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Assessment of the Implementation of the 2023 Country-Specific Recommendations in Hungary

Every year by the end of Spring, the European Commission proposes country-specific recommendations (CSRs) to the Member States as part of the European Semester[1]. These recommendations are subsequently discussed and approved by the European Council. Member States are urged to implement the CSRs. Moreover, their implementation is legally binding in relation to the excessive deficit procedure[2] as well as for receiving EU funding. The related rules for the latter are established by the Common Provisions Regulation (CPR)[3] and the Regulation on the Recovery and Resiliency Facility RRF)[4].

The CPR states the following:

- Article 5(3): *"…Member States and the Commission shall also take into account the relevant country-specific recommendations in the programming and implementation of the Funds."*
- Article 11(1): *"1. The Partnership Agreement shall contain the following elements: (a) the selected policy objectives and the specific objective of the JTF, indicating by which of the funds covered by the Partnership Agreement and programmes these objectives will be pursued and a justification thereto, taking into account relevant country-specific recommendations…"*

The RRF Regulation states the following:

- Article 7(3): *"The recovery and resilience plans shall be consistent with the relevant country-specific challenges and*

[1] https://commission.europa.eu/business-economy-euro/economic-and-fiscal-policy-coordination/european-semester_en

[2] https://eur-lex.europa.eu/EN/legal-content/glossary/excessive-deficit-procedure-edp.html

[3] Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R1060

[4] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R0241

priorities identified in the context of the European Semester…"

- Article 19(3): *"The Commission shall assess the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan and, for that purpose, shall take into account the following criteria which it shall apply in accordance with Annex V: … (b) whether the recovery and resilience plan is expected to contribute to effectively addressing all or a significant subset of challenges identified in the relevant country-specific recommendations…"*
- Article 11(1): *"…In its assessment [of the Partnership Agreement], the Commission shall, in particular, take into account how the Member State intends to address relevant country-specific recommendations…"*

Due to serious violations of the common values of the EU and the deterioration of the rule of law, in order to protect the EU budget, the Council of the European Union and the European Commission **suspended and conditioned Hungary's access to the RRF funds[5] and part of the funding defined in the CPR[6].** These measures were taken partly on the basis of the Rule of Law Conditionality Regulation[7] which envisages the possibility to suspend or withhold EU payments to the national government concerned in order to safeguard the EU's financial interests and establishments.

The Conditionality Regulation also requires Member States to effectively address all, or a significant subset of challenges identified in the relevant **country-specific recommendations (**CRS). In order to improve the low implementation rate of these CSRs in some Member States, it is stipulated to address the outstanding CSRs.[8] Thus, when Hungary's Recovery and Resilience Plan was approved at the end of 2022, the Council defined a number of milestones, including 27 'super-milestones' that Hungary must fully and correctly meet before it can receive any payments under the RRF (totalling €5.8 billion).[9] The enabling conditions defined in the CPR (in particular, the effective monitoring mechanisms of the public procurement market, the tools and capacity for effective application of State aid rules, and especially the effective application and implementation of the Charter of Fundamental Rights) must be also be fulfilled.

In the following Clean Air Action Group (CAAG) presents the CSRs for Hungary, and provides a short assessment of the state of their implementation.

[5] Rule of law-related 'super milestones' in the recovery and resilience plans of Hungary and Poland, https://www.europarl.europa.eu/RegData/etudes/BRIE/2023/741581/IPOL_BRI(2023)741581_EN.pdf

[6] EU Cohesion Policy 2021-2027: Investing in a fair climate and digital transition while strengthening Hungary's administrative capacity, transparency and prevention of corruption. European Commission, https://ec.europa.eu/commission/presscorner/detail/en/ip_22_7801

[7] https://commission.europa.eu/strategy-and-policy/eu-budget/protection-eu-budget/rule-law-conditionality-regulation_en

[8] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32021R0241 Article 17.3

[9] A significant part of the milestones coincide with the measures required under the conditionality mechanism, while four super milestones are aimed at restoring the independence of the judiciary. https://transparency.hu/en/news/the-hungarian-government-is-yet-to-comply-with-conditions-to-access-eu-funds/

