

Hungary faces a partial freezing of the money from the Cohesion Fund

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On 22 February, the European Commission recommended the Council of the EU to suspend the payment of 495 million euros from the Cohesion Fund to Hungary from the beginning of 2013. This equates to 0.5% of Hungary's GDP and 29% of the total cohesion funds allocated to this country for 2013. The European Commission found that the measures so far taken by Hungary to reduce its budget deficit have been insufficient. Hungary had a surplus in public finances in 2011 (3.6% of GDP), but this result was achieved in effect of the state's takeover of money from open pension funds, without which the budget deficit would have exceeded 6% of GDP. The sanction proposed by the European Commission must yet be approved by the EU finance ministers (Ecofin), who will vote on this issue on 13 March. If the Council votes in favour of the recommendation, Hungary will be the first country on which the sanction in the form of freezing cohesion funds will be imposed. However, this sanction could be lifted if Hungary – following the European Commission's recommendation – takes "effective action" to curb the deficit by the end of this year.

Commentary

- The European Commission is setting a precedent with this decision in order to manifest its determination in enforcing fiscal discipline now that public finances are in crisis and new fiscal discipline mechanisms are being adopted in the EU. The legal grounds for a possible freezing of subsidies for Hungary are provided by the Council Regulation on the Cohesion Fund of 2006. However, the European Commission is pointing out that it is operating in the spirit of the 'Six-Pack', a package of regulations adopted last year to reinforce the Stability and Growth Pact. This is to emphasise that the European Commission is ready to apply strict measures also to countries which do not belong to the eurozone.
- The Hungarian government will be trying to convince the other member states not to support the European Commission's recommendation (Hungary has already been backed by the Czech Republic) and has already announced more cuts in expenditure, including in public transport and restrictions on subsidies on medicines (the scale of the cuts has not been stated, however). It may still be difficult for the council to reject the European Commission's recommendation. Some countries do want the message to be heard that the fiscal discipline rules must be obeyed. It is true that as many as 23 EU member states

at present fail to meet the low deficit and public debt criteria, but they all are acting in line with the European Commission's recommendations on the gradual reduction of their deficits and debts. Furthermore, according to the schedule of the Excessive Deficit procedure, none of them is currently facing a direct risk of sanctions.

- The proposal to impose sanctions is reinforcing anti-EU sentiments in Hungary, which both Fidesz and the opposition radical-right party, Jobbik, are capitalising on. The European Commission's decision this time is being criticised not only by the Hungarian government but also by those sections of the media which support the left-wing and liberal opposition. The European Commission recommended the imposition of the sanctions at a time when Hungary had formally met the low deficit requirement for the first time since its accession. Furthermore, this recommendation was given after the government led by Orbán had taken a conciliatory stance on EU institutions. Orbán has recently announced that most of the regulations under dispute will be removed from Hungarian laws which the European Commission had deemed contrary to EU law. The Hungarian parliament also adopted the EU fiscal pact on 20 February. If the payment of the funds is withheld, this will adversely affect economic growth and will be a bad sign for the financial markets.

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