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Absorption of EU funds in the first half of 2016

The 7th European Summit of Regions and Cities was held on 8-9 July 2016 in Bratislava, Slovakia, which event focused on, among others, the efficiency of the utilization of EU funds in individual EU member states. Several EU countries are behind schedule in terms of launching the tender system for the period 2014-2020, and thus they could until recently present only a limited number of invoices for Brussels. In this period, countries have three years to draw the commitment allocated for a given year, which means that the framework earmarked for the year 2014 is only accessible up to the end of 2017. From an EU perspective, Hungary has been in a favourable position concerning ongoing processes. The experiences of former years had made the Government reconsider the tendering system and adopt the government decree nr. 1018/2016 (I. 22.) aimed at accelerating the procedures. Data from the beginning of August show that HUF 315bn have already been transferred to beneficiaries. Of this amount, some HUF 153bn was paid under EDIOP, and thus half of the funds were devoted to economic development.

An article by Portfolio, the Hungarian online financial journal, summarized information presented at the conference. According to currently available data, this year the volume of disbursements is expected to be down by some 40 percent compared to the previous year. However, it has to be noted that last year's high level of payments was due to the fact that the period 2007-2013 was being concluded and, as it usually happens under similar circumstances, a much higher than usual number of invoices were submitted to the European Commission. Besides that, **several member states were too slow in launching the application system linked to the new programming period.** It is especially characteristic of large-scale, multi-year infrastructure projects that several phases of the project are subcontracted and outsourced which delays the reception of invoices or even the completion of the project.

Under the so-called "n+3" rule, countries have up to three years to draw their annual commitments, therefore the framework earmarked for the year 2014 is only available until the end of 2017. In case a country fails to draw the allocated amount until the deadline, the funds are lost. As Jan Olbrycht, Vice-Chair of the European Parliament's Committee on Regional

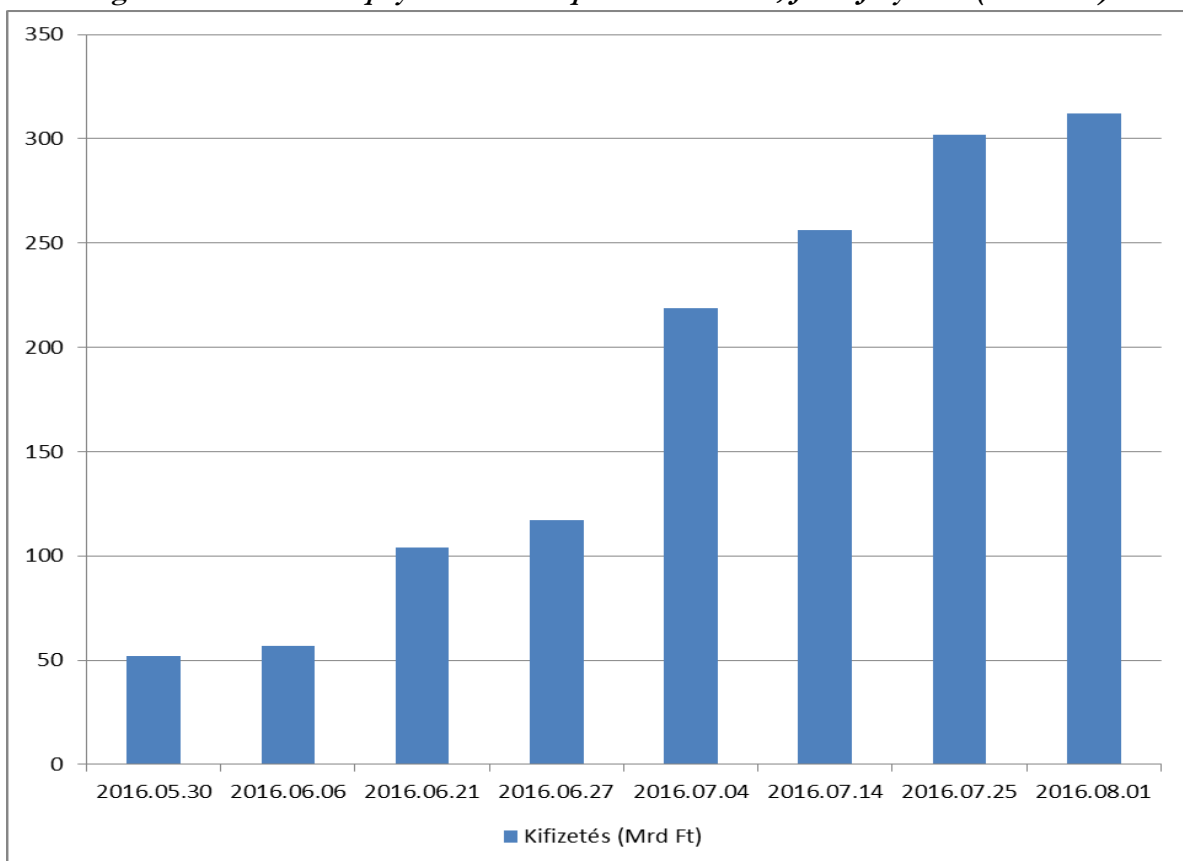


MINISTRY
FOR NATIONAL ECONOMY

Development, warned conference participants, delays in kick-starting tendering systems may in coming years lead to major losses of funds at some countries.

