

# THE FORINT COST OF PRINCIPLE: ANALYZING THE ECONOMIC CONSEQUENCES OF HUNGARY'S WITHHELD EU RECOVERY FUNDS

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<https://doi.org/10.47833/2026.1.ART.006>

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## Keywords:

Cohesion Policy  
Recovery and Resilience Fund  
EU Integration  
Competitiveness  
V4

## Article history:

Received 25 Nov 2025  
Revised 26 Jan 2026  
Accepted 8 Febr 2026

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## Abstract

*This paper offers a policy-oriented macroeconomic assessment of the economic implications of Hungary's continued non-access to its EUR 10.4 billion Recovery and Resilience Facility (RRF) allocation. It synthesizes secondary sources (European Commission, IMF, OECD, Eurostat, the European Court of Auditors, and credit-rating agency material), descriptive indicators, and regional benchmarks to evaluate plausible transmission channels and opportunity costs. The analysis is not an econometric causal estimation. Therefore, it explicitly recognizes that global monetary tightening, weak external demand, and post-pandemic adjustment also shape Hungary's macro outcomes.*

*In this setting, the missing RRF envelope is consistent with a weaker growth and investment profile and a reduced capacity to absorb shocks relative to regional peers. The absence of performance-based EU disbursements, alongside constrained domestic co-financing, likely contributes to the sharp contraction of public investment observed in 2024-2025 and may amplify fiscal pressures when market funding costs are elevated. Delayed RRF implementation also slows planned investments in the green and digital transitions and the modernization of healthcare and social infrastructure, with potential medium- to long-run consequences for productivity and competitiveness. As 2026 approaches, the opportunity cost rises further, and the paper highlights two adverse scenarios: a continued impasse with a partial or total loss of the allocation, or a late unlocking followed by compressed implementation with higher delivery and governance risks.*

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## 1 Introduction

The European Union's Recovery and Resilience Facility (RRF) was conceived as a historic, coordinated response to the economic shock of the COVID-19 pandemic. However, for Hungary, this post-pandemic lifeline remains suspended, entangled in a protracted dispute over the country's adherence to fundamental EU values. This section outlines the nature of the RRF and details the specific rule-of-law impasse that has blocked Hungary's access to over €10 billion in crucial funding, setting the stage for the significant economic consequences that follow.

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## 1.1 The RRF: A Post-Pandemic Lifeline for Europe's Economies

The Recovery and Resilience Facility is the central pillar of the NextGenerationEU (NGEU) stimulus package, a temporary instrument designed not only to repair the immediate economic and social damage of the pandemic but also to make European economies and societies more sustainable, resilient, and prepared for future challenges (European Commission, 2021. European Commission, 2024). With a total envelope of approximately €650 billion in grants and loans to be disbursed by the end of 2026, the RRF represents an unprecedented fiscal initiative at the EU level (Afman et al., 2021. European Commission, 2023). Its financing mechanism is itself novel: the European Commission borrows on capital markets on behalf of the entire Union, with the debt to be repaid over a long-term horizon extending to 2058 (European Commission, 2023).

A defining feature of the RRF is its performance-based model. Unlike traditional EU cohesion funds, which often reimburse costs incurred, RRF disbursements are contingent upon the verified achievement of pre-agreed reforms and investments, known as milestones and targets, as outlined in each member state's National Recovery and Resilience Plan (RRP) (Bruegel, 2023; European Central Bank, 2022). This structure fundamentally transforms the RRF from a simple transfer mechanism into a powerful tool for steering national policy.

To ensure alignment with overarching EU priorities, the RRF Regulation legally mandates that each national plan allocate a minimum of 37% of its total budget to measures supporting climate objectives and a minimum of 20% to the digital transition (European Commission, 2021. European Commission, 2025). This design ensures that the recovery is not just a return to the pre-pandemic status quo but a catalyst for the green and digital transformations deemed essential for Europe's long-term competitiveness and sustainability.

