

The 2022 Conditionality Regulation as a Turning Point in EU's and Hungary's understanding of the Europeanisation

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Abstract: *The research conducted for this article has explored the controversy between the EU and Hungary surrounding the interpretations of the Europeanisation process: to what extent do they diverge, and to what degree do they converge? Both before and after its 2004 accession to the EU, Hungary has tried to follow the EU's approach towards liberal democracy. And yet, from 2010 onwards, the state has developed an illiberal political and legal system. This fact revealed a rift between Hungary and the EU. The research questions focused on the problem of the trajectory of the systemic deterioration of democracy in Hungary, the EU's reaction to this situation and its decision to apply a conditionality mechanism in 2022. The main hypothesis of this research is that the EU's reluctance to use more severe sanctioning tools after 2010 has helped Hungary utilise the EU funds to develop an illiberal democratic state which diverges from the EU's concept of Europeanisation. The research methods we have employed are: the quantitative and the qualitative methods, synthesis and analysis of facts, the comparative method, and the neo-institutional approach. The results and conclusions allow us to state that until 2022, the EU has been unable to force Hungary to obey the rule of law and other liberal democratic principles, though it has made some efforts in this direction. The worsening of the economic situation, after the COVID-19 pandemic and the onset of the war in Ukraine, determined the EU to create a conditionality mechanism that correlates the access to EU subsidies with the observance of the EU rules.*

Keywords: Hungary, European Union, conditionality mechanism, European funds.

Introduction

After the collapse of socialism, Hungary was among the first Eastern European countries that turned to Western Europe and embarked on the accession process to the European Economic Community (renamed as European Union, EU, in 1993) and NATO (the North Atlantic Treaty Organisation). It was believed that the Western European success would soon be reached in Hungary. The Europeanisation process initiated by the Hungarian elites in 1990 has spread across the political, economic, cultural, and social fields. In this article, we refer to Europeanisation in the political context, which - from the EU perspective - means institutional integration of political and legal systems based on liberal democracy.

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Following the EU accession, the Hungarians became quickly disappointed with their prospects. After 2004 the corruption scandals and the ensuing economic crisis made the people blame the political elites for undertaking Europeanisation. The widespread discontent led to the 2010 electoral success of the populist Fidesz party, success which was replicated in 2014, 2018, and 2022.

In order to retain the political power, Fidesz decided to question and deconstruct the liberal democratic constraints, fact which gave rise to EU concerns. And yet, the EU was unable to take drastic steps to defend democratic values: all it could do then was to impose small fines for noncompliance and to call upon Hungary to respect the EU's values. Not even the resort to Article 7 of TUE in 2018 could stop Hungary from its illiberal transition. However, two facts were going to change this drawn-out situation: the COVID-19 pandemic and the EU debates on the 2021-2027 budget. These two issues made the EU decide to correlate the disbursement of EU funds with the observance of the rule of law by its member states. Thus, the Union came up with a formal solution to limit Viktor Orbán's undemocratic decisions.

The purpose of this article is to examine the divergence between the EU and Hungary regarding the problem of Europeanisation in the political and institutional context at national level. The research will analyse the Hungarian path to illiberal democracy, which is subject to EU criticism. The article will try to explain the EU's decision to link financial aid to the respect for the rule of law in Hungary, as laid down in the Conditionality Regulation adopted in 2021. During our research, we have endeavoured to answer these three questions:

1. What kind of systemic deterioration of the democratic judiciary in Hungary has stepped up the decline of the Europeanisation process after 2010?
2. How did the main EU institutions react to the situation in Hungary after 2010?
3. Why did the EU suddenly decide to use the conditionality mechanism against Hungary after a seemingly protracted reluctance to take appropriate measures?

We shall showcase our main hypothesis regarding the EU's unwillingness to use more severe sanctioning tools. For over a decade (from 2010), this has allowed Hungary to use EU funds to develop an illiberal democratic state.

The research methods used in this article include the comparative method, the neo-institutional approach, legal analysis, data analysis, and synthesis. The comparative method helped us juxtapose the EU's perspective on Europeanisation and liberal democratic values with Hungary's understanding of these interrelated issues. The neo-institutional method involves an analysis of the gradual deterioration in the functioning of Hungarian public institutions and it highlights the institutional changes within the EU bodies that brought about the Conditionality Regulation. The legal analysis focuses on EU's and Hungary's legislative acts that establish their respective institutional frameworks. The analysis and synthesis of the materials and data we have consulted helped us reshape our previous assumptions and forge a holistic outlook on these topics.

The first part of the article focuses on the explanation of the concept of Europeanisation. It links this concept to the political field and to liberal democracy,

the political regime preferred by the EU. Thus, one can infer that Europeanisation is closely related to the democratisation process. The second part of the article analyses Hungary's development trajectory towards EU integration and it assesses the Hungarians' subsequent disillusionment with the political elites responsible for further Europeanisation. The third part of this article compares EU's and Hungary's perspectives on Europeanisation after 2010, in light of Takis Pappas' and Charles Tilly's theoretical concepts. Then, the focus shifts to the essential elements of the transition to illiberal democracy of the political and legal system in post-2010 Hungary, and the EU reaction, including the invocation of Article 7 of TUE in 2018. The fourth part of the article is centred on the implementation of the Conditionality Regulation by the EU in the case of Hungary. The above-mentioned analysis covers the events until mid-2023.

