



Council of the
European Union

Brussels, 18 June 2018
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LEGISLATIVE ACTS AND OTHER INSTRUMENTS

Subject: COUNCIL RECOMMENDATION with a view to correcting the significant observed deviation from the adjustment path toward the medium-term budgetary objective in Hungary

COUNCIL RECOMMENDATION

of ...

**with a view to correcting the significant observed deviation
from the adjustment path toward the medium-term budgetary objective in Hungary**

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 121(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies¹, and in particular the second 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) In accordance with Article 121 of the Treaty, Member States are to promote sound public finances over the medium term through the coordination of economic policies and multilateral surveillance in order to avoid the occurrence of excessive government deficits.
- (2) The Stability and Growth Pact (SGP) is based on the objective of sound government finances as a means of strengthening the conditions for price stability and for strong sustainable growth conducive to employment creation.
- (3) On 12 July 2016, the Council recommended that Hungary achieve a fiscal adjustment of 0,6 % of GDP in 2017 unless the medium-term budgetary objective was respected with a lower effort¹.

¹ Council Recommendation of 12 July 2016 on the 2016 National Reform Programme of Hungary and delivering a Council opinion on the 2016 Convergence Programme of Hungary (OJ C 299, 18.8.2016, p. 49).

- (4) Based on the Commission 2018 spring forecast and the 2017 outturn data validated by Eurostat, the growth of government expenditure, net of discretionary revenue measures and one-offs, was well above the applicable expenditure benchmark rate in 2017, which indicates a significant deviation from the required structural adjustment (namely a deviation of 2,4 % of GDP). In 2017, from a position of -1,8 % of potential GDP in 2016, the structural balance deteriorated to -3,1 % of GDP, which also indicates a significant deviation (namely a deviation of 1,4 % of GDP). The overall assessment indicated that the expenditure benchmark was negatively affected by three elements, namely a too-low medium-term potential growth rate and GDP deflator underlying the expenditure benchmark as well as a permanent revenue effect. After correcting for these factors, the expenditure benchmark appears to adequately reflect the fiscal effort and indicates a significant deviation. This conclusion is confirmed by the assessment of the structural balance pillar, which, after taking into account the impacts of decreasing interest expenditure, investment volatility and a revenue windfall, still indicates a significant deviation. The overall assessment therefore leads to the conclusion that the observed deviation from the medium-term budgetary objective in 2017 is significant.

- (5) On 23 May 2018, following an overall assessment, the Commission considered that a significant observed deviation from the adjustment path towards the medium-term budgetary objective exists in Hungary and issued a warning to Hungary in accordance with Article 121(4) of the Treaty and the first subparagraph of Article 10(2) of Regulation (EC) No 1466/97.
- (6) In accordance with the second subparagraph of Article 10(2) of Regulation (EC) No 1466/97, within one month of the date of the adoption of the warning, the Council is to address a recommendation to the Member State concerned to take the necessary policy measures. Regulation (EC) No 1466/97 provides that the recommendation will set a deadline of no more than five months for the Member State to address the deviation. On that basis, a deadline of 15 October 2018 for Hungary to address the deviation appears appropriate. Within that deadline, Hungary should report on action taken in response to this Recommendation.

- (7) Hungary's structural balance in 2017 is estimated to have been 1,6 % of GDP away from its medium-term budgetary objective of a structural deficit of -1,5 % of GDP. Based on the output gap projections of the Commission 2018 spring forecast, Hungary is in good economic times in 2018. Hungary's general government debt ratio is above the 60 %-of-GDP threshold. The minimum required structural effort prescribed by Regulation (EC) No 1466/97 and the commonly agreed adjustment matrix under the SGP, which factors in the prevailing economic circumstances and sustainability concerns, amounts to at least 1 % of GDP for 2018. The Commission 2018 spring forecast projects a further deterioration of the structural balance by 0,5 % of GDP in 2018. Therefore, a minimum structural improvement of 1 % of GDP in 2018 translates into a need to adopt measures of a total yield of 1,5 % of GDP compared to the current baseline in the Commission 2018 spring forecast. Given the significant size of the required structural consolidation effort resulting from the minimum adjustment requirement, it is appropriate that no additional adjustment be required on top of the minimum 1 % of GDP requirement.

- (8) The required improvement of the structural balance by 1 % of GDP in 2018 is consistent with the nominal growth rate of net primary government expenditure not exceeding 2,8 % in 2018.
- (9) It is appropriate that this Recommendation be made public.
- (10) In order to achieve the recommended budgetary targets, it is crucial that Hungary adopt and strictly implement the necessary measures and monitor the development of current expenditure closely,

HEREBY RECOMMENDS THAT HUNGARY:

- (1) take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 2,8 % in 2018, corresponding to an annual structural adjustment of 1 % of GDP, thereby putting the Member State on an appropriate adjustment path towards the medium-term budgetary objective;
- (2) use any windfall gains for deficit reduction; budgetary consolidation measures should secure a lasting improvement in the general government structural balance in a growth-friendly manner;
- (3) report to the Council by 15 October 2018 on action taken in response to this Recommendation; the report should provide sufficiently specified and credibly announced measures, including budgetary impact of each of them, as well as updated and detailed budgetary projections for 2018.

This Recommendation is addressed to Hungary.

Done at ...,

For the Council

The President