## 1.2 Hungary's Unclaimed Billions: The Rule-of-Law Impasse

Hungary's RRP, valued at a total of €10.4 billion—comprising €6.5 billion in grants and €3.9 billion in loans—was formally endorsed by the European Commission and approved by the Council. However, no payments beyond a small pre-financing advance can be made. The disbursement is blocked pending the full and correct implementation of a set of 27 "super milestones" (Clingendael Institute, 2024. European Parliament Research Service, 2025). This RRF freeze is not an isolated measure. It is part of a broader suspension of EU funds under multiple instruments, including Cohesion Funds, totaling up to €32 billion, a sum equivalent to roughly 16% of Hungary's 2022 GDP (Clingendael Institute, 2024).

The standoff reveals the RRF's function as a new technology of European governance. The "super milestones" are not conventional project-completion targets. They are deep, structural reforms aimed at rectifying systemic deficiencies in the rule of law that the EU deems a risk to the sound financial management of its budget (European Court of Auditors, 2024. Gáspár & Zsoldos, 2023). The Hungarian case is the primary test of this new governance model. Here, financial leverage is being used to compel reforms in areas of national sovereignty, a significant evolution from previous funding mechanisms (Gáspár & Zsoldos, 2023. Polish Institute of International Affairs, 2023).

The core issues addressed by these super milestones are threefold:

**Anti-Corruption:** The EU requires the establishment of new, genuinely independent bodies (specifically an Integrity Authority and an Anti-Corruption Task Force) with the power to act when public authorities fail to do so. The milestones also demand strengthened rules on conflicts of interest, greater transparency in public procurement, and the establishment of a robust track record of investigating and prosecuting high-level corruption cases, an area where Hungary is seen as having made no progress (European Parliament Research Service, 2025. U.S. Department of State, 2022).

**Judicial Independence:** A key set of milestones is aimed at reinforcing the independence of the judiciary. This includes increasing the powers of the self-governing National Judicial Council to limit undue influence, reforming the Supreme Court (Kúria) to mitigate risks of political interference, and removing avenues for the government or the Constitutional Court to review final judicial decisions (Clingendael Institute, 2024. European Parliament Research Service, 2025).

**Public Procurement and Audit:** The plan includes measures to improve competition and transparency in public procurement and to strengthen audit and control systems to better protect the EU's financial interests (European Court of Auditors, 2024; European Parliament Research Service, 2025).

The dispute has created a high-stakes, all-or-nothing scenario for Budapest because the various funding streams are intrinsically linked. The remedial measures required to unfreeze Cohesion Funds under the Conditionality Regulation were incorporated directly into the RRF plan as part of the 27 super milestones (European Parliament Research Service, 2025). This means a breakthrough on the RRF is contingent on resolving the entire rule-of-law file, and vice-versa. While Hungary did enact a judicial reform package that led to the release of €10.2 billion in Cohesion funds in late 2023, the more deeply rooted concerns preventing RRF disbursement remain unresolved as of mid-2025 (Clingendael Institute, 2024). The clock is ticking, and Hungary has already permanently lost €1 billion of its suspended Cohesion Funds due to a financing rule that requires countries to use allocated money within a specific timeframe (Clingendael Institute, 2024). This precedent hangs over the RRF funds. This face a final deadline for use by the end of 2026.

### 1.3 Methodological Positioning, Scope, and Limitations

The paper is structured as a policy-oriented macroeconomic analysis. It combines descriptive statistics and comparative benchmarks (especially within the Visegrád region) with institutional analysis of the RRF's performance-based disbursement framework. Empirically, it relies on secondary data and published projections from the European Commission, IMF, OECD, Eurostat, the European Court of Auditors, and major credit rating agencies.

Accordingly, the analysis focuses on plausible economic mechanisms and opportunity costs (investment, fiscal conditions, financing costs, and confidence effects) rather than causal estimation. Forecast-based magnitudes should be read as conditional and uncertain, and observed macro outcomes also reflect confounding factors. The counterfactual of full RRF access also faces practical constraints (absorptive capacity, project selection, and governance risks). This the paper treats explicitly when interpreting the scale of foregone benefits.

