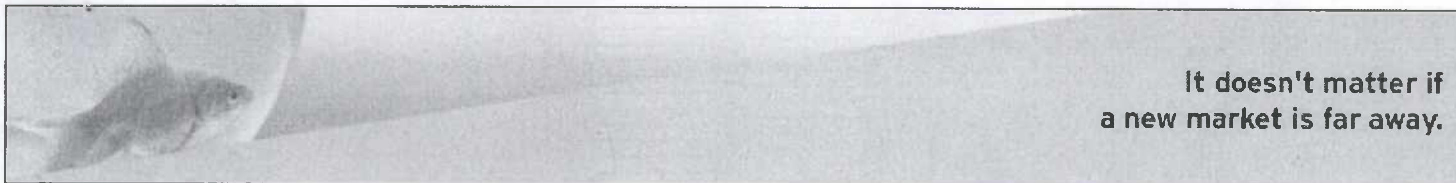
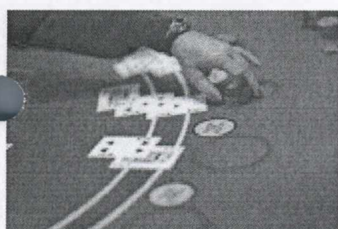


The FT app for Android. Improved performance in our best app yet.

FINANCIAL TIMES

Brussels to Hungary: you stick, we twist

May 30, 2012 7:14 pm by Kester Eddy



Valuable EU funds worth €495m will be available to Hungary in 2013, after the European Commission on Wednesday recommended lifting the suspension of the funds as it grudgingly accepted that Budapest had made sufficient efforts to meet budget deficit targets.

But the recommendation acknowledged that Hungary's efforts were party due to one-off measures – which was part of the reason for suspending the funds in the first place. When it comes to Hungary and the EU, the rules of the game don't always make sense.

Brussels had moved to suspend the funding in 2013 because of Hungary's inability to rein in its deficit in what it deemed a sustainable manner. Hungary's centre-right Fidesz government had in turn complained of unfair treatment, insisting that in 2011 it had the best fiscal record in the EU – though this argument notably failed to mention the effect of the one-off measures, without which the EU said the budget deficit would have topped 5 per cent.

The Commission concluded in its report: "Based on current information it appears that Hungary has taken action representing adequate progress towards the correction of the excessive deficit. In particular, despite the slight weakening of the underlying macroeconomic environment… the budget deficit is expected to reach 2.5 per cent of GDP in 2012 and remain well below the 3 per cent of GDP reference value in 2013, as recommended by the Council in March."

Peter Attard Montalto, emerging markets economist with Nomura, said in an analysis that the recommendation means that the European Council, together with Econfin, are now "very likely" to ratify the Commission's recommendation when it meets on June 22, particularly "given how fraught and split the original decision [on suspending funding] was."

Budapest, naturally, made hay in light of the decision. "Brussels has welcomed the trustworthy economic policy of Hungary," was the headline on the government website.

However, the recommendation comes with warnings on Hungary's poor economic performance this year, and notes the numerous uncertainties within the prediction, such as the potential negative effects on the economy of latest telecommunications levies. All this means that Hungary is by no means out of the woods, and as the Commission stenly said it will "continue to closely monitor budgetary developments in Hungary… in particular in the light of the prolonged history of this excessive deficit."

Indeed, as Attard Montalto noted: "I find the decision slightly odd – the statement goes on to say that the measures are largely one-offs and hence not enough to meaningfully alter the risks around the underlying structural fiscal balance in the long run. But this was one of the key reasons for the EC proposing a suspension of structural funds in the first place!!"

Given the lack of fiscal adjustment and longer run worries around policy sustainability and Hungary's history, the Commission has decided that Hungary should stay in the European Development Programme, though clearly without being fined for now. But as the budget deficit will, in all probability, be around -4.0 per cent of GDP this year due to domestic recession, "this whole issue of fines may well come up once again, perhaps in March, next year." warned Attard Montalto.

He also pointed to the reaction of the forint on the currency markets as a pointer to deeply rooted market sentiment.

"The reaction of HUF was interesting, rallying sharply on the announcement but then now selling off again in tune with the wider region/global risk mood. Perhaps unsurprising given the eventual removal of the structural fund suspension was broadly consensus but shows too that such positive Hungary news is not able to meaningfully alter the wider external forces."

The forint weakened on Wednesday, falling back over the significant 300-mark, at 301.04 to the euro at time of writing.

Related reading:
Hungary's IMF/EU deal: fading away? beyondbrics

- Hungary and EU fiscal reform: we're in, beyondbrics
- Hungary: starting to play ball, beyondbrics

Tags: EU funds, European Commission, Hungary-EU Posted in Europe, Hungary | Permalink

Back to top