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Recommendation for a

COUNCIL RECOMMENDATION

with a view to bringing an end to the situation of an excessive deficit in Hungary

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THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union (TFEU), and in particular Article 126(7) thereof,

Having regard to the recommendation from the Commission,

Whereas:

(1) According to Article 126 of the TFEU, Member States shall avoid 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 and inclusive growth underpinned by financial stability, thereby supporting the achievement of the Union's objectives for sustainable growth and employment.

(3) On 30 April 2024, the EU's reformed economic governance framework entered into force. The framework includes Regulation (EU) 2024/1263[1] of 29 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97. It also includes Council Regulation (EU) 2024/1264 amending Council Regulation (EC) No 1467/97[2] on speeding up and clarifying the implementation of the excessive deficit procedure, as well as Council Directive (EU) 2024/1265[3] of 29 April 2024 amending Directive 2011/85/EU on requirements for budgetary frameworks of the Member States.

(4) On 26 July 2024, the Council decided, in accordance with Article 126(6) TFEU, that an excessive deficit existed in Hungary due to non-compliance with the deficit criterion[4].

(5) Article 126(7) TFEU and Article 3(4) of Council Regulation (EC) No 1467/97 require the Council to adopt a recommendation addressed to the Member State concerned with a view to bringing the situation of excessive deficit to an end within a given period. In line with Article 3(4) of Council Regulation (EC) 1467/97, that recommendation is also to establish a maximum deadline of six months for effective action to be taken by the Member State concerned to correct the excessive deficit, which can be reduced to three months when warranted by the seriousness of the situation. Furthermore, in its recommendation, the Council is to recommend that the Member State implements a corrective net expenditure[5] path, which ensures that the general government deficit is

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1 OJ L, 1.8.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

2 OJ L 209, 2.8.1997, ELI: http://data.europa.eu/eli/reg/1997/1467/2024-04-30.

3 OJ L, 30.4.2024, ELI: http://data.europa.eu/eli/dir/2024/1265/oj.

4 OJ L, 1.8.2024, ELI: https://eur-lex.europa.eu/eli/dec/2024/2123/oj.

5 According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of

brought and maintained below the 3% of GDP reference value within the deadline set in that recommendation. Where the excessive deficit procedure was opened on the basis of the deficit criterion, the corrective net expenditure path is to be consistent with a minimum annual structural adjustment of at least 0.5 % GDP as a benchmark for the years when the general government deficit is expected to exceed the reference value. The Commission may, during a transition period in 2025, 2026 and 2027, adjust the benchmark to take into account the increase in interest payments when setting the proposed corrective path for those years, taking into account recital 23 of Council Regulation (EU) 2024/1264.

(6) In view of the submission of the national medium-term fiscal-structural plan in accordance with Articles 11 and 36(1), point (a) of Regulation (EU) 2024/1263, the Council Decision of 26 July 2024 took into account that the next step in the excessive deficit procedure, namely the Commission recommendation for a Council recommendation under Article 126(7) TFEU on the correction of the excessive deficit, would take place together with the Commission Opinion on the Draft Budgetary Plans of euro area Member States under Article 7 of Regulation (EU) No 473/2013. This approach allows to ensure consistency between the budgetary requirements under the excessive deficit procedure and the adjustment path set out in the medium-term fiscal-structural plans. This timeline is exceptional and linked to the transition to the new framework, therefore not setting a precedent.

(7) Real GDP in Hungary decreased by -0.9% in 2023. According to the European Commission Autumn 2024 Forecast, the economy is expected to grow by 0.6% in 2024, on the back of rebounding private consumption and a positive contribution of net exports. In 2025, real GDP is expected to increase by 1.8%, as private consumption is set to continue growing strongly, and investments are projected to rebound moderately. The unemployment rate is expected to reach 4.5% in 2024 and 4.3% in 2025. Inflation is set to decrease from 17.0% in 2023 to 3.8% in 2024 and to reach 3.6% in 2025.

(8) According to the data validated by Eurostat on 22 October 2024[6], the general government deficit in Hungary stood at 6.7% of GDP in 2023. The European Commission Autumn 2024 Forecast projects a general government deficit of 5.4% of GDP in 2024 and 4.6% of GDP in 2025, thus above the reference value in both years. The structural deficit is projected at -4.7% of GDP in 2024 and is expected to decrease by 0.7 percentage points in 2025. This decrease is explained by lower interest expenditure in 2025 due to decreasing coupon payments on the inflation-linked retail bonds and decreasing subsidies to utility companies for the losses incurred due to caps on residential energy prices.

(9) General government debt stood at 73.4% of GDP at end-2023. According to the European Commission Autumn 2024 Forecast, it is projected to increase to 74.5% of GDP at end-2024, remain at 74.5% of GDP at end-2025, and decrease to 73.8% of GDP at end-2026, thus remaining above the 60% of GDP reference value.

(10) On 4 November 2024, Hungary submitted its first national medium-term fiscal-structural plan. The assessment of the plan is ongoing. The plan covers the period

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programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

6 Eurostat Euro Indicators published on 22 October 2024. See: https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/2-22102024-AP

2025-2028 and presents a fiscal adjustment spread over 4 years. In the absence of a national medium-term fiscal-structural plan endorsed by the Council, the reference trajectory with a fiscal adjustment of four years updated based on more recent data, should be recommended as the corrective path under the excessive deficit procedure. The corrective net expenditure path is thus consistent with a minimum annual structural adjustment of at least 0.5% GDP as a benchmark for the years when the general government deficit is expected to exceed the reference value, in line with Council Regulation (EC) 1467/97.

(11) Based on the net expenditure path, as the sole operational reference for monitoring compliance, which is set out in this recommendation, and based on the European Commission medium-term government debt projection framework and the European Commission Autumn 2024 Forecast, the general government deficit is expected to decrease from 5.4% of GDP in 2024 to 2.5% by 2027.

(12) Based on the corrective net expenditure path to be recommended, the European Commission medium-term government debt projection framework, and the European Commission Autumn 2024 Forecast, the general government debt would gradually decrease from 74.5% of GDP at end-2024 to 72.6% at end-2027.

(13) Budgetary consolidation measures should secure a lasting correction of the excessive deficit, while being geared towards enhancing the quality and composition of the public finances, preserving investment and reinforcing the growth potential of the economy. Reforms of a fiscal and broader economic nature should improve the growth and resilience potential of the economy in a sustainable manner and support fiscal sustainability.

(14) Upon positive assessment of the Hungary's national medium-term fiscal-structural plan by the Commission and endorsement by the Council, a new corrective net expenditure path could be recommended by the Council, under Article 126(7) TFEU, upon a recommendation from the Commission.

HEREBY RECOMMENDS:

(1) Hungary should ensure that the nominal growth rate of net expenditure does not exceed the maxima established in Annex I.

(2) Hungary should thus put an end to the excessive deficit situation by 2027.

(3) The Council establishes the deadline of 30 April 2025 for Hungary to take effective action and present the necessary measures together with its 2025 annual progress report, to be submitted to the Commission in accordance with Article 21 of Regulation (EU) 2024/1263. Thereafter, Hungary should report on progress made in the implementation of this recommendation at least every six months until the excessive deficit has been corrected.

This Recommendation is addressed to Hungary.

ANNEX I

Maximum growth rates of net expenditure
(annual and cumulative growth rates, in nominal terms)
Hungary

Years		2025	2026	2027
Growth rates (%)	Annual	3.9	3.3	3.2

	Cumulative (*)	7.6	11.1	14.7

(*) The cumulative growth rates are calculated by reference to the base year of 2023.

Done at Brussels,

For the Council
The President