

European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Hungary's 2012 national reform programme and delivering a Council opinion on Hungary's convergence programme for 2012-2015.

BACKGROUND: the European Commission has adopted a **package of recommendations for budgetary measures and economic reforms** to enhance financial stability, boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued recommendations for the euro area as a whole. The country-specific recommendations put forward by the Commission give operational guidance for Member States while preparing their budgetary policies and for economic reforms that should be enacted over the coming twelve months to boost competitiveness and facilitate job creation.

The adoption of the recommendations marks the **concluding of the second phase of the European Semester** of economic policy coordination, which was launched with the Commission's [Annual Growth Survey](#) on 23 November 2011.

The basis for these recommendations is a thorough assessment of the implementation of those adopted in 2011, combined with a detailed analysis of the national reform programmes and stability or convergence programmes that Member States submitted by 30 April 2012. The analysis underpinning the recommendations is presented in 28 Commission staff working documents.

CONTENT: on 23 April 2012, **Hungary** submitted its convergence programme covering the period 2012-2015 and its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

Based on the assessment of the 2012 Convergence Programme, the Council is of the opinion that the **macroeconomic scenario** underpinning the budgetary projections in the programme is **optimistic**. The Hungarian authorities' growth projections for 2012 and 2013 are higher by around half a percentage point compared to the Commission's 2012 spring forecast.

The objective of the budgetary strategy outlined in the programme is to ensure the sustainable correction of the excessive deficit by the 2012 deadline set by the Council. The programme confirms the previous medium-term budgetary objective (MTO) of 1.5% of GDP, which it plans to achieve by 2013.

According to government plans, **the public debt** is continuously reduced throughout the programme period to below 73% of GDP in 2015, but will remain above the 60% of GDP reference value. According to the programme, the debt reduction benchmark would be met at the end of the transition period, in 2015, and thereby should help to reduce the accumulated external and internal indebtedness.

According to the Commission, the **main policy challenges** for the country are as follows:

- New regulations have been adopted for the implementation of the constitutional fiscal governance framework, but some of its features remain weak.

- Policy responses to address the impact of tax reform on low wage earners (minimum wage increase, wage subsidy scheme) have not contributed to enhancing employment, whereas measures to encourage women's participation in the labour market are a small step in the right direction.
- The public employment service has been reorganised resulting in an overall downsizing, pointing in the opposite direction of what was recommended in 2011. Other measures aimed at disadvantaged groups (e.g. public works) are unlikely to be effective in improving the placement of participants in the open job market.
- Measures to improve the business environment largely go in the right direction, but there is significant room for further progress. Efforts to improve access to non-bank funding are also going in the right direction, but a comprehensive assessment of SME policies is still missing.
- Hungary ranks very low on many indicators measuring the transparency and quality of public administration.
- The ratio of reinvested profits fell dramatically in 2009 and 2010 partly on account of the crisis but also as a result of a number of controversial and unpredictable changes in the policy and fiscal environment and in the legal and institutional system.
- The recent trend in public funding for research and innovation (since mid-2010) is not in line with the 2012 Annual Growth Survey priority of differentiated growth-friendly fiscal consolidation.
- Elements of the new legislation on school education risk increasing the number of early school leavers and segregation in the Hungarian school system. The equally important issue of lifelong learning is not sufficiently addressed.
- The lack of progress in restructuring public transport has been an important reason for budget slippages in recent years.

Recommendations proposed for Hungary for the period 2012-2013:

Budgetary measures:

- correct the excessive deficit by 2012 in a durable manner, by implementing the 2012 budget and reducing the reliance on one-off measures;
- thereafter, specify all structural measures necessary to ensure a durable correction of the excessive deficit and to make sufficient progress towards the medium-term budgetary objective (MTO), including meeting the expenditure benchmark, and ensure sufficient progress towards compliance with the debt reduction benchmark;
- to mitigate the accumulated macroeconomic imbalances put the public debt ratio on a firm downward path;
- revise the cardinal law on economic stability by putting the new numerical rules into a binding medium-term budgetary framework;
- continue to broaden the analytical remit of the Fiscal Council, with a view to increasing the transparency of public finances.

Employment, labour market:

- make the taxation of labour more employment-friendly by alleviating the impact of the 2011 and 2012 tax changes on low earners in a sustainable, budget-neutral manner, for example by shifting part of the tax burden to energy taxes and recurrent taxes on property;
- strengthen measures to encourage women's participation in the labour market, particularly by expanding childcare and pre-school facilities;
- strengthen the capacity of the Public Employment Service to increase the quality and effectiveness of training, job search assistance and individualised services, with particular regard for disadvantaged groups;
- strengthen the activation element in the public work scheme through effective training and job search assistance;
- implement the National Roma Integration Strategy, and mainstream it with other policies.

Business environment:

- implement measures envisaged to reduce the administrative burden;
- ensure that public procurement and the legislative process support market competition and ensure a stable regulatory and business-friendly environment for financial and non-financial enterprises, including foreign direct investors;
- reduce tax compliance costs and establish a stable, lawful and non-distortive framework for corporate taxation;
- remove unjustifiable restrictions on the establishment of large-scale retail premises;
- provide specific well-targeted incentive schemes to support innovative SMEs in the new innovation strategy.

Education:

- prepare and implement a national strategy on early school-leaving by ensuring adequate financing;
- ensure that the implementation of the higher education reform improves access to education for disadvantaged groups.

Public transport, energy:

- reform the public transport system to make it more cost efficient;
- increase the crossborder capacities of the electricity network, ensure the independence of the energy regulator and gradually abolish regulated energy prices.

These recommendations should be endorsed by the European Council on 28-29 June 2012 and formally adopted by the Council in July 2012.