In this regard, Hungary has been in a favourable position within the European Union. **Past experiences have made the Government pay more attention to the acceleration of the absorption of EU funds.** In order to become capable of the full utilization of available funds in the period 2014-2020, the Government adopted decree nr. 1018/2016 (I. 22) on disbursing HUF 2048bn. Figure 1 shows the amounts of payments recently. The remarkable growth registered since the end of June signals that the government decree has been effective. **Data from the beginning of August reveal that HUF 315bn has already been transferred to beneficiaries.**

Fig.1: Total volume of payments in the period 2014-2020, June-July 2016 (bn. HUF)



Source: MSTR

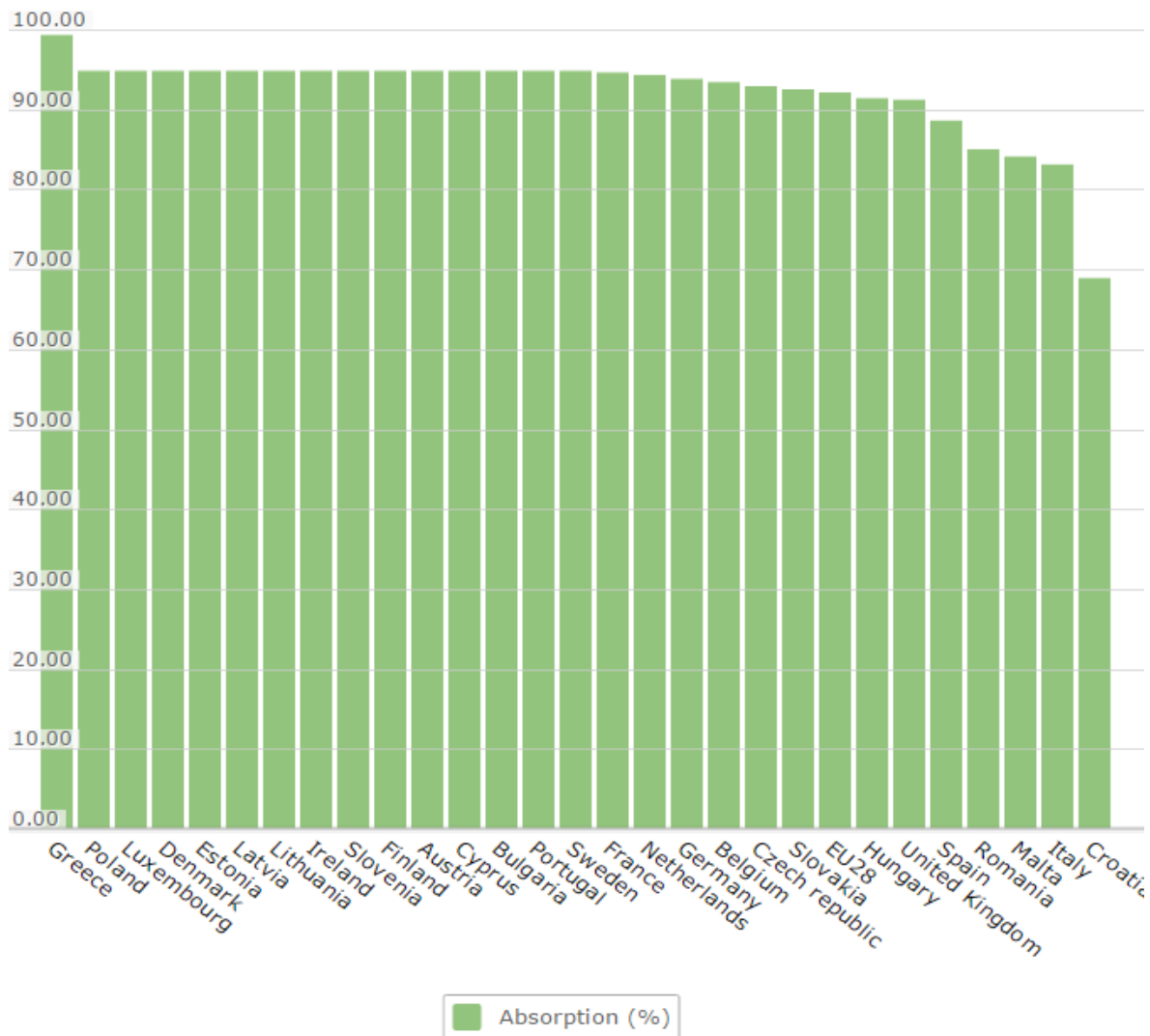
As the Portfolio article points out, Hungary's absorption rate has reached 91.6 percent concerning the period 2007-2013 (fig.2). It is clear that some transfers do take place beyond the framework of a given period. In the latest transfer round, the Commission



MINISTRY
FOR NATIONAL ECONOMY

forwarded HUF 158bn to Hungary and thus the country reached an absorption rate of 91.6 percent. This means that out of the total framework of EUR 25bn earmarked for Hungary in the seven-year period, the country still has only some HUF 660bn “left” at Brussels. This absorption rate places Hungary only slightly below the EU28 average. It has to be added that – except for Greece -- the Commission is to pay only 95 percent of the seven-year’s total to member states until the financial settlement is concluded, presumably in the spring of 2017. With regard to Hungary, the largest, still disputed issue is the so-called “cement mixer case”.

Fig. 2: Absorption rate of programmes of the period 2007-2013 (%)



Source: ESIF website, Portfolio.hu



MINISTRY
FOR NATIONAL ECONOMY

Current data show that Hungary is keeping the schedule of the period 2014-2020. **The Government is placing special emphasis on operating a fast and efficient application system, accelerating decision making and payment processes as well as on boosting applicant satisfaction. Economic development continues to be a major objective also in the field of allocating EU funds, as the fact that more than half of available funds have been paid under EDIOP demonstrates.**