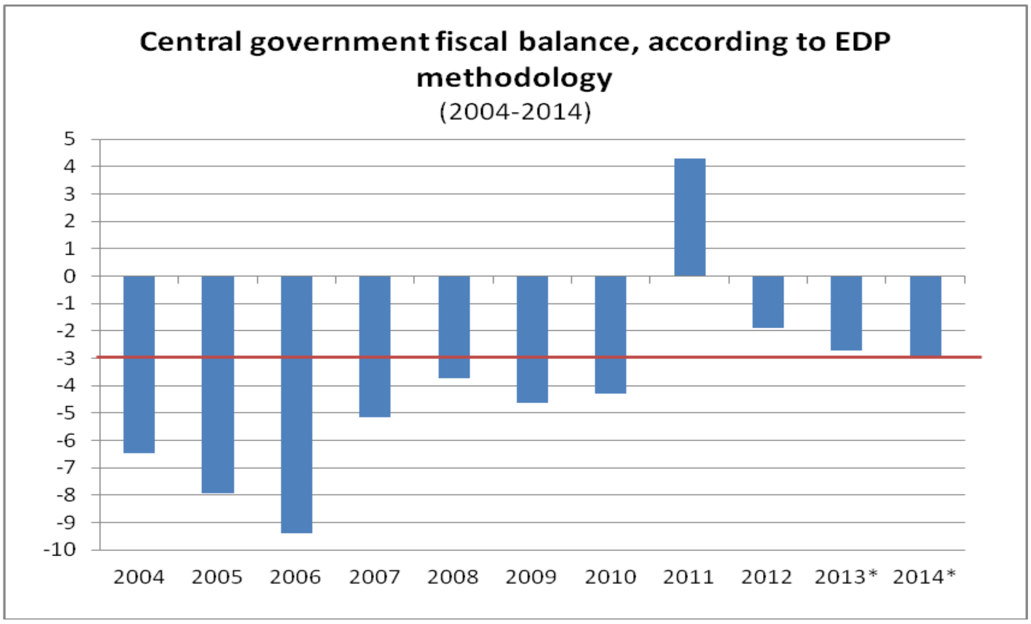
MINISTRY
FOR NATIONAL ECONOMY

Hungary about to exit the EDP after nine years

The Government, which took office in 2010, has put the Hungarian state budget on a sustainable path, and this achievement has also been acknowledged by Brussels: on 29 May, the European Commission announced that it proposes to the European Union's Economic and Financial Affairs Council (Ecofin), composed of EU ministers, to abrogate the Excessive Deficit Procedure (EDP) against Hungary, which was commenced in 2004.

In summer 2004, upon the recommendation of the European Commission, **the Ecofin decided that an excessive deficit exists in Hungary** and formulated proposals on correcting this situation until 2008. **In 2005**, acting on the recommendation of the Commission, **the Council came twice to the decision that Hungary had failed to implement effective measures** for eliminating the excessive deficit, and thus **it formulated another recommendation in November 2006** which postponed the deadline of the excessive deficit correction until 2009. In summer 2009, due to economic recession, the deadline was put off to 2011. In January 2011, the Commission came to the conclusion that although measures for reducing excessive deficit had been in line with the latest proposals, but significant risks still prevailed.



**2013,2014: revised estimate of the European Commission*
Source: Eurostat

In January 2012, pursuant to the recommendation of the Commission, **the Council decided that Hungary had failed to make the necessary steps within the required deadline which had been formulated in the recommendation of 2009.** The Council argued that general government budget data for 2011 were the result of one-off measures, instead of a structural and sustainable correction.