1. Which is the source of Hungary's divergence from the EU? Understanding Europeanisation

The divergence between the EU and Hungary lies in the understanding of the role of liberal democracy in the modern state. As a political regime, liberal democracy is based on constitutional provisions that outline the framework for the activities of the political powers and the rights and obligations of the people (Dahl, 2013; Fukuyama, 1992; Huntington, 1991; Sartori, 2022). The legal protection of liberal democracy was first introduced by the EU in the Maastricht Treaty in 1992 (De Búrca, 2022, pp. 13-34; Pech, Scheppele, 2017, pp. 3-47). And yet, it was the Amsterdam Treaty of 1997 that actually empowered the EU to monitor and sanction a member state if it breached democratic values (Consolidated Version of the Treaty of the European Union). In 2003, the Nice Treaty reiterated the procedure for dealing with the violation of democratic values by a member state (Consolidated Versions of the Treaty on European Union and the Treaty on the Functioning of the European Union). Today, the Lisbon Treaty of 2007 is the current legal basis that provides the EU with similar procedures for suspending the rights of a member state, if the latter turns against the core values of the European democracy (Consolidated Versions of the Treaty on European Union and the Treaty on the Functioning of the European Union, Council of the European Union).

In this paper, the term Europeanisation will refer to the political democratisation: a process aimed at introducing democratic rules, values, and institutions in a former authoritarian state, while making people and political elites support these democratic achievements (Pridham, 2000; Przeworski, 1991; Teorell, 2010; Whitehead, 2002). Nevertheless, one should be aware that Europeanisation is, generally, a wider concept which implies the integration of people, markets, and eventually leads to a flourishing liberal democracy (Fligstein, 2000, pp. 25-42). In the same vein, Susann Worschech defines Europeanisation as a multi-directional process for economic, political, social, and cultural transformation (2018, pp. 56-76). My assumption that Europeanisation should be narrowed down to democratisation is supported by Attila Ágh, who equates these two processes and states that they have become unequivocal in contemporary Europe (2016, pp. 7-36; 2022a, p. 86).

Europeanisation is a vertical political process that requires the institutional adjustment of the domestic political system to the EU's ideal model of a liberal democratic state. The EU legislators have enumerated in the Treaty of Lisbon the following rules and values that build up a liberal democratic regime: freedom, equality, the rule of

law, pluralism, non-discrimination, tolerance, justice, and solidarity (Consolidated Versions of the Treaty on European Union and the Treaty on the Functioning of the European Union. Council of the European Union).

The rule of law is an essential element of the institutionalised democratisation and the EU perceives it as its cornerstone. The Europeanisation uses it to indicate the strides made by the EU and its member states (Beichelt *et al.*, 2019). The obligation of the member states to obey the rule of law pertains to the core principles of the EU. In light of the above, the EU's institutional and organisational structures remain manageable (Palombelli, 2016, pp. 36-58).

2. Europeanisation in Hungary before 2010

Attila Ágh refers to the pre-2010 period as being a two-stage process that led to superficial Europeanisation in Hungary. According to him, an *Easy Dream period* started in 1990, and it was filled with euphoria over the integration with Western Europe. It was commonly believed that the return to the Old Europe would replace the long-loathed communism with democracy. After Hungary's EU accession in 2004, a period of *Chaotic Democracy* began, and it was characterised by dissonances between the reality of EU membership and the ideas related to it (2022a, pp. 72-86; 2022b, pp. 1-25).

During the time span 1990 - 2010, the Hungarian authorities understood the Europeanisation process in terms of quick integration and standard institutional adjustments. As a result, Hungarian citizens perceived it as a confrontation with Western Europe in a unidirectional and linear process that imposed convergence with the EU in order to reduce poverty, and ensure prosperity (Mos, 2020, pp. 267-287; Worschech, 2018, pp. 56-76). The Hungarians' efforts to achieve EU membership led to social fatigue, once they realised that the benefits of EU membership did not match their high expectations. Two crises were going to exacerbate this fatigue. The first one was internal and it lasted from 2006 to 2010. The second one was external and started in 2007. The first crisis was generated by a political miscalculation: during the electoral campaign that ensured the triumph of the Hungarian Socialist Party (Magyar Szocialista Párt, MSzP) in the 2006 elections, the Prime Minister, Ferenc Gyurcsány, had misled the citizens into believing that the Hungarian economy was thriving. After the elections, in the autumn of 2006, during a closed political meeting, he revealed information on the poor state of the national economy, and the information leaked to the society. In consequence, huge riots and manifestations were organised against the government. Fidesz and Viktor Orbán used this opportunity to oppose the government, and the public support they obtained led to their success in the 2010 elections. The second crisis was the 2007 international financial crisis that hit the world, in general, and the EU, in particular, and persisted throughout 2008. Hungary was among the countries the most affected by this crisis.

After the year 1990, Hungary's economic transformation brought about a high rate of unemployment, a rising percentage of youth with a low-level education, a growing number of people living in poor conditions on the outskirts of large cities, and the impoverishment of elderly people. They were the victims of the economic transition and they perceived Europeanisation as a gate to better living conditions. In order to obtain electoral support, the ruling political parties, mainly the MSzP in the

pre-2010 period, tried to alleviate the harsh impact of the transition on the Hungarian population by offering some social benefits. The government applied these social measures until the economy crashed in the 2007-2008 financial crisis.

Consequently, towards the end of the first decade of the twenty-first century, one could observe among the Hungarians a widespread dissatisfaction with the authorities. People whose living standards had deteriorated or were lower than expected started to question the project of modernisation and democratic consolidation, labelled "Europeanisation".

