4.7 Hungary

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While it is practically unknown to the broader public, the budget review is followed with great interest by policy-makers and academics in Hungary. The Ministry of Foreign Affairs has revised its EU strategy in 2007 and, as part of this revision, also tackled the issue of Hungary's positions on the EU budget review. The final document on the EU strategy is available on the website of the Ministry of Foreign Affairs; the document reflects many of the ideas discussed in a series of academic and policy-oriented background papers prepared for the renewal of the Hungarian EU strategy in 2007; this is also true for the statements concerning the EU budget review.[63]

General approach

The Hungarian approach to the EU budget review is influenced by two basic considerations. First, Hungary, as a relatively less developed member of the EU, has a net beneficiary position vis-à-vis the EU budget. Second, as a new Member State, Hungary is interested in being part of a successful European integration process. There are aspects where these two considerations lead to similar positions but there are others where they – at least at first glance – contradict each other. The task of formulating a Hungarian approach to the budget review can also be conceived as to define the strategic interests of the country – based to a great extent on the above two considerations – regarding the future of the EU budget.

Hungary is in favour of a policy-driven budget, and therefore is interested in an agreement on the objectives (corresponding to the policies) of the EU budget. This means that the size of the budget should be defined by the needs created by the policies: a larger budget is not an objective in itself even if the country is and for a certain time probably will remain a net beneficiary of the EU budget. On the other hand, attempts to limit the size of the budget, without caring about the policies financed, should also be rejected.

A consensus on EU policies regarding their fields and their role in the future is a pre-condition for such a solution. A further condition is to come to an agreement among the Member States on what should be financed, partially or entirely, from the EU budget – as opposed to what should be left for the national budgets.

[63] The chapter mainly relies on the following papers and documents: Balázs (2007), Inotai and Szemlér (2007), Hetényi *et al*. (2007) and Hungarian Ministry of Foreign Affairs (2007).

While Hungary is in favour of reforms which would be in line with what has been said above, its position on the 2008/2009 budget review is that it should not modify the 2007-2013 Financial Framework.

Hungary is ready for a review that is open to all options, including the revision of existing EU policies; the possibility of thinking about new ones wherever there is a need for them; and also readiness on the part of the Member States to finance them. However, new items should not endanger the appropriate financing of traditional policies. Hungary holds that it is very important to preserve the policies, as they are important pre-conditions for the long-term catching-up process of the country. Of course, this point of view does not exclude reforms: in some cases only a reformed version of the policy may be sustainable and/or efficient in the long run. This is particularly the case with the CAP.

Own resources and corrections

The budget also needs stable and satisfactory financing. In line with its preference for a policy-driven budget, Hungary is committed to making an effort together with other Member States to reduce the importance of the *juste retour* approach. The question of the net positions could be pushed into the background by the creation of (a) new own resource(s) and therefore conceivable options for such a solution – simply put, the introduction of an EU tax or taxes should be studied carefully. Hungary is open for such a debate but as for now it has not opted for a favourite solution.

Hungary is against any general correction mechanism or individual correction measures. The position is that in a budget where the objectives – i.e. the policies to be financed – are well defined and agreed upon – and the structure of the revenue side is also a result of not only formal, but also real consensus – there is no need for correction mechanisms.

One should not forget that correction mechanisms in general and the UK rebate in particular constitute only the tip of the iceberg: there are several exceptions and ad hoc regulations related to the contributions to and receipts from the EU budget. All such ad hoc regulations should be abolished in order to arrive at a simple and transparent system.

Cohesion Policy

For Hungary, the continuity and the appropriate financing of the Cohesion Policy is very important, as this policy is regarded as an important tool to enhance economic growth and promote employment in the country. The Hungarian interest is to maintain the present Cohesion Policy (with regions as main target levels) according to the Treaty and financed to a great extent from the EU budget. Full or partial renationalisation of the policy could have negative consequences for Hungary, as support for the agricultural sector could not be assured from national resources at the same level as in some richer Member States.[64]

This position does not mean that Hungary wants to maintain the Cohesion Policy as it is today. Hungary is interested in further pursuing the fundamental objectives of this policy and is therefore interested in making the policy more efficient. Due to the expected future enlargements of the Union, Hungary will have to achieve its catching-up with the more developed countries of the EU in a shorter time period than earlier entrants, as the future newcomers will both modify relative development levels and also need an important share of Cohesion Policy financing.

