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Hungarian veto EU budget – belief or strategy?

On November 8, Viktor Orbán sent a letter to the leaders of Germany, Slovenia, and Portugal, as well as to the President of the European Commission and the President of the European Council, informing them that if the EU budget and the Next Generation EU fund, dealing with the rule of law, where would be a Hungarian veto.

A few days, later this veto was formalized during the meeting of the Committee of Permanent Representatives of the Governments of the Member States to the European Union (Coreper), at which the Hungarian ambassador said, that Hungary will veto the budget. Viktor Orbán's letter was addressed to Germany, the country that currently holds the Presidency of the Council of the European Union, to Slovenia, which will hold the presidency from January to June 2021, and to Portugal, which will assume this function in the second half of 2021. The letters were also addressed to the President of the European Commission and the President of the European Council. This may mean that the negotiations on the future budget may persist, according to Hungarian politicians, until 2021.

Hungary and the EU budget. When analyzing Hungary's attitude to the EU budget, it should be considered on two levels, the budget perspective for 2021–2027 and the EU Reconstruction Fund, i.e., the Next Generation EU fund – a financial instrument created to rebuild EU economies after the crisis caused by the coronavirus pandemic. While the Hungarian government did not criticize the issue of the EU budget for 2021–2027, the matter of the said fund was different. Hungary will receive EUR 7 billion in loans and EUR 8.1 billion in subsidies under the Next Generation EU. Hungary's contributions to the fund are EUR 7.7 billion, which means that the balance of subsidies and contributions will be EUR 0.4 billion in favor of Hungary.

From the outset, the link between the spending of any EU funds and the rule of law has been criticized. In turn, the distribution of funds from the EU Reconstruction Fund is, according to the Hungarian authorities, to hit the poorer EU countries. The issue related to the Reconstruction Fund was raised in the "national consultations" which lasted from June 8 to August 31 this year. According to the narrative presented by the Hungarian authorities, the EU reconstruction plan is known as the George Soros' second plan. The aim of this plan is to create a fund that will indebt individual EU countries to "speculators". As a consequence, the next generations of Europeans (coming from poorer countries) would pay off their obligations to these, however unidentified, speculators.

OLAF and the Hungarian case. During the EU summit in July 2020, the Hungarian Prime Minister emphasized that a country that does not meet the EU criteria should be removed from the EU because respecting EU values is an inherent part of EU membership. Therefore, Orbán defined Hungary as a country that has no problems with the rule of law. Moreover, all judicial reforms in Hungary that were implemented after 2010 are no longer subject to criticism from the EU institutions. In December 2018, the Hungarian Constitution was amended to include the creation of the Supreme Administrative Court. This gave rise to a serious conflict with the EU institutions. A year later, in December 2019, the constitution was amended again, and that Supreme Administrative Court was removed from the constitution. This happened about two weeks before his inauguration date, which was scheduled for January 1, 2020.

It is also interesting that the MEP Judith Sargentini's report, based on which the European Parliament launched Article 7 TEU against Hungary, in principle, did not refer to issues related to the rule of law, which was evidence that the EU (as a whole) approved the reform of the Hungarian judiciary.

The actual reason for the Hungarian veto is easier to understand in relation to the literal wording of the regulation “funds for the rule of law”. It concerns not the entire justice system but those violations of the rule of law or “serious risk” of violations them, which have an impact on the management of EU funds. According to the EU institutions, “effective judicial control by independent courts against the actions or omissions of authorities” of entities managing funds from the EU budget and the Next Generation EU Fund, “in particular in the context of public procurement or grant procedures”.

Hungary has a problem with the transparency of spending EU funds, which results from the annual reports of OLAF – the European Anti-Fraud Office. Although OLAF is part of the European Commission, at the same time, it operates independently from it and has conducted numerous investigations in Hungary. According to the 2018 OLAF report, Hungary had the highest number of proceedings while in 2019 the number of such proceedings decreased. The lack of transparency in tender procedures remains the subject of criticism by the EU. Over the years, a class of oligarchs has developed to increase their wealth by participating in investments carried out using EU funds. As evidenced by the investigative analyses of the Direkt36 portal, these funds are used by companies related to both Prime Minister Orbán's father and his son-in-law. The so-called Elios scandal, concerning the installation of energy-saving lighting in Hungarian cities, ended with the need to return HUF 12 billion in subsidies from the EU for 2011–2015. This is only an example of such anti-fraud proceedings.

Tying EU funds to the rule of law will disturb the model of political, business, and social dependence created in Hungary, through which the government can control, inter alia, the media. As part of the “debt repayment”, it is possible that these oligarchs bought media channels that were unfavorable to the government and included them in the Central European Press and Media Foundation (see “IEŚ Comments”, no. 239). Maintaining this attitude of shaping the political elite is in the interest of both the elites themselves and the prime minister.

Strategy. The veto communicated by the Hungarian government is primarily intended to amend the rule of law regulation, which will postpone indefinitely the application of stricter rule of law control criteria for EU funds. However, this is a goal that is not directly expressed.

The Hungarian government spokesman Gergely Gulyás said at a weekly press conference that Hungary would like to separate the EU budget from the Next Generation EU fund in 2021–2027 but realized that it is difficult. Gulyás said that Hungary would support a solution that would allow aid from the Reconstruction Fund to be transferred as soon as possible to European countries in the south, which would additionally not link the Reconstruction Fund to migration.

Therefore, this type of communication showed one of the Hungarian government's priorities, which is part of the criticism of the European migration policy and has been ongoing since 2015. From this perspective, the announcement of the Hungarian veto can be interpreted as an instrument aimed at achieving favorable changes to the Hungarian government in the field of migration (policy by finally abandoning the concept of the relocation mechanism).

Remarks. Therefore, the threat of a Hungarian veto is one of the tools used by the Hungarian government in negotiations with the EU. Previously, a similar role was played, for example, by a complaint to the Court of Justice of the EU regarding the relocation mechanism concerning migrants. However, the essence of the Hungarian opposition does not depend on the classical understanding of the rule of law nor on “European ideology”, which, according to the Hungarian authorities, the EU intends to impose. These are well-known rhetorical tricks which, however, do not carry a substantial meaning.

The Hungarian Prime Minister recognizes that Hungary's current problems in the EU are once again a consequence of the Soros network putting pressure on Hungary. The component related to Hungary's domestic policy is also of great importance. In the aforementioned national consultations 1,621,833 Hungarians rejected the so-called second Soros plan and, therefore, the EU Reconstruction Fund.

The veto itself seems very unlikely, but it is difficult to reject it altogether, e.g., in a situation where, during the negotiations, circumstances that have not been considered before.