3. The clash between Hungarian populism and the EU's perspective on Europeanisation

Following the Fidesz's parliamentary success in 2010, Viktor Orbán decided to undermine the process of Europeanisation (that had some substantial achievements) by blaming it for the Hungarian economic and political downturn. From 2010 onwards, the refurbishing of the Hungarian political system included many of the populist features: the popular belief that people are discriminated and manipulated by the political elites, the lack of direct democratic institutions etc. (Mişcoiu, 2014, pp. 2-3). In his theoretical considerations, Takis Pappas argued that populism can be understood in terms of actors, actions, style, domain, axiological consequences, and normative implications (2023). The above-mentioned elements, used in the analysis of populism, overlap with those of Charles Tilly's conception regarding the trajectory of the Europeanisation process: procedures, values, and activities of the EU. Charles Tilly perceives Europeanisation as a standard concept consisting of three pillars: institutional, cognitive, and practice-oriented (2001, pp. 21-41). The two aforementioned approaches enable us to compare two divergent perspectives on Europeanisation (the Hungarian perspective and that of the EU) in the following areas: the first one is centred on political actors and their actions, whereas the second one focuses on the European values and procedures.

First, in Pappas' view, the political actors and their actions make people believe that populists, in sharp contrast to the old elite, are always right. Based on social dissatisfaction, populists can mobilise the society against the ruling elites by using moralistic and superficial propaganda. On the other hand, Tilly considers that, in the EU, the political actors and their actions are pragmatic, fact which represents a guarantee for achieving mutual understanding and cooperation, including the recognition of minority rights. Second, Pappas explains that populists are not inclined to respect democratic values, and therefore they relativise them, starting from the premise that the majority is always right. Tilly argues that the Europeanisation process respects the liberal democratic values. Third, Pappas states that the populists' actions are meant to establish a long-lasting system that would serve their interests, whereas Tilly's Europeanisation leads to a system that recognises the rule of law as the main principle for organising any political system and its procedures.

Papas' and Tilly's theoretical models can be empirically tested on the ground. Firstly, in Hungary, for instance, in order to retain social support and consolidate its power, Fidesz is always searching for scapegoats: that's why it blames the EU for all the internal problems (Saurugger, 2005, pp. 291-312). The Hungarian populist authorities do not act only at national level, but use populist propaganda at international level as well (Visnovitz and Jenne, 2021, pp. 683-702). In this spirit, they question the EU's

liberal democratic values, by presenting them as a threat to the Hungarian traditional values. Meanwhile, the EU authorities are guiding and assessing the democratisation and integration processes in terms of Europeanisation. Secondly, the new Hungarian system is in full contrast with the values of liberal democracy, and hence can be labelled “illiberal democracy”. There is no room for the rule of law, constitutionalism, civil society, the division of powers, and the system of checks and balances (Zakaria, 1997, pp. 22-3). Fidesz considers it can do everything, so as to obtain legitimisation through elections. Viktor Orbán has the firm conviction that he represents the whole nation, and that the minority should follow the majority’s will (Glied, 2020, pp. 23-45). In his speeches, he called the Hungarian regime “an illiberal democracy”. On the other hand, in Article 2 of the Lisbon Treaty, the EU legislators have listed the most important liberal democratic values: human dignity, freedom, democracy, equality, the rule of law, and the respect for human rights, including the minority rights. These values are common to the EU’s member states in a society in which pluralism, non-discrimination, tolerance, justice, solidarity, and equality between women and men prevail (Treaty of Lisbon). Thirdly, Viktor Orbán’s position towards the EU implies pragmatic approaches to the procedural sphere: in a nutshell, he chooses the procedures that best suit him. Such an attitude stems from the Europopulist approach (fuelled by anti-EU sentiments), which alleges that the corrupt European elites take advantage of the poor people and act against their will, and therefore not all European procedures are worth following (Csehi and Zgut, 2020, pp. 53-68). The Hungarian ruling elite publicly states that, in the highly bureaucratic EU institutions, the dehumanised procedures subvert the sense and the rationale behind the European community. Viktor Orbán presents himself as a defender of Europe, since during the 2015 migration crisis and subsequently, he refused to give shelter to migrants flowing to the EU (Mişcoiu, 2023, pp. 295-312). The activities of the EU are based on institutional procedures deriving from the rule of law. The EU respects the legal frameworks that limit and guide the actions of public authorities and institutions. The EU supports the unbiased and non-ideological procedural methods, and underlines that the decision-making process must be clear, transparent, and legal.

4. The roots of the present divergence between Hungary and the EU

After 2010, Viktor Orbán opposed liberal democracy and, in so doing, he undermined the Europeanisation process. Along with the liberal democracy, the neoliberal economic approach came under the fire of his criticism. Fidesz exploited the social fatigue and the disappointment generated by two decades of radical changes and, thus, managed to reshape the public sphere. During the 2010 electoral campaign, Fidesz put forward many populist solutions to fix the broken economy and revive politics (Debreczeni, 2015). The World Values Survey from 2009 revealed that the Hungarians believed liberal democracy to be intrinsically connected with a prosperous economy, and when the latter declined, it was natural for them to turn away from liberalism and democracy. Moreover, they considered that it was the duty of the state to improve the living standards of its citizens. 87.3% of the respondents said that liberal democracy can function well, if the economy is thriving, 70.5% of the Hungarians answered that people should receive state benefits and support in the case of unemployment, 51.9% of Hungarians said the state should tax the rich and provide subsidies to the poor (World Values Survey).