In March 2012, the Ecofin adopted another recommendation which ordered Hungarian authorities to act as follows: correct the excessive deficit by 2012 in a durable and credible manner; implement corrective measures totalling at least 0.5 percent of GDP in order to ensure the 2.5 percent deficit target envisaged for 2012; introduce further measures for keeping the deficit below 3 percent also for 2013. In May, after having assessed the **2012 *Convergence Programme*,** the Commission adjudicated that **the Hungarian Government had implemented effective measures for correcting the excessive deficit**, and thus general government deficit can be expected to be 2.5 percent for 2012 and also below 3 percent in 2013, in line with Maastricht criteria, and in compliance with the March recommendation of the Commission.

The 2012 Budget, which has already been adopted, laid down a deficit target of 2.5 percent of GDP on the basis of 0.5 percent annual growth. The Budget included contingency reserves amounting to 1.1 percent of GDP and several consolidation measures, of which the most important ones are as follows:

- Revenue-boosting measures, totalling some 1.75 percent of GDP, such as higher indirect taxes and social security contributions;
- Expenditure-side structural measures, totalling 0.75 percent of GDP, such as revised welfare benefits;
- Freezing of expenditures in the public sector, totalling 0.25 percent of GDP, such as the freezing of nominal wages in most sectors.

In order to offset the effect of permanently deteriorating growth prospects, the Government **adopted two large, additional packages of corrective measures** (amounting to 0.7 percent of GDP as a whole) **in April and October**, which were mainly aimed at further reducing appropriations for budgetary institutions.

Concurrently, **the balance of the local government sector improved by about 0.7 percent of GDP in comparison to the estimate envisaged formerly in the Budget.**

On 5 October 2012, the Cabinet published in the framework of the EDP Progress Report the latest package of planned measures which had been conceived to realize the Ecofin recommendation published on 13 March 2013 and revised upward its 2012 statutory deficit target from 2.5 percent to 2.7 percent of GDP. In total, **the adjustment measures adopted and implemented by the Government, which had equalled some 3 percent of GDP, and the improvement of the balance of the local government sector eventually resulted in a deficit figure of 1.9 percent:** therefore, the original deficit target was surpassed by 0.6 percent of GDP.

Hungary's Convergence Programme 2013-2016, published in April 2013, takes fully into account the guidelines on macro-economic and fiscal policies which the European Commission endorsed at its March session. In addition, **the Programme devotes an entire chapter to the presentation of Government measures which confirm compliance with the Commission recommendation of March 2012.**

According to the estimate of the 2013 *Convergence Programme*, **general government debt will equal 2.7 percent of GDP in 2013 and 2014. However, the Commission's 2013 Spring Forecast still prognosticated a deficit figure of 3.0 percent of GDP for 2013 and 3.3 percent of GDP for 2014.**

After the Forecast had been published, the Hungarian Government **adopted further adjustment measures for 2013 and 2014, which amount to approximately 0.3 percent and 0.7 percent of GDP, respectively.** In light of these, the Commission updated its assessment of the budget by taking into consideration the net balance-improving effect of these complimentary corrective measures and thus the **revised deficit estimates are 2.7 percent of GDP for 2013 and 2.9 percent of GDP for 2014. Consequently, the general government deficit is expected to stay below the 3 percent of GDP threshold over the forecast horizon.**

The EDP can only be abrogated in case – according to Commission forecast -- the deficit figure within the period covered by the prognosis does not breach the 3 percent of GDP limit, a Maastricht criterion. On the basis of the Commission's 2013 Spring Forecast, the additional adjustment measures adopted in the Government Decree of 13 May 2013 as well as Hungarian data provided prior to 1 April 2013, the **Commission came to the conclusion that Hungary had corrected its excessive deficit. Thus, in its recommendation of 29 May, the Commission proposed to Ecofin to abrogate the Excessive Deficit Procedure against the country.**

Ecofin is scheduled to deliver its decision on 21 June, and that may be the date for conclusively closing the EDP, which has been ongoing since 2004. Besides Hungary, the Commission recommended the abrogation of the EDP with respect to four other countries, while it advised the Procedure shall be commenced against Malta. As a result, after the June verdict, **Hungary will be one of those 11 countries within the EU, where fiscal processes are sustainable in the long term.**