Hungary

Brussels threatens to hit Hungary's economy if Viktor Orbán vetoes Ukraine aid

EU strategy aims to spook investors by cutting off funding to Budapest in stand-off over €50bn package

Viktor Orbán has vowed to block the use of the EU budget to provide financial aid to Ukraine © Stephanie Lecocq/EPA-EFE

Henry Foy and **Andy Bounds** in Brussels and **Marton Dunai** in Budapest YESTERDAY

The EU will sabotage Hungary's economy if Budapest blocks fresh aid to Ukraine at a summit this week, under a confidential plan drawn up by Brussels that marks a significant escalation in the battle between the EU and its most pro-Russian member state.

In a document drawn up by EU officials and seen by the Financial Times, Brussels has outlined a strategy to explicitly target Hungary's economic weaknesses, imperil its currency and drive a collapse in investor confidence in a bid to hurt "jobs and growth" if Budapest refuses to lift its veto against the aid to Kyiv.

Viktor Orbán, Hungary's premier, has vowed to block the use of the EU budget to provide €50bn in financial aid to Ukraine at an emergency summit of leaders on Thursday.

If he does not back down, other EU leaders should publicly vow to permanently shut off all EU funding to Budapest with the intention of spooking the markets, precipitating a run on the country's forint currency and a surge in the cost of its borrowing, Brussels stated in the document.

"This is Europe telling Viktor Orbán 'enough is enough; it's time to get in line. You may have a pistol, but we have the bazooka'," said Mujtaba Rahman, Europe director at Eurasia Group, a consultancy.

The document declares that "in the case of no agreement in the February 1 [summit], other heads of state and government would publicly declare that in the light of the unconstructive behaviour of the Hungarian PM . . . they cannot imagine that" EU funds would be provided to Budapest.

Without that funding, "financial markets and European and international companies might be less interested to invest in Hungary", the document stated. Such punishment "could quickly trigger a further increase of the cost of funding of the public deficit and a drop in the currency".

János Bóka, Hungary's EU minister, told the FT that Budapest was not aware of the financial threat, but that his country "does not give in to pressure".

"Hungary does not establish a connection between support for Ukraine and access to EU funds, and rejects other parties doing so," he said. "Hungary has and will continue to participate constructively in the negotiations."

But in a sign of the rising pressure on Budapest to strike a compromise, Bóka said Budapest sent a new proposal to Brussels on Saturday, specifying it was now open to using the EU budget for the Ukraine package and even issuing common debt to finance it, if other caveats were added that gave Budapest the opportunity to change its mind at a later date.

The document, produced by an official in the Council of the EU, the Brussels body that represents member states, lays out Hungary's economic vulnerabilities — including its "very high public deficit", "very high inflation", weak currency and the EU's highest level of debt servicing payments as a proportion of gross domestic product.

It lays outs how "jobs and growth . . . depend to a large extent" on overseas finance that is predicated on high levels of EU funding.

A spokesperson for the Council of the EU said they did not comment on leaks.

Brussels has wielded its financial leverage against member states before, such as with Poland and Hungary over rule of law concerns and Greece during the eurozone crisis, but a strategy to explicitly seek to undermine a member state's economy would mark a major new step for the bloc.

Three EU diplomats told the FT that many countries backed the plan. "The mood has got harsher," said one. "What kind of union do we have if we allow this kind of behaviour?"

Another said: "The stakes are high. It is blackmail."

Bóka told the FT that Budapest wanted "to explore the possibility of a more constructive and European solution" and has proposed it could support the €50bn plan if it was given an annual veto on the payments. Other EU countries have already refused this suggestion as they fear Orbán would seek to block it every year and extract further concessions.

But one of the diplomats added there was "no way" Orbán would get a veto over funding.

Bóka said "the political pressure on Hungary is continuous and strong" but that it did not influence his government's negotiations.

"We had to take a step, and we trust that the other party will be similarly flexible," he added.

While 26 member states have a plan B to send money to Kyiv outside the EU budget, that would require national parliaments' ratification, causing delays and uncertainty.

Several capitals have considered whether it is feasible to use Article 7 of the Treaty on the European Union, which would allow Brussels to strip Budapest of its voting rights or, one diplomat said, block disbursement of money. But others have rebuffed the notion given that it requires unanimous support and many countries are reluctant to deploy such a serious sanction.

Bóka said it was important that EU unity was "preserved", adding: "That is why we are willing to make compromises so long as they do not affect our vital interests."

He added, however, that if the compromise effort failed, Hungary's original proposal of a separate Ukraine fund outside the EU budget would be Budapest's preference.