Starting from 2010, Fidesz reshaped the liberal democratic political system by minimising the rule of law. It succeeded in adopting a new constitution (called “The Fundamental Law” in Hungary) without any support from the opposition because it had two thirds of the mandates in Parliament. Among the many amendments to the constitution, the most essential were the following: the introduction of the idea that the sovereign power lies with the nation instead of the citizens; and the country's name was changed from the “Republic of Hungary” to “Hungary”. The Preamble of the Fundamental Law invokes many conservative, Christian, and traditional values, and states, *inter alia*, that only the relationship between a man and a woman constitutes a family. Such an attitude is common among other Central and Eastern European nationalist parties as well (Gherghina *et al.*, 2021, pp. 239-256). Moreover, the Fundamental Law relates the state's subsidiary politics to individual contributions to the Hungarian community, limiting thus the individuals' autonomy. The general structure and functioning of the state organs were not significantly changed in the beginning, but later on cardinal and ordinary laws introduced a total reform that subordinated them to the executive power. It is worth mentioning that, from 2011 to 2022, the Fundamental Law has been amended twelve times, as a result of its hasty and inadequate preparation in 2011 (Chronowski, 2019, pp. 1439-43).

Introducing a new constitution was not enough for Fidesz to rule freely, without being blocked by the mechanism of checks and balances. It was necessary to embed the new supreme law in a secure environment. Therefore, in 2011, the Act on the Constitutional Court passed through Parliament. The aforementioned Act subordinated this body [the Constitutional Court] to Fidesz, because it enabled the ruling party to nominate judges loyal to the regime. Then, Fidesz took control of the mass media by completely supervising the public media, and almost completely the private media. More precisely, Fidesz directly monitors the public media and holds approximately an 80% share of the media market, since oligarchs loyal to the regime have purchased most of the private media (*Reporters without Borders*). The new electoral law, based on two Acts of 2011 and 2013, is meant to facilitate further Fidesz electoral successes, and to reduce the chances of the fragmented opposition. The reform of the judiciary system is another illustrative example of Fidesz's disregard for the rule of law. The creation of a new body, the National Judicial Office, was supposed to ensure the autonomy of judges. The self-governing National Judicial Council was established only in 2012, and this delay showed Fidesz's reluctance to recognise the authority of such an important body. In addition, Fidesz decided to replace the four independent ombudsmen with only one parliamentary commissioner for human rights.

All of the above changes and many others clash with the idea of Europeanisation and with the EU's views regarding the proper conduct of internal politics in its member states. The European Union noticed the illiberal turn in Hungary from the beginning. When Hungary took over the presidency of the Council of the EU in January 2011, the President of the European Commission, José Manuel Barroso, expressed his concerns about Hungary's disregard for the rule of law and other European democratic values, as demonstrated by the legislation it had passed in 2010 (Pech and Scheppele, 2017, pp. 3-47). Initially, the changes in Hungary were compared to the previous ones in Austria, where Jörg Haider had prompted the deterioration of democracy in 2000. Yet, soon it became evident that the Hungarian problems had a much wider scope, fact

which determined the European Parliament to pass a first report in 2013 stating that the Hungarian transformation detached itself from the EU's democratic rules (The European Parliament, *Report on the Situation of Fundamental Rights*, 2013).

In the years that followed, the EU has often notified Hungary, directly or indirectly, of these breaches of EU rules, but amiable methods proved fruitless. Hence, between 2010 and 2022, the EU brought fifty-two cases against Hungary before the Court of Justice of the European Union (CJEU). The cases were connected with Hungary's disrespect for the rule of law in the following areas: freedom of providing services (in 2012), transport (2012-2013), principles, objectives and obligations under the Treaties (2012-2014), approximation of laws (2012-2014), taxation (2013-2014), usufruct rights over agricultural land (2018-2019), freedom of establishment (2014-2020), transparency of association, and free movement of transportation (2020), state aid (2021-2022), agriculture and fisheries (2020-2021), area of freedom, security and justice, asylum seeking (2019-2021) (The Court of Justice of the European Union).

Apart from the legal path, the European Commission resorted to informal negotiations and consultations with Viktor Orbán and his ministers, so as to dissuade them from undermining the rule of law. Hungary managed to persuade the Commission that the national authorities would change the unjust laws and introduce the right provisions. Consequently, the Commission decided to suspend its infringement procedures. Some cases from the early stages of the crisis between the EU and Hungary prefigured the scenario used by the latter to deceive the EU subsequently. One such case dates from 2011. After passing a law that violated the provisions on the independence of the Hungarian Central Bank, Viktor Orbán promised the EU to amend the legislation. The Commission withdrew the suit from the Court of Justice, but Hungary achieved its ultimate goal by introducing further supervision over the Central Bank by executive authorities.

The aforementioned examples suggest that we can explain the roots of the divergence between Viktor Orbán and the EU on axiological grounds. For the Hungarian populists, Europeanisation means being in a loose group of states, which are attached to their Christian tradition, and focusing on the understanding of the state's sovereignty as an iron weapon used by the national authorities against others. In order to maintain its power, Fidesz relativises the rule of law. For the EU, Europeanisation means further economic, social, and political integration, which should lead to better living standards and guarantees for the respect of human rights resulting from economic development. The rule of law is a guide on the path to liberal democracy.