RECOMMENDATION	REASONING	REALITY	IMPLEMENTATION
1.1. **Wind down the emergency energy support measures** in force, using the related savings to reduce the government deficit, as soon as possible. Should renewed energy price increases necessitate new or continued support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable and preserve incentives for energy savings.	Hungary has adopted several support measures to cushion the impact of energy price inflation on households and businesses (predicted cost could reach 1.2% of GDP in 2023.) Most measures do not preserve the price signal and are untargeted.	This measure, which is rightly controversial from the point of view of fiscal balance and unjustifiable from social and environmental aspects, is purely political, and, above all, it mainly serves to boost the government's short-term popularity and indirectly subsidise fossil fuel consumption. The environmental impact of the measure is **extremely damaging** because it encourages people to waste energy, and too often makes energy efficiency and renewable energy investments unprofitable. The measure is also socially unjustifiable as it does not differentiate according to household income, and benefits first of all the rich people. Moreover, it does not provide help to the most disadvantaged households with low energy efficiency, most of which heat with solid fuel.	NO PROGRESS According to a recent government announcement (01/08/2023), Hungarian households (without any differentiation) will continue to receive preferential electricity and gas prices up to average consumption, as the 2024 national budget will continue to finance the reduced energy tariff.

RECOMMENDATION	REASONING	REALITY	IMPLEMENTATION
1.2. Ensure **prudent fiscal policy**, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 4.4%. Preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular, to foster the green and digital transitions. Pursue a fiscal strategy to achieve a prudent medium-term fiscal position. Pursue effective coordination and clear demarcation of macroeconomic policies to ensure fiscal and external sustainability. Phase out price and interest rate caps to reduce distortive effects and facilitate the smooth transmission of monetary policy. **Target support measures in the housing sector to low-income households.** Strengthen the medium-term budgetary framework, align the preparation of annual budgets with the budgetary year, and limit discretion in the implementation of annual budgets.	Consolidation of public finances remains a challenge in Hungary, Russia's war of aggression against Ukraine magnified the macroeconomic challenges. **Fiscal policy has been expansionary for many years and has limited the room for manoeuvre during the current crisis.** Budget deficits have remained higher than the EU average since 2017 despite relatively higher GDP growth. The debt burden is high compared to most other countries in the region and remains 8 percentage points above the 2019 level. The expansionary policy has fuelled macroeconomic vulnerabilities, contributing to accelerating inflation, widening current account deficits and soaring housing prices. The economic outlook points to a narrowing external deficit and lower inflation, but the worsening economic outlook and the tightening of financial conditions remain concerns.	A **severe fiscal imbalance crisis** has emerged in Hungary, reflected in soaring inflation and interest rates, a disturbed external and internal balance, and the weakness of the forint.[10] According to the government's popular rhetoric, the current situation is entirely due to external causes (Russian aggression against Ukraine and rising international energy prices, and Brussels' "campaign" against Hungary). In reality, publicly accessible, transparent and sustainable budget planning does not exist in Hungary.	NO PROGRESS In our view, rather than focusing on the ratio of public debt to GDP, the EU should promote incentives to encourage transparency in public spending, investment in climate protection and improvements in social welfare. The "Do No Significant Harm" science-based criteria should be used to assess investments. There should be strict rules implemented to ensure that deficit reduction is not hampered by public spending practices that are harmful to the economy and/or the environment. The Hungarian Government should be forced to phase out environmentally harmful subsidies. Public subsidies for the construction of stadiums, luxury hotels, motorways or battery factories should be stopped as a matter of urgency, and heavily polluting activities should be taxed more heavily. The extra revenue should be used to compensate those in need and for environmental purposes. [11]

[10] https://g7.hu/kozelet/20230508/a-gazdasagpolitika-tokeletes-a-kormany-onbizalma-toretlen/
[11] https://www.levego.hu/hirek/pogatsa-zoltan-az-eu-penzugyi-reformja-ne-melyitse-tovabb-a-klimavalsagot/

