Finally, higher reserves in the budget, coupled with the government's explicit intention to fully deplete them by the end of the year, have added to the expenditure projections for 2019. As a result, the deviation from the expenditure benchmark is expected to be significantly larger than the deviation found in the assessment performed in autumn 2018.

(7) This leads to the conclusion that Hungary's response to the Council Recommendation of 4 December 2018 has been insufficient. The fiscal effort falls short of ensuring that the nominal growth rate of net primary government expenditure does not exceed 3,3 % in 2019, which would correspond to an annual structural adjustment of 1 % of GDP,

HAS ADOPTED THIS DECISION:

Article 1

Hungary has not taken effective action in response to the Council Recommendation of 4 December 2018.

Article 2

This Decision is addressed to Hungary.

Done at …,

For the Council
The President