5. Steps to the Conditionality Regulation

If we look into the past, we can easily notice that the EU institutions have employed different strategies to tackle the Hungarian problem. The European Commission and the Council have hesitated and have postponed concrete sanctions against Hungary for its disobedience of EU's binding rules, whereas the European Parliament has been more active and has voiced its concerns in this regard. The activity of the European Parliament finally led to the adoption of a report on the necessity of applying Article 7 against Hungary. The report was prepared by the Committee on Civil Liberties, Justice and Home Affairs in 2018 (Report on a proposal calling on the Council to determine, pursuant to Article 7(1) of the Treaty on European Union, the

existence of a clear risk of a serious breach by Hungary of the values on which the Union is founded, 2018). It enabled the European Commission to launch the procedure under the Article 7 of TUE.

However, two years later, the EU realised it was impossible to sanction Hungary under the provisions of Article 7. The suspension clause failed due to two difficult formal obstacles. First, a majority of four fifths of the members in the Council must ascertain the breaching of EU values by a member state. Second, even if this qualified majority is achieved, there is still a requirement of unanimity: all EU member states must agree to suspend the EU membership rights of a member state. These procedures failed because Hungary and Poland had the possibility to vote against each other's suspension. Although the European Parliament had requested the application of the procedures described in Article 7, these have been blocked and prolonged due to political circumstances. Article 7 allows for the suspension of certain voting rights of a member state that breaches one of the EU's values. However, it cannot deprive a country of its EU membership, it cannot exclude it from the Union. Therefore, Hungary has continued to enjoy the benefits of its membership status and has been able to mismanage the EU funds for many years. OLAF claims that corruption had an impact on almost 4% of the Hungarian receipts from the EU budget, and that 42 Hungarian companies, owned by people loyal to Fidesz, are among the most important beneficiaries of the EU subsidies. These 42 companies obtained 21% of the net value of the EU funds from 2011 to 2021 (Sadecki, 2022).

Table 1. National contribution of Hungary to the EU budget and EU allocations for Hungary between 2010 and 2022, along with GNI data throughout the period of Viktor Orbán's governance

	National Contribution	Allocations from the EU budget	Net money received by Hungary from the EU	Gross National Income (GNI)
2010	862,5	3 650,0	2 787,5	93 249,2
2011	836,4	5 330,9	4 494,5	95 535,7
2012	928,4	4 177,1	3 248,7	94 491,4
2013	920,2	5 909,8	4 989,6	97 619,6
2014	995,8	6 620,2	5 624,4	100 695,3
2015	945,8	5 629,1	4 683,3	105 740,9
2016	969,4	4 546,1	3 576,7	108 611,7
2017	820,8	4 049,1	3 228,3	118 166,9
2018	1 268,9	6 298,1	5 020,2	126 623,4
2019	1 289,7	6 202,5	4 912,8	138 297,8
2020	1 475,6	6 143,7	4 668,1	133 754,1
2021	1 668,1	5 873,7	4 205,6	149 280,9
2022	1 476,1	6 062,1	4 586,0	170 232,5
TOTAL: 2010-2022	14 457,7	70 492,4	56 034,7	-

Source: European Commission, EU spending and revenue, https://commission.europa.eu/strategy-and-policy/eu-budget/long-term-eu-budget/2014-2020/spending-and-revenue_en.

Between 2010 and 2022, the annual funds received by Hungary from the EU budget amounted to nearly 3% of its annual GNI, on average (see *Table 1*). This money was supposed to be allocated for development expenditures, but Viktor Orbán with his team understood that the building of a new system can be reinforced through a skilful handling of the money. Because the spending of the funds obtained from the EU budget was not strictly controlled, they were sometimes used to fuel a form of corruption (*Table 2*). Since 2014, the operative control over the EU finances has been under the supervision of the government, because the National Development Agency was dissolved. This enabled Hungary to de-Europeanise its internal political system without even trying to conceal its actions for the sake of appearances.

Table 2. The fraudulent use of EU funds allocated to Hungary between 2013 and 2021: number of detected irregularities, cases closed with recommendation, and the % of money from the EU budget that was used by the Hungarian authorities for corruption purposes

	Detected fraudulent and non-fraudulent irregularities		Investigations closed with recommendations		Financial recommendations as % of payments	
	Hungary	Average in the EU	Hungary	Average in the EU	Hungary	Average in the EU
2013-2017	2808 (7 th place in the EU)	1871	49 (2 nd place in the EU)	11,6	3,92% (1 st place in the EU)	0,43%
2017-2021	1993 (6 th place in the EU)	1094	26 (1 st place in the EU)	7,51	0,69% (1 st place in the EU)	0,25%

Source: *The OLAF Report 2017*, OLAF (European Anti-Fraud Office) https://www.minedu.sk/data/files/8025_olaf_report_2017_en.pdf; *The OLAF Report 2021*, OLAF, https://anti-fraud.ec.europa.eu/system/files/2022-09/olaf-report-2021_en.pdf.

