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Recommendation for a

COUNCIL RECOMMENDATION

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

in Hungary

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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 policies[1], and in particular the second subparagraph of Article 10(2) thereof,

Having regard to the Recommendation from the European Commission,

Whereas:

(1) In accordance with Article 121 of the Treaty, Member States shall 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 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) In June 2018, the Council found in accordance with Article 121(4) of the Treaty that in 2017, there had been a significant observed deviation from Hungary’s medium-term budgetary objective. In view of that established significant deviation, the Council issued a Recommendation on 22 June 2018[2], recommending that Hungary take the policy measures necessary to address that deviation. The Council subsequently found that Hungary had not taken effective action in response to that Recommendation and issued a revised Recommendation on 4 December 2018[3]. The Council subsequently found that Hungary had not taken effective action in response to that Recommendation either.

(4) On 14 June 2019, the Council decided that in 2018 a significant observed deviation from the adjustment path toward the medium-term budgetary objective had again occurred in Hungary and issued a Recommendation for Hungary to take the necessary measures to ensure that the nominal growth rate of net primary

1 OJ L 209, 2.8.1997, p. 1.
2 OJ C 223, 27.6.2018, p. 1.
3 OJ C 460, 21.12.2018, p. 4.

government expenditure[4] does not exceed 3.3% in 2019 and 4.7% in 2020, corresponding to an annual structural adjustment of 1% of gross domestic product (GDP) in 2019 and 0.75% of GDP in 2020.[5] It also recommended that Hungary uses any windfall gains for deficit reduction, while budgetary consolidation measures should secure a lasting improvement in the general government structural balance in a growth-friendly manner. The Council established a deadline of 15 October 2019 for Hungary to report on the action taken in response to that Recommendation.

(5) On 9 July 2019, the Council recommended Hungary to ensure that, in 2019 and in 2020, it complies with the Council Recommendation of 14 June 2019 with a view to correcting the significant deviation from the adjustment path toward the medium-term budgetary objective.[6]

(6) On 26 September 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, the Commission reported its findings to the Council on 20 November 2019. Those findings were made public.

(7) On 15 October 2019, the Hungarian authorities submitted the report on effective action in response to the Council Recommendation of 14 June 2019.[7] Given the information provided by the authorities in their report and the overall assessment based on the Commission autumn 2019 forecast, the Council on 20 November 2019 concluded that Hungary has not taken effective action in response to the Council Recommendation of 14 June 2019.

(8) In light of the absence of effective action by Hungary and the cumulated deviation from the recommended adjustment path toward its medium-term budgetary objective, it is appropriate to address to Hungary a revised Recommendation on the appropriate measures to be taken under Article 121(4) of the Treaty.

(9) Based on the Commission 2019 autumn forecast, Hungary's structural balance is projected to improve by 0.5% of GDP in 2019 and by a further 1.2% of GDP in 2020. As a result, the structural deficit is estimated to be 1.8% of GDP and 1.1% of GDP away from the medium-term budgetary objective of 1.5% in 2019 and 1.0% in 2020.

(10) In order to bring Hungary back on an appropriate adjustment path following past slippages, the annual structural adjustment of 0.75% of GDP for 2020 recommended by the Council on 14 June 2019 seems appropriate in light of the overall macro-fiscal developments against the backdrop of the expected deceleration of economic activity in the next years as cyclical factors, which have been supporting growth in recent years, are expected to gradually wear off.

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4 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.

5 OJ C 210, 21.6.2019, p. 4.

6 Council Recommendation of 9 July 2019 on the 2019 National Reform Programme of Hungary and delivering a Council opinion on the 2019 Convergence Programme of Hungary (OJ C 301, 5.9.2019, p. 101).

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

(11) Based on the Commission 2019 autumn forecast, the required improvement of the structural balance by 0.75% of GDP in 2020 is consistent with the nominal growth rate of net primary government expenditure not exceeding 4.7%.

(12) The Commission 2019 autumn forecast expects Hungary's structural deficit to improve by 1.2% of GDP in 2020, while the expenditure benchmark points to a deviation from the requirement. Taking into account the factors influencing both the structural balance and the expenditure benchmark, based on current projections, the budget for 2020 adopted by the Hungarian government is expected to deliver the required effort.

(13) The failure to act upon earlier Recommendations to correct the observed significant deviation call for action to put Hungary's fiscal policy back on a prudent path.

(14) In order to achieve the recommended budgetary targets, it is crucial that Hungary strictly implements the necessary measures and monitors the development of current expenditure closely and contains spending sprees at the end of the year.

(15) The requirements issued in this Recommendation supersede the corresponding elements set out in the Council Recommendation of 14 June 2019.

(16) Hungary should report to the Council on action taken in response to this Recommendation by 15 April 2020, possibly as part of its Convergence Programme submitted pursuant to Article 7 of Regulation (EC) No 1466/97.

(17) It is appropriate that this Recommendation should be made public,

HEREBY RECOMMENDS THAT HUNGARY:

(1) take the necessary measures to ensure that the nominal growth rate of net primary government expenditure does not exceed 4.7% in 2020, corresponding to an annual structural adjustment of 0.75% of GDP, thereby putting the Member State on an appropriate adjustment path toward the medium-term budgetary objective.

(2) use any windfall gains for deficit reduction; compensate unexpected revenue shortfalls with high-quality permanent fiscal measures. 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 April 2020 on action taken in response to this Recommendation. The report should provide sufficiently specified and credibly announced measures, including the budgetary impact of each of them, with a view to complying with the required adjustment path, as well as updated and detailed budgetary projections for 2020.

This Recommendation is addressed to Hungary.

Done at Brussels,

For the Council
The President