RECOMMENDATION	REASONING	REALITY	IMPLEMENTATION
2.1. Urgently fulfil the required milestones and targets related to strengthening **judicial independence** and safeguarding the protection of the financial interests of the Union in order to allow for a swift and steady implementation of its recovery and resilience plan.	Judicial reform is a precondition for RRF funding, and it is also an enabling condition for ten different Commission Implementing Decisions approving Hungary's operational programmes. Thus, fulfilling these milestones is a condition for accessing a total of €27 billion in EU funds. Equally importantly, all the judicial super-milestones are rooted in long-standing rule of law concerns and recommendations (e.g. as country-specific recommendations) and are therefore necessary steps towards restoring the independence of the judiciary in Hungary.	The recently published judicial reform can be regarded as a significant step forward, but its compliance with the super-milestones is still insufficient. The full **assessment** of has been made by Hungarian NGOs (Hungarian Helsinki Committee, Amnesty International Hungary and the Eötvös Károly Institute)[12]. The minimum standards established by the milestones may prove insufficient without addressing other, interrelated rule of law concerns, such as (i) the infinitely renewable state of emergency, which allows the government to rule by decree; (ii) the Constitutional Court has the power to review the constitutionality of final judicial decisions and to decide on legal disputes between the National Judicial Council (NJC) and other authorities; (iii) the captured Kúria (Spreme Court) that can impose a binding interpretation of the law through uniformity decisions; (iv) the absence of guarantees for the freedom of expression of judges; (v) the risk of capture of the NJC.	LIMITED PROGRESS In May 2023, the Hungarian Parliament adopted the judicial reform, covering 4 of the 27 milestones required by the EU. The necessary measures to implement the judicial reform legislation must also be enforced and only in the light of these measures can the Commission decide on the compatibility of the package and the disbursement of the withheld billions. The extensive and prolonged use of the Government's emergency power remains a major concern.

[12] https://helsinki.hu/wp-content/uploads/2023/05/Assessment_of_the_Judicial_Reform_052023.pdf
https://helsinki.hu/wp-content/uploads/2023/05/Compliance_Judicial_Milestones_20230523.pdf

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2.2 Swiftly finalise the **REPowerEU** chapter with a view to rapidly starting its implementation. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan.	In order to rapidly reduce the EU's dependence on imports of gas, oil and coal from Russia, and to achieve a more resilient energy system that meets the goals of climate neutrality, the EU adopted (May 2022) the framework for the REpowerEU plan. The REPowerEU plan aims to increase energy savings, produce clean energy, diversify the EU's energy supply and combine investment and reform in a smart way.	It is concerning that civil society organisations have been given only two weeks (during the summer holidays), to comment on the draft. Although CAAG agrees in principle with the reform measures contained in the draft, they stress that these must be implemented alongside the following **measures**. – The complete removal of price subsidies for household energy consumption. Instead, we propose a simultaneous monthly cash payment to those in need and the removal of subsidies for the production and use of fossil fuels. – Preparation of a comprehensive public energy awareness campaign. – Reinforcement of authorities in the fight against illegal burning. The plan contains predominantly further subsidies for fossil fuel production. Energy-efficient renovation of homes or the development and maintenance of renewable energy communities, are still not being adequately promoted and funded.[13]	NO PROGRESS The Hungarian government released the "Hungary Recovery and Resilience Plan – REPowerEU Chapter" for public consultation on 27/07/2013. The consultation was open for comments until 11/08/2023. The outcome of the public consultation and the final version of the draft submitted to the Commission are not yet available. CAAG prepared an assessment of the Hungarian REPowerEU plan and came to the conclusion that it contradicts the EU's aims and its implementation would violate EU rules.[14] See also section 4 below.

[13] https://mtvsz.hu/hirek/2023/04/a-helyreallitasi-penzek-zomet-lakoepuletek-energetikai-felujitasara-kellene-forditani
[14] https://levego.hu/sites/default/sites/comments_on_hungarys_draft_repowereu_plan_28082023.pdf

RECOMMENDATION	REASONING	REALITY	IMPLEMENTATION
3.1. Improve the adequacy of the social assistance system, including unemployment benefits. Improve access to effective active labour market measures, in particular **upskilling opportunities** for the most disadvantaged groups, and ensure effective social dialogue.	Green transition requires upskilling and reskilling of the workforce. Shortages of green skills in the construction sector hinder energy efficient investment in building renovation. There is a low participation of adults in training, including energy intense sectors. While inadequate benefit system increases the fallback of already disadvantaged groups, the extremely short unemployment service makes it difficult to access to the right upskilling trainings.	While unemployment rates are low, the proportion of jobseekers with low basic skills is more than double the national average. There are both labour shortages and under-utilisation. New manufacturing plants are finding it difficult to recruit local skilled workers, and the number of Hungarians commuting abroad is increasing, especially in the Western border regions.	NO PROGRESS Concrete measures to educate and to get (re)trained/upskilled workforce should encourage the acquisition of green and digital skills, but the green mindset that would support the implementation is still completely lacking in Hungarian public awareness.

