

Orbán in Berlin, seeking Germany's backing in the EU dispute

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On 9–11 October, Prime Minister Viktor Orbán paid a visit to Germany, the highlight of which was a meeting with Chancellor Olaf Scholz. According to press reports, Orbán also met with Angela Merkel and former CDU leader Armin Laschet. In addition, he addressed a Hungarian-German economic forum and took part in a public discussion organised by the *Berliner Zeitung* newspaper and the Cicero magazine. In his speech to entrepreneurs, he emphasised Hungary's role in protecting the EU's external borders and convinced investors of the stability of the Hungarian economy, including uninterrupted energy supplies. In turn, during the public debate, he repeated the criticism he has in recent weeks levelled against the West's policy (including EU sanctions) on Russia (see ['Hungary's campaign against the West's Russia policy'](#)).

Orbán was accompanied by the Minister of Industry and Technology László Palkovics and the Minister of Foreign Affairs and Trade Péter Szijjártó. The latter one met, among others, representatives of Siemens, which is to supply control systems for the new units of the Paks Nuclear Power Plant as part of a German-French consortium. Szijjártó emphasised that the EU restrictions did not extend to the nuclear power industry, allowing German companies to continue to participate in the expansion of this power plant.

Commentary

- Orbán's visit to Berlin saw his first bilateral meeting with Chancellor Scholz. During most of the Merkel era Hungarian-German relations were marked by pragmatic cooperation focused on economic issues, even if serious tensions occurred, such as around the 2015 migration crisis. However, following Fidesz's withdrawal from the European People's Party in March 2021 (anticipating the vote to exclude it), relations between Orbán's grouping and the CDU/CSU began to noticeably weaken. Since the SPD-Green-FDP coalition has been in power, voices critical of Hungary's domestic and foreign policy in Germany have further intensified. The form of the visit (no joint press conference or even a joint statement by the two leaders) testifies to the German government's reluctance to publicly legitimise Budapest's position. The Hungarian side is therefore trying to contact the local elites and public opinion through other channels, such as meetings with business representatives or public debates.
- The main purpose of Orbán's visit appears to be an attempt to win German support in negotiations with the European Commission on the conditionality mechanism (Hungary risks €7.5 billion in cohesion funds being frozen), as well as on the Recovery Fund. The uncertainty surrounding these funds and the economic slowdown have led to Hungary

cutting state subsidies, and Hungary's financial situation is beginning to deteriorate rapidly, which could carry negative consequences for German investments in the country. Hungary currently has the highest sovereign debt (77% of GDP in 2021) of all the V4 countries, as well as the largest budget deficit (6.1% of GDP expected in 2022) and the highest interest rates (13%) and inflation (20.1% in September, up 4.5 points from August). In addition, the forint is weakening dramatically (by 15% against the euro and by 33% against the dollar between January and September), and the economy is likely to enter into technical recession in the second half of the year (two consecutive quarters with negative growth).

- Were Germany to support Hungary in negotiations with the European Commission, this could weaken Hungary's resistance to extending or possibly tightening EU sanctions on Russia. However, in the current circumstances it is difficult for Budapest to gain concessions from Berlin in this area: the SPD, Greens and FDP cabinet has consistently emphasised its support for making the disbursement of the EU budget conditional on compliance with the EU treaties. However, Orbán may try to convince the German government of the viability of the implementation of the measures Hungary agreed with the commission, including changes to public procurement law. Germany may try, in turn, to use Hungary's weakened bargaining position to persuade it to support one of the key points of Scholz's EU reform plan – the gradual transition to majority voting in common foreign policy. However, it seems unlikely that Budapest will agree to this solution.
- In spite of political disagreements, economic cooperation remains a strong binder in bilateral relations. In 2021, Germany accounted for 25% of Hungary's trade and is also the largest investor in the country, particularly in the automotive sector. Of key importance to the Hungarian economy are the Audi plant in Győr and the Mercedes plant in Kecskemét. Moreover, construction of the new BMW plant in Debrecen, albeit with a two-year delay, has started this year (completion is slated for 2025). These companies benefit from the lowest corporate tax in the EU (9%) and can count on preferential conditions (including state subsidies) for new investments. The manufacturing industry was also not affected by the windfall taxes imposed in June on several sectors, including banking, insurance, energy and telecoms.
- Hungary is also seeking to reinforce its political ties with Germany by assigning the German arms industry the leading role in the modernisation of the Hungarian armed forces. After years of neglect, Budapest has started to gradually increase its military spending (from 0.9% of GDP in 2015 to 1.7% in 2021), and most of the purchased or ordered armaments and military equipment come from German manufacturers (e.g. Leopard 2 tanks, PzH 2000 self-propelled howitzers, LYNX armoured fighting vehicles) or consortia involving German companies (H145M and H225M helicopters). The German company Rheinmetall has become the main partner for the reconstruction of the arms industry in Hungary. Rheinmetall has opened or plans to open a total of four production plants in Hungary. In order to emphasise the key importance of Germany in the military field, the new Hungarian defence minister went to Berlin for his first foreign visit in June.
- Budapest repeatedly argues that its retention of close energy cooperation with Moscow is also profitable for German companies. It argues that import of the Russian raw materials and the expansion of the Hungarian nuclear power plant by the Russian

company Rosatom is necessary to ensure a cheap and stable power supply (among other things, for German investors in Hungary) and brings benefits for individual German companies, such as in the case of the Franco-German consortium Framatome-Siemens, which will supply the control systems for both new units of the Paks NPP. Tellingly, it was the German lobbyist Klaus Mangold who has played an important role in lobbying for this project (e.g. by reportedly helping to persuade the European Commission to give the plant's expansion the green light).

- In domestic politics, Orbán's visit to Berlin made it possible to demonstrate that, despite the cooling of relations with its EU and NATO partners, Hungary is not isolated in the West (Hungary is not providing military support to Ukraine, is contesting EU sanctions, extending its energy cooperation with Russia in recent months). Since the parliamentary elections in April, this was only Orbán's second bilateral visit to an EU member state (after the one to Austria in July). During this time he already paid three visits to Serbia, which declares neutrality but is sympathetic to Russia. Maintaining good relations with Germany is also one of the few issues that enjoy wide support in Hungary beyond political and social divisions.