Although, for some time in the past, the European Parliament has appeared to be the most active EU body in tackling the Hungarian problem seriously, the political constellations in the Parliament prevented it from making braver decisions. To put it briefly, Fidesz belonged to the European People's Party (EPP), and Viktor Orbán was one of the EPP's vice-presidents between 2002 and 2012. This enabled him to protect Hungary. The situation changed during the 2018 campaign for the elections to the National Assembly in Hungary, because Fidesz offended the then President of the Commission, Jean-Claude Juncker (an EPP member), and once again accused the EU of being a totalitarian organisation. In 2018, the European Parliament worked on its second report on the deterioration of the EU rules in Hungary. On September 21, 2018, when that report was subjected to vote, many MEPs from the EPP supported it. This led to the invocation of Article 7 of TUE. The 2018 report was prepared by Judith Sargentini from the Committee on Civil Liberties, Justice and Home Affairs and was passed with 448 votes in favour, 197 against, and 48 abstentions. In March 2019, EPP voted to suspend the Hungarian party, and in March 2021 Fidesz announced its

departure from EPP (Fella, 2022).

The European Parliament passed three reports on the situation in Hungary: in 2013, 2018, and 2022 (The European Parliament, *Interim Report*, 2022). The analysis of the three reports reveals a growing concern over the degeneration of the situation in Hungary. According to a statement included in the 2022 report, Hungary is no longer a democracy, but “an electoral autocracy”. Each of the reports contained two parts referring to different concerns: the first part dwelt on the recurrent problems, noticed throughout the years, while the second part reflected the increasing disregard for the rule of law and the deterioration of the situation. Each of these three reports focused on new problematic issues generated by the Hungarian authorities, and thus updated the information presented in the previous reports.

It is noteworthy that the 2018 report benefited from the expertise summed up in the 2013 report. Similarly, the 2022 report benefited from the insights of the 2013 and 2018 reports. All the documents underlined that Hungary had not done much to restore the rule of law and other mechanisms of liberal democracy. The identified issues related to the constitutional and electoral system, the judiciary, corruption, privacy protection, citizens' freedoms, economic and social rights, the rights of the minorities, including of the migrants. However, the 2018 report extended the scope of the new issues with the post-2013 developments: the growing subordination of the state bodies to the executive power, the limitation of the freedom of the NGOs, the verbal attacks on the EU, the discriminating law on migrants, refugee and asylum seekers adopted in 2015. That law allowed for the separation of children from their families, if the latter lacked good social and economic conditions, and forbade homeless people to reside in a public space.

As the Hungarian situation was still causing grave concerns in 2022, the European Parliament passed a third report prepared by Gwendoline Delbos-Corfield from the Committee on Civil Liberties, Justice and Home Affairs. It was adopted on September 15, 2022 with 433 votes in favour, 123 against, and 28 abstentions. This so-called interim report addressed new Hungarian issues in the following fields: the blocking of the restrictive measures against Russia; the use of the crisis provoked by the COVID-19 pandemic to extend the executive power and limit the power of other institutions; the lack of transparency in Parliament; controversial actions of other state institutions; the introduction of a new body that limited the freedom of the media (the Central European Press and Media Foundation); the exclusion of gender studies from university programmes; greater dependence of churches on state funds, which implies their subordination to the ruling power; the surveillance of the Hungarian citizens with the Pegasus spyware; new amendments to the Fundamental Law; and a growing dependence of the judiciary on the executive power.

The European Council's inter-governmental perspective on the Hungarian problem is conditioned by the fact that it is a transnational executive body of the EU. It is composed of state representatives, that change according to the outcomes of national elections. For a long time, the European Council has avoided confrontational strategies, due to political reasons: it did not want to aggravate the relations with Hungary, and its stance finally worked to the advantage of Hungary. The political unwillingness to take more severe steps stemmed from the fear of imposing heavy costs on Hungary that

could have led to retaliatory actions. Yet, there were additional reasons which explain the EU's position towards Hungary: for instance, a confrontation with Hungary might have increased the population's support for nationalist and populist parties in other member states, too. The European Council also took into consideration the possibility of a member state's exit from the EU, as the example of Brexit showed this could happen.

The third institution that intervened was the European Commission. This body had generally supported structural negotiations, debates, and discussions with Hungary, but it did not prevent Hungary from further deteriorating the rule of law after 2010. The turning point was when Hungary challenged the passing of the 2021-2027 budget, and the COVID-19 pandemic has been a catalyst for change. The pandemic crisis made the European Commission more active in the supervision of national recovery plans and of disbursements from the EU's budget.

6. Conditionality Regulation as a juncture in increasing the EU's awareness of the Hungarian problem

Although actions against Hungary gained momentum in 2020, when the European Council decided to correlate disbursements from the Union's budget with the respect for the rule of law, the preparations for this decision started in 2018. At that time, the European Commission proposed to tally the transfers of EU funds to Hungary with the degree of harmonisation of the Hungarian legislation with the rule of law. The European Parliament adopted this solution in April 2019. After the crisis situation caused by the COVID-19 pandemic, the European Council held a summit in July 2020, and agreed to make the payments dependent on the respect for the rule of law. But still the Council had to adopt the regulation unanimously, and it was well known that Poland and Hungary would veto the resolution. Therefore, the EU adopted a series of declarations to help pass the Rule of Law Conditionality Regulation by the Council. This was achieved on December 14, 2020. The European Parliament passed the Regulation on January 16, 2021. This represented the final step in the initial procedure of adopting the Regulation, that set conditions for the allocation of funds from the 2021-2027 budget and the NextGenerationEU programme (EUR-Lex. Access to European Union Law, Regulation (EU, Euratom) 2020/2092).

Under the provisions of the Conditionality Regulation, the European Commission can propose to the Council measures against a given member state that breaches the rule of law, as it is considered that the breaches affect the financial management of the EU budget. The understanding of the rule of law is related to the values enshrined in Article 2 of TUE. If the financial means are not effectively used by a country, the Commission proposes to the EU Council a suspension of the EU's budget disbursements. The Council makes the final decision.