For the period beginning in 2014, it will be very important for Hungary to obtain EU budget resources – not least from the Structural Funds – in the same order of magnitude as between 2007-2013. In the longer run, however, Hungary is more interested in concentrating on the budget as a whole as well as on the indirect effects of Cohesion Policy. Hence, the real objective is no longer the maximisation of the resources available in the next period but the possibility of catching-up with the EU15 (Hetényi *et al*. 2007). This does not only mean a large amount of transfers but also that other qualitative aspects, such as an appropriate policy mix and efficiency of the Cohesion Policy instruments, are of importance. The optimal outcome from all these factors would be an effective combination of Member State and EU interests.

Common Agricultural Policy

Hungary is an important beneficiary of the CAP but it is clear that this policy will be one of the issues that will take centre stage in the debates during the review. The issue is closely linked to the UK rebate; in fact, there is no realistic chance of making substantial progress in one of these issues without taking an important step forward in the other. The Hungarian position is to be open for potential reform of the CAP after 2013. However, this position is not unconditional and indifferent to the kind of reform that will take place.[65]

Liberalisation would be beneficial for big farms, especially for arable crop production, as production on big farms in Hungary is competitive within

[64] Due to the lower overall development level as well as to eventual (national) budgetary tensions.
[65] On reform scenarios, see Balázs (2007) and Hetényi *et al*. (2007).

the EU now. A change towards a system where Hungarian producers would not be disadvantaged by the present system of direct payments would be advantageous for these big and competitive units. On the other hand, small and medium-sized farms in Hungary might be the losers of such a change; this is most probably the case of livestock breeding and vegetable and fruit production.

Renationalisation tendencies would clearly be unfavourable for Hungary. The co-financing of direct and market support (at any rate) would be a disadvantage for Hungary. Such a measure would increase the burden on the Hungarian budget: in the case of a 30% co-financing rate, the negative balance for the 2007-2013 period would be EUR 700 million (as a balance of the additional burden on the national budget and the amount won on decreasing payments to the EU budget). Since co-financing would be a possibility and not an obligation, support to Hungarian producers would in part be dependent on the general situation of the national budget.

A moderate reform within the present framework of the CAP would maintain a majority of the advantages of the CAP relevant to Hungary today. The most important advantage of such a scenario would be the prolonging of the distribution of shares between Member States of Community agricultural support. A simplification of the regulations and a decrease in the administrative burden would be in line with the interests of Hungary. Market protection ideas are also favourable for Hungary. Since the market and environmental risks of Hungarian agricultural production are higher than the European average, Hungary is interested in incorporating new risk management tools into Community regulations.

However, the old dilemma of Hungary remains: should the country try to maximise Community funding for agriculture or should it strive for a different and more liberal CAP, with more weight on rural development? The answer can only be based on a long-term agricultural strategy, which does not exist as yet; such a strategy should be a result of consensus among all players concerned.

If the maximisation of CAP revenues is at the core – and this is not a negligible aspect in the case of a country in need of economic catching-up – then Hungary is interested in maintaining the present framework of the CAP as long as possible, allowing only for a gradual reform of the system. However, recent events (first of all the abolition of the maize intervention) question the rationality and reality of such an option.

However, if Hungary is ready to change from an agriculture concentrated on market and direct support to a different and healthier agricultural structure, the decrease of CAP support is unavoidable. In this case the country should play an active role in promoting the rural development policy. The future rural development policy should be in line with the fundamental objectives of the CAP and should offer policy tools aiming at increasing the quality of life for a broad range of the rural society.

Lisbon objectives

The fulfilment and revision of the Lisbon objectives may also have consequences for the future shape of the EU budget. If Europe's competitiveness deteriorates further, it might be perceived as necessary to allocate a great deal more resources from the EU budget to R&D, innovation and education programmes, in order to increase synergy between the development efforts of Member States, taking economies of scale considerations into account. Global competitiveness may become a central question for the EU economy and a deterioration in this respect may have a catalytic effect on the reformation of existing budget expenditure items.

From the Hungarian point of view it is very important that the Cohesion Policy should not be a victim of such a development (Hetényi *et al*. 2007). According to the Hungarian position the EU's regions differ as regards their level of development and therefore need differentiated treatment. The financing of the Lisbon objectives is important but should not endanger the financing of regional development, including the financing of infrastructure development; the under-financing of the Cohesion Policy might in the long run undermine any progress made in the Lisbon programme.

