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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

{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, 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 10(2), second sub-paragraph, 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 existed in Hungary and issued a recommendation for Hungary to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure[2] does not exceed 2,8 % in 2018, corresponding to an annual structural adjustment of 1,0 % of GDP. [3] It also 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.

(2) On 13 July 2018, the Council recommended Hungary to ensure that, in 2018, it complies with the Council Recommendationa of 22 June 2018 with a view to correct the significant deviation from the adjustment path toward the medium-term budgetary objective.[4] For 2019, Hungary was recommended to ensure that the nominal growth rate of net primary government expenditure does not exceed 3,9 %, corresponding to an annual structural adjustment of 0,75 % of GDP.

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1 OJ L 209, 2.8.1997, 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.

3 OJ C 223, 27.6.2018, p. 1.

4 Council Recommendation of 13 July 2018 on the 2018 National Reform Programme of Hungary and delivering a Council opinion on the 2018 convergence Programme of Hungary (OJ C 320, 10.9.2018, p.72)

(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. These findings were subsequently made public.

(4) On 15 October 2018, the Hungarian authorities submitted the report on effective action in response to the Council Recommendation of 22 June 2018.[5] Given the information provided by the authorities in their report and the overall assessment based on the Commission autumn 2018 forecast, the Council on 21 November 2018 concluded that Hungary has not taken effective action in response to the Council Recommendation of 22 June 2018.

(5) In light of the absence of effective action by Hungary and the cumulated high deviation by the latter from the appropriate adjustment path toward its medium-term budgetary objective, it is appropriate to address to that Member State a revised recommendation under Article 121(4) TFEU on the appropriate measures to be taken.

(6) Based on the Commission 2018 autumn forecast, Hungary's structural deficit increased by 1,7 % of GDP to 3,4 % in 2017 and it is projected to deteriorate further by 0,4 % of GDP to 3,8 % in 2018. As a result, the structural deficit is estimated to be 2,3 % of GDP away from the medium-term budgetary objective of 1,5 % in 2018.

(7) In order to correct for the cumulated deviations and to bring Hungary back on an appropriate adjustment path following past slippages, an additional and persistent effort should complement the recommended annual structural adjustment of 0,75 % of GDP for 2019 set out in the Council Recommendation addressed to Hungary on 13 July 2018. An additional effort of 0,25 % of GDP seems appropriate given the magnitude of the observed significant deviation from the recommended adjustment path toward the medium term objective. It will accelerate adjustment back towards the medium-term budgetary objective.

(8) The required improvement of the structural balance by 1,0 % of GDP in 2019 is consistent with the nominal growth rate of net primary government expenditure not exceeding 3,3 % in 2019.

(9) The structural improvement of 1,0 % of GDP in 2019 translates into a need to adopt measures of a total yield of 0,5 % of GDP in structural terms as compared to the current 2019 baseline of the Commission 2018 autumn forecast, given projected improvement of the structural balance in 2019.

(10) The requirements for 2019, issued in this recommendation, supersede the corresponding elements set out in the fiscal recommendation contained in the Council Recommendation addressed to Hungary on 13 July 2018.

(11) Hungary should report to the Council on action taken in response to this recommendation by 15 April 2019, possibly as part of its Convergence Programme submitted pursuant to Article 7 of Regulation (EC) No 1466/97.

(12) It is appropriate that this recommendation should be made public,

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

HEREBY RECOMMENDS THAT HUNGARY:

(1) 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 1,0 % of GDP, thereby putting thery Member State on an appropriate adjustment path toward 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 April 2019 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 2019.

This recommendation is addressed to Hungary.

Done at Brussels,

For the Council
The President