

Hungary closer to obtaining recovery funds, but still not guaranteed

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At a meeting of the Council of the European Union on 12 December, EU member states accepted a National Recovery Plan (NRP) for Hungary worth €5.8 billion, while at the same time, under the so-called conditionality mechanism, it agreed to freeze €6.3 billion of cohesion funds (which is a smaller amount than the EC originally proposed) which had been earmarked for the country. In votes held on the same day, Hungary dropped its veto on the EU's joint borrowing of €18 billion as financial support for Ukraine in 2023, as well as on the issue of a global CIT of a minimum 15% for major multinational corporations. These decisions still have to go through the procedure to obtain written approval, which is scheduled for 14 December.

Commentary

- Hungary avoided the worst-case scenario of definitively losing its chances of receiving funds from the EU Recovery Plan which had been agreed during the pandemic. It was the last country in the EU not to have received an approved NRP, and would have irretrievably lost 70% of the €5.8 billion earmarked for it if the money had not been approved by the end of 2022. However, the disbursement of the funds will be conditional on the fulfilment of 27 'super milestones' (as the EC and the EU Council calls the requirements placed on Hungary), namely the implementation of institutional reforms in the field of the rule of law. The Hungarian government has committed to implementing them by March 2023.
- The emerging consensus among EU countries to freeze part of the cohesion funds is unfavourable for Hungary. The disbursement of funds for Hungary was blocked due to concerns about the procedures for public procurement, the effectiveness of prosecutorial action and the fight against corruption, among other things. Hungary is the first country against which the European Commission triggered the conditionality mechanism, which was done in September (see '[Conditionality mechanism: Hungary facing the threat of withheld EU funds](#)'). Although Budapest has implemented some of the recommended changes (including the establishment of an Integrity Authority to investigate irregularities in the spending of EU funds), the EC, in its opinion of 30 November, considered these reforms insufficient. Hungary only secured a reduction in the amount of funds at risk of freezing: from €7.5 billion (the EC's original proposal) to €6.3 billion (agreed by the EU Council). Hungary and the EU institutions will continue to negotiate over the implementation of the reforms and their assessment over the coming months.

- Hungary's 'veto game' did make it possible to obtain some concessions from EU member states during the final stage of the negotiations. It is to be expected that Budapest will continue to obstruct decision-making in the EU on matters requiring unanimity. The largest countries are likely to seek compromise solutions, especially as Viktor Orbán still has more than three years to run of his current term in government. At the same time, however, the summit agreement shows Hungary's limited room for manoeuvre and low capacity to build coalitions: in the event of a qualified majority vote to freeze the funds, it would be unlikely to win enough allies to overturn it.