[Hungary and Romania called on to correct significant budgetary deviations]

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On 22 June 2018, the Council adopted a decision establishing that **Romania** has once again failed to take effective action to correct a significant budgetary deviation.

It issued **a new recommendation,** the third to Romania since June 2017 under the EU's 'significant deviation procedure'.

The Council also issued a recommendation on measures to correct a significant budgetary deviation in **Hungary**.

Both countries are responsible for significant deviations from their medium-term budgetary objectives, as agreed under the Stability and Growth Pact, the EU's fiscal rulebook.

The medium-term objective and the significant deviation procedure are both part of the pact's preventive arm. The focus of budgetary surveillance is on structural balances, i.e. budgetary balances corrected for cyclical, one-off and temporary factors.

Hungary

In 2017, according to the Commission's spring 2018 economic forecast and 2017 budget data:

- the growth of Hungary's government expenditure was **well above the expenditure benchmark** set by the Council in July 2016;
- Hungary's structural balance **deteriorated to -3.1%** of GDP, 1.6 percentage points of GDP away from its -1.5% of GDP medium-term objective.

Both indicators suggest a significant budgetary deviation.

The Council recommends that Hungary take measures to ensure that the nominal growth of net primary government expenditure does not exceed 2.8% in 2018, representing an annual structural adjustment of 1% of GDP.

This will put Hungary on an appropriate **adjustment path towards its medium-term objective**. Any windfall gains should be used for deficit reduction, and budgetary consolidation measures should secure a lasting improvement.

The Council set a deadline of 15 October 2018 for Hungary to report on action taken.

Romania

Romania had been subject to a significant deviation procedure since June 2017, after a significant deterioration of its structural balance in 2016 and a further deterioration in 2017.

In December 2017, the Council established that Romania had not taken effective action. It called for measures to ensure that the nominal growth of net primary government expenditure does not exceed 3.3% in 2018, representing an annual structural adjustment of at least 0.8% of GDP.

In 2017, according to the Commission's spring 2018 forecast and 2017 budget data:

- Romania's structural balance **deteriorated to -3.3%** of GDP;
- its net primary government expenditure was **well above the benchmark** set by the Council.

Both indicators confirm a significant budgetary deviation.

And the **failure to act** upon earlier recommendations – with the risk of exceeding the EU's 3% of GDP reference value for government deficits – call for **urgent action**.

The Council closed the procedure after Romania's failure to correct its significant deficit in 2017 despite two Council recommendations. And it issued a new recommendation, setting out action to be taken **in both 2018 and 2019**.

It recommends that Romania take measures to ensure that the nominal growth of net primary government expenditure does not exceed 3.3% in 2018 and 5.1% in 2019, representing an annual structural adjustment of 0.8% of GDP in both years.

This will put Romania on an appropriate adjustment path towards its medium-term budgetary objective. Any windfall gains should be used for deficit reduction, and budgetary consolidation measures should secure a lasting improvement.

The Council set a deadline of 15 October 2018 for Romania to report on action taken.

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