Potential new expenditure items

Regarding the future of the expenditure side of the EU budget, reforming or streamlining the actual expenditure headings is not enough: in the long run there may be a need for new policies, to be possibly financed from the EU budget, either as a consequence of the EU's internal development or due to changes in its external environment.

Hungary is open to the inclusion of new policies into the expenditure structure of the EU budget. However, it is also interested in maintaining the old policies in a form adapted to the current challenges, so the balance is very important. Regarding the reform of existing expenditure items, Hungary may generally have a defensive position. However, this is based on rationality: while it is very clear that there is no rationality in opposing CAP reform, different reforms have different outcomes for the country (as they do for all Member States). Regarding potential new expenditure headings,[66] Hungary can play an active role, paying attention to keeping the balance between the presence of old and new policies in the EU budget.

Preserving existing but modernised policies is a key issue for the continuity of the economic catching-up process of Hungary after the 2007-2013 period (Iván and Hetényi 2007). The country is interested in obtaining the same amount of financial support from the EU for the next period as it did between 2007 and 2013. This seems to be a much more difficult task than earlier – due to reform needs of common policies as well as to the effects of potential enlargement – but not necessarily a mission impossible. This approach will lead to many more conflicts of interest and thus potentially much more confrontation. However, in the longer run – that is to say, after the post-2013 Financial Framework – the maximisation of EU funding according to the current fashion will not be a major objective in itself any more: the recognition of the need of a successful EU as well as the effects of further enlargements may modify the Hungarian approach.

Enlargement

Further enlargement of the EU may have important consequences for the future of the EU budget, as well as for the priorities of Hungary in this respect. Until 2013 it is only Croatia that has a realistic chance of joining the EU and the effects of its membership are estimated to be negligible.

The big question is enlargement beyond 2013 and, first of all, the prospects of Turkish accession. If the future EU budget is to be established for an EU that includes Turkey and the Western Balkan countries – perhaps even the Ukraine as a future potential candidate for EU membership – then the prerequisites for EU budget negotiations will differ substantially from the present ones.

Due to the fact that the overall economic development level of the current candidates is substantially lower than the EU average and also much lower than the average of the 12 newcomers, their accession will considerably modify the levels of relative development in the EU. Due to its size, the effects of Turkey's (and eventually the Ukraine's) accession are crucial in this regard, while the other candidates can be seen as more or less negligible. From previous experience it is obvious that a gradual phasing-in of Turkey into cohesion funding could be a solution but it would also be nothing more than a temporary solution.

[66] Like energy policy, R&D policy, innovation, education, social policy, employment policy, health policy, migration policy (Inotai and Szemlér 2007; and Iván and Hetényi 2007).

The picture is very similar in the case of the CAP. Agriculture has a considerably larger share of the economies of the present candidates compared to the current EU average and, in addition, their agricultural sectors need even more modernisation than those of the recently acceded Central and Eastern European members. Here again a phasing-in of the new members might help to lessen the effect of their accession on the EU budget.

With regard to both policies – the Cohesion Policy and the CAP – long-term solutions in the case of further enlargement (including Turkey) are only conceivable if substantial reforms take place. As far as further enlargement is concerned, Hungary's interests naturally stretch beyond EU budgetary aspects. However, it is clear that an enlargement of the "heavy players" – Turkey in the first place but in the long run potentially also the Ukraine – should change the way we think about the EU budget and related EU policy reforms in Hungary.

In such a case, the interests of Hungary consist of shaping the reforms in a way that best serves the fundamental objectives of the country: providing a positive environment – financial as well as regulatory – for Hungarian development policy, competitiveness, and the catching-up of the country with the more developed parts of Europe (Hungarian Ministry of Foreign Affairs 2007).

Decision-making and potential coalitions

Hungary, as a fully fledged member of the EU, is interested in participating actively in every phase of the discussions on the future of the EU budget. Hence, it is interested in avoiding a situation where some Member States agree on a solution behind closed doors and the remaining Member States can do little more than accept *factum brutum*.

As has already been mentioned, a balance between genuine Hungarian interests and long-term interests of the integration process should be found. Such an approach can make coalitions easier; coalitions are of vital importance for Hungary's priorities, Hungary being a medium-sized Member State. In all probability there will be a number of ad hoc coalitions around specific issues but we can also count on more long-term co-ordination with certain countries, first of all within the Visegrád group.