

## Flash note

### 03/12/2020

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### The European Non-union. Brussels considering creating recovery fund without Hungary and Poland.

The European Commission is assessing options to circumvent Hungary and Poland's veto to the EU budget and the recovery fund, and could come up with a proposal early next year if their blockade remains. The FT cited today an unnamed senior European Commission official, who said "Brussels is considering the creation of the EU's Covid-19 recovery fund without the participation of Hungary and Poland". "The remaining 25 EU member states could proceed with the planned fund to act as a "bridge" until Hungary and Poland reversed their veto over the overall budget". No concrete plan has been sketched out but the options being considered include a system of national guarantees to back the borrowing of €750 billion for the fund. Then I ask: What happens with article 125 of the Treaty stating that "No member state would be liable for commitments made by public bodies in another member state"?

Of course, the EU officials did not clarify what would happen with Hungary and Poland's portion of the recovery fund, but you don't have to be a doctor in astrophysics to know that this solution would open the doors to a new European Union, perhaps not so united

#### **But, What's wrong with Poland, Hungary and Slovenia (the so-called "Recalcitrants")?**

Eurocrats have been replacing each nation's sovereignty with the rule of law imposed by Brussels (even in those aspects of governance, such as immigration policy, in which the EU has proven itself to be the most incompetent). The point is that these three countries already lost their sovereignty when they were controlled by the Soviet Union and Yugoslavia, respectively, and I suspect that they will do everything possible not to lose that sovereignty again, especially if the new laws are imposed by an entity that has been violating its own rules for a decade (read the treaties and see what has been done).

To add insult to injury, the European Parliament voted that "funds coming from shared borrowings would only be dolled out to those countries that respect the "rule of law" as defined by Brussels. In short (as C.Gave said once): if you want your plate of lentils, you have to abandon your judicial sovereignty.

**What next?** The Commission's "central scenario" still is that a solution will be found by year end to overcome the two countries' veto on the €1.8 trillion package (which includes the €750 billion recovery fund and €1.1 trillion in the multi annual financial framework (MFF) which is the seven-year budget). Hungarian and Polish leaders, Viktor Orban and Mateusz Morawiecki, have insisted that they won't give their

bleeding unless the Rule of Law conditionality attached to the EU funds is “substantially watered down or scrapped”.

If the rest of the EU countries finally go ahead with the joint issuance project, but leave Poland and Hungary aside, it seems to me that we will have a hell of a mess, at least on the issue of governance. A kind of European Union where some countries will not be so united.

#### **Calendar and potential effects**

The deadline for the European Parliament and member states to reach an agreement on the annual budget is 7 December. If no deal is cut, then the Commission will have to put forward a new draft budget for 2021 (based on the ceilings set in the current 2014-2020 budget). Until the adoption of the new budget is completed, the EU will have to operate under the ‘provisional twelfths’ system (and would be the first time since 1988). This means that each chapter of the budget will be funded monthly, up to a maximum of one twelfth of its appropriations of the previous year or of the draft budget, whichever is the lowest. The EU won’t be able to commit to new projects under most of its programmes. Rebates would not be paid to some of the net contributors to the EU budget. In addition, around €25-30 billion in Cohesion funds will be lost, given that the 2014-2020 budget has lower budgetary ceilings compared with the next seven year budget.