Council Decision (EU) 2019/2172 of 5 December 2019 establishing that no effective action has been taken by Hungary in response to the Council Recommendation of 14 June 2019

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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 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 fourth subparagraph of Article 10(2) thereof,

Having regard to the Recommendation from the European Commission,

Whereas:

(1) On 22 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, on 22 June 2018 the Council issued a Recommendation[(2)], recommending that Hungary take the necessary measures to address that deviation. The Council subsequently found that Hungary had not taken effective action in response to that Recommendation and on 4 December 2018 issued a revised Recommendation[(3)]. The Council subsequently found that Hungary had not taken effective action in response to that revised Recommendation.

(2) On 14 June 2019 the Council found that in 2018 a significant observed deviation from the adjustment path toward the medium-term budgetary objective had again occurred in Hungary. On that basis, the Council issued a Recommendation[(4)] for Hungary to take the necessary measures to ensure that the nominal growth rate of net primary government expenditure[(5)] does not exceed 3,3 % in 2019 and 4,7 % in 2020, corresponding to an annual structural adjustment of 1,0 % of gross domestic product (GDP) in 2019 and 0,75 % of GDP in 2020. The recommended effort for 2020 was deemed appropriate, contingent on compliance with the requested adjustment in 2019. The Council also recommended that Hungary use any windfall gains for deficit reduction, and that 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 the Recommendation of 14 June 2019.

(3) 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. The Commission report finds that the Hungarian authorities intend to maintain the 2019 headline deficit target of 1,8 % of GDP as set in the 2019 Convergence Programme. For 2020, the Hungarian authorities revised the deficit target to 1 % of GDP, making it more ambitious than the 1,5 % of GDP target indicated in the 2019 Convergence Programme. The Hungarian authorities therefore plan to act upon the Recommendation of 14 June 2019 with respect to the year 2020 only.

(4) On 15 October 2019 the Hungarian authorities submitted a report on action taken in response to the Council Recommendation of 14 June 2019. Despite the more favourable macroeconomic and fiscal developments so far in 2019, in that report the Hungarian authorities maintain the general government deficit target from the 2019 Convergence Programme of 1,8 % of GDP in 2019. For 2020, the Hungarian authorities confirm the target of a headline deficit of 1,0 % of GDP, in line with the 2020 budget, and 0,5 % of GDP better than the target included in the 2019 Convergence Programme. The report recalls the high reserve (1 % of GDP) included in the 2020 deficit target, which is aimed at managing external risks and which could be spent only if the deficit target is expected to be met. The report lists the deficit-increasing measures contained in the 'Economic Protection Action Plan' that the Hungarian government adopted on 30 May 2019, which aim to sustain growth in the years to come at a rate of 2 percentage points higher than the Union average. The broad range of economic programmes listed in the report remain largely unquantified, and the report does not include any budgetary projection for 2019 and 2020. Therefore the report does not comply with the reporting requirement recommended by the Council.

(5) In 2019, based on the Commission's 2019 autumn forecast, the growth of net primary government expenditure is projected at 6,8 %, well above the recommended rate of 3,3 % (deviation of 1,3 % of GDP). The structural balance is set to improve by 0,5 % of GDP, against the recommended improvement of 1,0 % of GDP (deviation of 0,5 % of GDP). Therefore, both pillars point to a deviation from the recommended adjustment. The reading of the expenditure benchmark is negatively impacted by the use of a lower GDP deflator underlying that indicator compared to current estimates. In addition, the smoothing of nationally-financed investment impacts marginally and negatively the reading of the expenditure benchmark. The structural balance, in turn, is positively impacted by the higher potential growth estimate underlying that indicator but negatively impacted by revenue shortfalls. Taking into account these factors, the overall assessment confirms a deviation from the recommended adjustment in 2019.

(6) In 2020, based on the Commission's 2019 autumn forecast, the growth of net primary government expenditure is projected to be 7,5 %, well above the recommended rate of 4,7 % (deviation of 1,0 % of GDP). The structural balance is set to improve by 1,2 % of GDP, 0,4 percentage points above the effort of 0,75 % of GDP recommended by the Council. Therefore, the expenditure benchmark points to a risk of a deviation from the required adjustment while the structural balance points to compliance, with a relatively large discrepancy. Public investment has been steadily increasing in recent