



Hungary's Post-2020 EU Budget Negotiations Strategy

Veronika Jóźwiak

Hungary's main goal during negotiations of the next Multiannual Financial Framework (MFF), which are to start in May 2018, will be to maintain structural funds at the current level. Poland and other Central and Eastern European (CEE) countries have a similar position. To accomplish this, Hungary has begun building its negotiating position as a pro-EU country, one that respects the rule of law and is ready to increase its contributions to the EU budget and participate in the future European asylum system.

Hungary's Position. The country has declared it favours a strong EU, one that is safe and more competitive. That, however, will require bigger financial contributions from its members, and therefore Hungary has stated it is ready to increase its payments to the EU budget after 2020 from an average level of 0.98% to 1.2% of its gross national income (GNI) if other CEE countries do too. This declaration is in line with the EU average budget payment preliminarily set by the European Commission for the period after 2020 (1.1–1.2% for the EU-27). Poland shares the view that it is necessary to increase contributions to the EU budget.

Hungary's priority is to maintain subsidies from the EU's Cohesion Fund at the current level. The head of the Prime Minister's Office, János Lázár, cites the Treaty on the Functioning of the EU, which set the goal to increase economic, social and territorial cohesion in the European community. Hungary favours the seven-year budget cycle and wants to see funds for enlargement policy in the next EU budget, since it believes that the accession of Western Balkans countries would politically and economically benefit the EU and could help counterbalance the negative effects of Brexit.

EU funds in Hungary's Economy. The country's economic growth was around 4% in 2017, largely based on EU funds flowing into the state budget. In Hungary, these subsidies are mainly used for public investment (private investments amount to about 1% of gross national product). State Secretary at the Prime Minister's Office Nándor Csepreghy said the state has played an active role in economic development in recent years and the country would not be able to achieve growth of even 3% without engaging external funds. Some Hungarian economists claim that without EU funds, annual growth in Hungary would be around 1%. That means long-term economic growth depends on external factors and internal conditions remain poor—productivity is weak, use of sources of finance by enterprises is inefficient, qualified workers are too few, and the level of innovation is low. With this economy, revenues from the EU budget are critical for Hungary to continue to grow.

Compared to the previous MFF (2007–2013), Hungary's efficiency in allocating EU funds in 2014–2020 has doubled. According to EC data, only Ireland is ahead of Hungary in this respect. By the end of 2017, the Hungarian authorities had announced calls for a total of 106% of the funds available through national and regional programmes for the period 2014–2020 (amounting to €29.6 billion) under European Structural and Investment Funds. About 90% of these financial resources have already been allocated to selected projects. The authorities plan to sign the remaining contracts by mid-March 2018, ahead of parliamentary elections in April. Payments by the end of December 2017 amounted to about 40% of all the subsidies available in 2014–2020. In 2017, EU payments to Hungary were €2.1 billion, which is about 90% of all payments due

that year. However, EU funds often go to business people close to the government. Companies connected to Lőrinc Mészáros, a friend of Prime Minister Viktor Orbán and the fifth-richest Hungarian—who became rich from public procurements—received contracts worth HUF 476 billion (€1.6 billion) after 2010, about 80% of which were EU funds.

Diplomatic Offensive. Hungary perceives the EU budget negotiations as part of broader discussions on the future shape of the Union. The government's diplomatic activity proves it is aware of the interconnectedness of the most important current internal issues on the EU agenda, including rule of law and migration, and the allocation of funds from the next budget. That is why in January 2018 Orbán, in two visits to Germany, Hungary's most important political and economic partner, tried to portray a pro-Europe attitude and signalled his willingness to cooperate with EU institutions on future migration policy.

In Germany, the Hungarian government can count on political support from the Bavarian CSU, part of the common faction on the federal level with Chancellor Angela Merkel's CDU. The contacts with CSU—also a member of the European People's Party in the EU, together with the CDU and the Hungarian governing party Fidesz—enable the Hungarian government to strengthen its position within both the club of European Christian democratic parties and in Germany. As a guest of a CSU deputies' meeting, the Hungarian prime minister presented himself as a politician that takes responsibility for the future of the EU. He argued that by opposing taking in migrants, he has defended the greatest achievements of the European Union, including the Schengen zone. He also stressed the importance of the legality of actions and legal compliance of authorities of any country. In one interview with German press, he presented the EU as a wonderful project in which Hungary willingly participates and wants to remain a part. Later, during an economic forum on 10 January in Berlin, he told German press that he was ready to contribute to a future European asylum system.

This more open approach to accepting refugees is completely opposite Hungary's consistent rejection so far of involvement in EU relocation and resettlement programmes. The country's authorities, try to argue away this inconsistency by saying they still will not agree to take in refugees within a mandatory quota system, since they want to decide for themselves to whom they grant asylum. This argument is not logical, since the quota system provided Member States with the right to process asylum claims individually. The system promoted by the European Commission also gave the states the right to refuse admission to their territory of people who they deemed pose a threat to internal security and public order.

The Hungarian government, wanting to prove it has fulfilled its obligations under international law with respect to the protection of refugees, also claims that it accepted in 2017 about 1,300 asylum-seekers (106 people were granted refugee status and 1,185 were given other types of protection). This is almost the same number as the refugee quota Hungary was supposed to accept in the relocation programme (1,294 people). This change in approach to accepting refugees can be explained by Hungarian calculations that this position will contribute to favourable compromise on other issues, including those in budget negotiations.

Conclusions. Orbán's recent efforts demonstrate an awareness of the context in which the future EU agenda is being formed. The European Council's agreement on EU migration policy will be shaped at the same time as the EU budget proposal for the post-2020 period, which the European Commission is going to publish in May 2018. In addition, the EU Commissioner for Justice, Consumers and Gender Equality Věra Jourová has confirmed the possibility of linking EU funds to compliance with the rule of law. Although Orbán has repeatedly expressed his opposition to linking these issues, during his recent visits abroad he has emphasised that Hungary is attached to the principle of the rule of law. Such statements are backed by the fact that Hungary has always adjusted its domestic law to the letter of EU law in the course of Commission legal actions. However, the issue of respect of the rule of law in Hungary is not closed—the Civil Liberties, Justice and Home Affairs Committee of the European Parliament (LIBE) is preparing a report on this subject. If there are legal shortcomings in this area, the Hungarian government will certainly eliminate them to the extent necessary to make any relevant provisions acceptable to the European Commission, as it has been done previously. In this context, the triggering of Art. 7(1) of the Treaty on the EU against Poland over rule-of-law issues has been politically favourable for Hungary, since it makes the country's readiness to compromise in disputes with EU institutions more distinctive.

Increasing Hungary's contribution to the EU budget, as well as its more open approach to taking in refugees is expected to minimise likely cuts from the Cohesion Fund in the forthcoming MFF negotiations. These funds constitute a crucial resource for the Hungarian economy. At the same time, the political steps are intended to build an image of Hungary as a country that takes responsibility for the future of the European project, despite its reservations about the current functioning of the European Union. The Hungarian prime minister's visits to Germany serve not only to shore up support for Hungary's EU budget interests but also to more broadly strengthen the country's position vis-à-vis the largest EU Member State.