The launching of the tools specified in the Conditionality Regulation is possible if there is no other way of protecting the EU budget, due to a given country's violation of the rule of law. On November 17, 2021, the Commission, following the Council's declarations, sent a letter to Hungary requesting information about the state of the rule of law. The letter asked sixteen questions concerning the following issues: the independence of the judiciary; the ineffective prosecution in the cases of corruption; the deficiencies in public procurement; and the conflict of interests. However, the letter did

not trigger the conditionality mechanism (Fella, 2022). On March 11, 2021, Hungary brought an action for annulment at the CJEU against the decisions of the European Parliament and the Council, requesting them to annul the Conditionality Regulation, and stating there was no legal basis in the EU Treaties to apply such a regulation. On February 16, 2022, the CJEU dismissed the legal actions brought by Hungary against the conditionality mechanism.

How does the Conditionality Regulation threaten a member state, if it violates the rule of law? It suspends and even withholds the funding from the EU's budget. There are four methods of sanctioning financially a member state that violates the rule of law: 1) fundamental deficiency results in 100% suspension of the funds' payment; 2) frequent deficiency results in a 25% suspension of the funds' payment; 3) poor functioning of the system implies a 10% suspension of the funds' payment; 4) a system that operates inconsistently implies a 5% suspension of the funds' payment (Access to European Union Law).

On March 2, 2022, the European Commission presented the Guidelines for the procedure of suspending EU funds. The Guidelines explain how to use the mechanism for suspending disbursements from the EU budget and from additional programmes, upon determining the proportions, scope, severity, and duration of a breach of the rule of law. They prohibit the transfer of EU money from additional programmes and funds.

On April 27, 2022, the Commission sent a written notification to Hungary under Art. 6 of the Conditionality Regulation, declaring that Hungary breached the rule of law, fact which affected the EU finances. Viktor Orbán decided to follow the Conditionality Regulation because the economic situation in Hungary was deteriorating: high inflation, fall in the forint exchange rate, and growing debt. In mid-2022, the Fidesz government cut some of the social benefits, but provided energy subsidies and it increased the taxes for the self-employed (Sadecki, 2022).

As a result of the cooperation between Hungary and the EU, a list of seventeen remedies was prepared and presented on September 18, 2022, to restore the rule of law, in order to allow for the subsequent disbursement of EU funds. The remedies included, among others, the establishment of an independent integrity authority, and an anti-corruption task force, the revision of the asset declaration system, the revision of the Code of Criminal Procedure, judicial revision of the prosecutors' decisions, the strengthening of audit and control mechanisms for the implementation of EU funds, or the enhancement of the transparency of public spending. The plan included a deadline for applying each of these seventeen remedies, and the deadline for the last item on the list was November 19, 2022.

On September 18, 2022, the European Commission recommended the suspension of 65% of the funds committed to Hungary from the EU budget, so as to protect the financial interests of the EU against breaches of the rule of law in Hungary (€7.5 billion in total). However, on November 23, 2022, the European Commission decided to deprive Hungary not only of the 7.5 billion euros from the budget, but also of 5.8 billion euros from the pandemic recovery grants. On November 24, the European Parliament voted in favour of the Commission's decision to freeze funds for Hungary. This step was a development in the process triggering the Conditionality Regulation. The reasons for such a measure were provided by the critical perspective on Hungary's

modest achievements in implementing the seventeen remedies and by the mistrust of the far-reaching Hungarian promises. The Commission declared that thirteen of the remedial measures had been fulfilled by the 19th of November 2022, while four of them had not been applied. Among the latter were the reduction of the share of single bid (financed from the national budget) in tender procedures, or the adoption of an action plan for increasing the level of competition in public procurement. Then, the European Commission added ten new remedies to the previous seventeen. These included among others, further anti-corruption steps, the strengthening of judicial autonomy, and audit control (European Commission).

On December 12, 2022, the Council accepted Hungary's National Recovery Plan (NRP) worth 5.8 billion euros, but at the same time it froze 6.3 billion euros of cohesion funds under the Conditionality Regulation, which meant that the initial 65% cuts from the Commission's November proposal were reduced by the Council to 55%. The amount of the EU funds that Hungary lost equals 2% of its annual GDP (Nguyen, 2023).

Just before the December 2022 decision of the Council to freeze funds for Hungary, the Hungarian media and cabinet politicians said that the receipt of the funds would not be difficult. Moreover, Tibor Navracsics (Minister without portfolio for Land Development, responsible for contacts with the EU) emphasised that the EU-Hungary dialogue was proceeding smoothly and that the EU funds would be accessible by May 2023 (*About Hungary*).

One should bear in mind that the process of suspending the EU funds was embedded in the recent political context, and Hungary used it as blackmail. The EU was hoping to remove Hungary's veto on the financial support to Ukraine (worth 18 billion euros) in 2023 and, beyond the EU context, to obtain Hungary's consent regarding the enlargement of NATO, by the admission of Sweden and Finland. On December 6, 2022, in the EU only Hungary voted against the support package for Ukraine. Viktor Orbán is still vetoing the disbursement from the European Peace Facility (EPF) of about 500 million euros of aid for Ukraine.