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3.2. Improve the regulatory framework and competition in services by **avoiding selective and arbitrary administrative interventions and** the use of **tailor-made legislation providing undue advantage or disadvantage to specific companies,** by applying competition scrutiny systematically to business transactions and by **reducing the use of emergency measures** to what is strictly necessary, in line with the principles of the single market and of the rule of law.	As noted in the 2023 Country Report[15], too, in Hungary, the business environment is unequal and is hampered by the regulatory framework. Labour regulations leave workers vulnerable, while state subsidies, which are highly market-distorting, help some (government-linked) companies to gain market advantage and dominance. Since 2020, the government has also used its extraordinary powers under the 'state of emergency' to introduce sector-specific taxes, price controls and other regulations at short notice and without prior consultation.	The government's plans for the proposed allocation of EU funds in Hungary **contradict the 'polluter pays' principle** enshrined in the EU Treaties and would entrench the country's dependence on fossil fuels. It is problematic that there are plans to finance an investment in an oil refinery that will benefit a private company (MOL) that makes high profit, to support the construction of three new gas-fired power plants and to finance investments by other companies that have questionable environmental benefits and could be realised on a competitive basis if they were really needed.	NO PROGRESS CAAG has drawn the attention of both the Hungarian government and the European Commission to the fact that some of the projects in the NRRF are in **contradiction with EU objectives** through the support of privileged companies and environmentally harmful investments.[16] The plans are unjustifiable in their current form, as they would not only fail to support the transition to green energy but would also significantly increase Hungary's dependence on fossil fuels and have a significant market-distorting effect.

[15] https://economy-finance.ec.europa.eu/publications/2023-european-semester-country-reports_en
[16] https://www.levego.hu/sites/default/files/CAAG-MTVSZfinal-NECP%20RePowerEU%20Hungary%20letter%20to%20Commission%2020230613.pdf

RECOMMENDATION	REASONING	REALITY	IMPLEMENTATION
4. **Reduce** overall **reliance on fossil fuels by accelerating the deployment of renewables**, including wind energy, geothermal and sustainable biomethane, in particular by streamlining the permitting procedures, while conducting regular environmental impact assessments and by creating a supportive and predictable regulatory environment. **Phase out subsidies for fossil fuels**. Reform balancing energy market rules and tariff setting to allow for cost recovery and optimum use of the grid and, where necessary, **upgrade the electricity infrastructure**, including grid and storage capacities. Diversify imports of fossil fuels to significantly decrease dependence on Russia, including by strengthening cooperation with other Member States, including where necessary on infrastructure. **Improve energy efficiency**, in particular in buildings, and continue efforts to reduce overall gas consumption. Adjust the current system of regulated energy prices to **encourage**	Hungary's energy policy remains focused on energy security, while decarbonisation should be a priority. Reducing the use of fossil fuels would reduce dependence on Russian energy supplies and accelerate the pace of the green transition. Grid modernisation is a prerequisite for the development of clean, renewable power generation but the regulatory environment remains a major obstacle to realising the potential of renewable energy in Hungary (e.g. restricting regulation of wind-powered energy generation, or regulation regarding investments in grid modernisation),	The recently revised and amended National Energy and Climate Plan contains a number of positive or acceptable policies, but some are of great concern. Several of these measures, which are to be supported by EU funds, could cause direct environmental damage and lock in climate-damaging technologies, thus violating the 'polluter pays' principle. The biggest concerns include the construction of three new gas-fired power plants, investment in hydrogen capacity, and support for the oil company (MOL). Wind and solar energy are still not given a big enough part. Very little funding is envisaged for increasing the energy efficiency of buildings. The change in grid connection rules has created uncertainty and hindered the further development of residential solar systems. New gas-fired power plants should primarily serve system stability and rebalancing purposes. In the case of foreign investment, they should be privately financed without public support.	NO PROGRESS EU funds would potentially be used/planned for private companies and industrial actors, **contradicting the 'polluter pays'** principle and under-prioritising citizens as well as just transition goals. Energy-efficient renovation of buildings is a priority that is not sufficiently emphasised, although it is one of the most important measures to mitigate the effects of the climate and energy crisis in Hungary.[17] Although reducing energy demand should be an essential element in achieving energy efficiency, plans to raise public awareness of energy consumption are completely absent from the plan.

[17] https://www.levego.hu/hirek/pogatsa-zoltan-az-eu-penzugyi-reformja-ne-melyitse-tovabb-a-klimavalsagot/

energy saving while providing targeted support for low-income households. Step up policy efforts aimed at the provision and acquisition of skills and competencies needed for the green transition.			

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