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Recommendation for a

COUNCIL DECISION

establishing that no effective action has been taken by Hungary in response to the Council Recommendation of 22 June 2018

{SWD(2018) 504 final}

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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 Article 10(2), fourth subparagraph, thereof,

Having regard to the recommendation from the European Commission,

Whereas:

(1) On 22 June 2018, the Council decided in accordance with Article 121(4) of the Treaty on the Functioning of the European Union ("TFEU") that a significant observed deviation from the adjustment path toward the medium-term budgetary objective of -1,5 % of GDP existed in Hungary.

(2) In view of the established significant deviation, the Council on 22 June 2018 issued a recommendation[2] for Hungary to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure[3] does not exceed 2,8% in 2018, corresponding to an annual structural adjustment of 1,0% of GDP. It recommended that Hungary uses any windfall gains for deficit reduction, while 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 October 2018 for Hungary to report on the action taken in response to that recommendation.

(3) On 18 and 19 September 2018, 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, the Commission reported its findings to the Council on 21 November 2018. Those findings were subsequently made public. The Commission report finds that the Hungarian authorities intend to maintain the 2018 headline deficit target of 2,4% of GDP as set in the 2018 Convergence Programme and thus do not plan to act upon the Council Recommendation of 22 June 2018.

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

[2] OJ C 223, 27.6.2018, p. 1.

[3] 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.

(4) On 15 October 2018 the Hungarian authorities submitted a report on action taken in response to the Council Recommendation of 22 June 2018.[4] In the report, the authorities reiterated that their target for 2018 remains a headline deficit of 2,4% of GDP. Compared to the budgetary projection in the 2018 Convergence Programme, the authorities expect significantly higher tax revenues and savings due to decreased co-financing costs of projects funded from the Union budget. However, they plan additional expenditure that fully offsets the deficit-reducing effect of those developments. The reported new discretionary measures have no significant net fiscal impact on the budget outcome in 2018, thus falling short of the requirement stated in the Council Recommendation of 22 June 2018.

(5) In 2018, based on the Commission 2018 autumn forecast, the growth of government expenditure, net of discretionary revenue measures and one-offs, is projected at 7,0 %, well above the recommended reference rate of growth of 2,8 % (deviation of 1,6 % of GDP). The structural balance is set to deteriorate by 0,4 % of GDP against the recommended improvement of 1,0 % of GDP (deviation of 1,4 % of GDP). Therefore, both pillars point to a deviation from the recommended adjustment by a wide margin. The reading of the expenditure benchmark is negatively affected by three elements, namely a lower-than-currently-estimated medium-term potential growth rate and GDP deflator underlying the expenditure benchmark as well as an indirect revenue effect of certain measures. After adjusting for these factors, the expenditure benchmark appears to adequately reflect the fiscal effort and still points to a deviation. The assessment of the structural balance leads to a similar result. The structural balance is negatively impacted by a revenue shortfall, but it is partly offset by the effect of a higher point estimate for potential GDP growth compared to the medium-term average underlying the expenditure benchmark. Therefore the overall assessment confirms a deviation from the recommended adjustment by a wide margin.

(6) The above findings lead to the conclusion that Hungary's response to the Council Recommendation of 22 June 2018 has been insufficient. The fiscal effort falls short of ensuring that the nominal growth rate of net primary government expenditure does not exceed 2,8 % in 2018, which would correspond to an annual structural adjustment of 1,0 % of GDP,

HAS ADOPTED THIS DECISION:

Article 1

Hungary has not taken effective action in response to the Council Recommendation of 22 June 2018.

[4] https://ec.europa.eu/info/files/hungary-report-council-recommendations-under-significant-deviation-procedure_en

Article 2

This Decision is addressed to Hungary.

Done at Brussels,

For the Council
The President