And in 2022 in NATO, only Turkey and Hungary decided to delay the ratification process of the Swedish and Finnish applications to NATO. Finally, Hungary ratified the Finnish accession to NATO at the end of March 2023, but did not do the same with Sweden. Sweden held the presidency of the Council of the European Union in the first half of 2023, and criticised the lack of democratic standards in Hungary. That is why Viktor Orbán wanted to ratify the Swedish application after the end of the Swedish Presidency, as a form of punishment.

In 2023, Hungary accomplished 27 milestones established by the EU in 2022, so as to improve the legal areas, and obtain access to the EU funds under the Conditionality Regulation. At the end of April, the fulfilment of its obligations was evaluated by the European Commission, which made a technical agreement with the Hungarian government concerning the judicial reform package. The EU urges Hungary to make further strides in "removing the obstacles for Hungarian judges to refer to the EU tribunal if they view Hungarian and EU law as not being in harmony". In addition, it is required to give more autonomy to the National Judicial Council and to the judges of the Hungarian Curia, abolishing the possibility for the state bodies to challenge the

final judgments of the Constitutional Court. The EU Justice Commissioner, Didier Reynders, said that “the outstanding issues could be settled by the end of June or in early July”, 2023 (Euractiv. Szumski, 2023). Apart from the European Commission’s assessment, a delegation of the European Parliament, from the Committee on Budgetary Control, visited Hungary at the end of May 2023, in order to evaluate the achievement of the 27 milestones. The conclusions of the evaluation reveal that there are still huge concerns regarding the inappropriate functioning of the State Audit Office, and the manipulation of tenders, the reliability of budget accounts, and the reporting of fraud cases to the prosecution (Euractiv. Szumski, 2023). It seems that, although Hungary has introduced some of the 27 milestones, they are still insufficient to unblock the accession to EU funds.

Conclusions

The fundamental divergence between the EU and Hungary is that the EU provides guidance on the rules of a democratic state, and the rule of law, while Viktor Orbán and Fidesz downplay and undermine these concepts. Yet, Hungary is an EU member state, and if it chooses to violate the EU principles, it must be aware of the negative consequences. For many years, the EU’s voice against the deterioration of the Hungarian democracy has been relatively weak, and this allowed V. Orbán to build a real mafia state where his will prevailed over all the liberal democratic mechanisms, which are supposed to limit the power of those who govern. It must be clearly and frankly stated that, without the EU funds, the creation and persistence of such a defective system would not have been possible.

This system is called “illiberal democracy” as it includes all the essential features of such a regime: the deterioration of human rights guarantees, the primacy of the will of the ruling party over the minority and the opposition, breaches of the rule of law, disrespect for constitutionalism, disregard for the limitation of the omnipotence of the authorities, violation of the checks and balances system. All the above go hand in hand with the undermining of the achievements of the Europeanisation process. Thus, Hungary is neglectful of the EU’s perspective on Europeanisation as being an institutional limitation of the political actions, which should be subordinated to the rules, principles, and procedures characteristic of liberal democracy.

The fact that the Treaty of the European Union does not provide a strictly legal definition of democracy has enabled the Hungarian politicians to manoeuvre and act beyond the boundaries of liberal democracy. For a long time after 2010, the EU institutions (mostly, the Commission and the Council) have considered appropriate the use of inclusive dialogue with Hungary, so as to assist it in fixing the broken democracy. However, this country has repeatedly violated core liberal democratic rules, in spite of being an EU member state. The European Parliament seemed to be the most vocal in demanding sanctions against Hungary for the latter’s disregard for the liberal democratic values. Admittedly, for many years, inside the European Parliament, the European People’s Party (EPP) has tried to mitigate the accusations of the MEPs against Hungary. Until 2022, the EU’s efforts to remedy the situation have been fruitless, and Hungary benefited from this stalemate, as it did not have to suffer any serious consequences. The slow and inefficient steps, taken by the EU institutions, allowed Hungary to continue to

benefit from all its rights and the EU funds.

2020 was the year when the COVID-19 pandemic started, and the EU prepared its multiannual budget for 2021-2027. It was also an important phase in the development of the EU. The necessity to provide a recovery plan for the weak economies of its member states enforced a more precise management of the EU funds. This accelerated the monitoring and assessment procedures that determine whether a member state follows the EU rules or not. The Conditionality Regulation represents just an element of that reform, and is expected to help improve the decision-making processes and the efficiency of the EU institutions. Since Hungary has benefited from EU funds for many years, though it did not follow fundamental EU rules, Brussels decided to take more severe measures. The weak economic performance of Hungary has determined Viktor Orbán to follow the EU decision on the implementation of the Conditionality Regulation, and to reform some of the most broken mechanisms of liberal democracy in his country.

The reluctance of the EU to take more serious steps has helped the development of a mafia system, not controlled by autonomous bodies, in Hungary. The EU's view, according to which Europeanisation is an institutional framework for legal activities of the authorities and of the citizens, was presented as a threat in the Hungarian public domain, in order to demonstrate to the Hungarian people that the EU had a negative impact on the society, whereas the Hungarian authorities had a positive one. Viktor Orbán revealed his outlook on the concept of Europeanisation by using the EU funds, while displaying a blatant disrespect for the EU rules.

Only the introduction of the Conditionality Regulation created the conditions for the recognition of the EU rules in Hungary. From the EU's perspective, this regulation seems to be an essential element for supporting Europeanisation because it means that the EU is open only for liberal democratic states respecting the rule of law, among other principles, values, and rules, and, after joining the EU, these states have to safeguard democracy and the rule of law.

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