## 2 Macroeconomic Ramifications

The suspension of Hungary's RRF funds has transcended the political realm to inflict tangible and escalating damage on its macroeconomic stability. The absence of this significant financial injection is depressing GDP growth, creating a severe public investment deficit, exacerbating fiscal strain, and casting a pall over investor confidence. The result is a multifaceted economic headwind that is slowing the country's convergence and increasing its vulnerability.

### 2.1 Impact on GDP Growth and Economic Resilience

Hungary's economic growth has long been heavily dependent on the inflow of EU funds, a reality that makes the current suspension particularly damaging. A historical analysis by the GKI Economic Research Institute reveals the extent of this dependency: between 2004 and 2023, EU transfers contributed an average of 1.4 percentage points to Hungary's annual GDP growth. In critical years like 2010, 2011, and 2013, the Hungarian economy would not have grown at all without this external support (Czelleng & Vertes, 2021). On average, net EU funds have been equivalent to 3.5% of GDP annually since 2010, effectively acting as a primary engine of the country's economic expansion (Czelleng & Vertes, 2021).

Viewed against this backdrop, the current economic stagnation is alarming. After contracting by 0.9% in 2023, the economy is forecast to grow by a sluggish 0.8% in 2025 before picking up to 2.5% in 2026 (European Commission, 2025. International Monetary Fund, 2025). These figures are weak, especially in the context of persistent inflationary pressures, with HICP inflation projected at 4.1% in 2025, and a tight labor market that limits the government's scope for domestic stimulus (European Commission, 2025).

The RRF was specifically designed to counter such weakness by boosting resilience, productivity, and growth potential (European Commission, 2021. European Commission, 2025). The withheld allocation corresponds to a potential annual impulse of over 1.5% of GDP through public

investment and related reforms. In an environment of fiscal consolidation, its non-availability is likely to weigh on near-term growth and reduce the domestic investment buffer against external shocks. At the same time, Hungary's macro outcomes also reflect other headwinds, including tight global financial conditions, post-pandemic rebalancing, and weak external demand (notably from Germany) (European Commission, 2025. Moody's Investors Service, 2025).

## **2.2 The Public Investment Deficit**

The most immediate and visible impact of the RRF freeze is a sharp contraction in public investment. The volume of national investment fell by 14% year-on-year in 2024, with a further 12.1% decline in the first quarter of 2025 (Eurostat, 2025). The downturn was pronounced in construction and in enterprise investment (Eurostat, 2025). While cyclical factors also matter, the pattern is consistent with a fiscal consolidation response in which domestically funded public investment is reduced as EU co-financing remains unavailable (European Commission, 2025).

This dynamic can be understood as an 'investment substitution' constraint: the government is not, and fiscally may not be, able to replace foregone RRF-financed spending with domestic resources. Consolidation pressures therefore risk becoming pro-cyclical, reducing investment precisely when the RRF was intended to support it (Furceri & Zdzienicka, 2017).

The implied investment gap is material. Hungary's €10.4 billion RRP was designed to anchor public investment through 2026 (Clingendael Institute, 2024), including large envelopes for sustainable transport (€1.44 billion), the green energy transition (€1.33 billion), and (in earlier drafts) healthcare modernization (€857 million) (Bruegel, 2022). To the extent these projects are delayed or scaled back, the associated spillovers and potential crowding-in of complementary private investment are also likely to be weaker (Furceri & Zdzienicka, 2017).

A key caveat is that full RRF access is not a frictionless counterfactual. Implementation would still depend on administrative capacity, project readiness, and governance safeguards, and some investment could be delayed, less productive, or partially crowd out other spending. However, even under conservative assumptions (partial absorption and efficiency losses), the foregone scale of concessional financing and reform-linked investment remains economically meaningful in a period of tight fiscal and financing conditions.

## **2.3 Fiscal Strain and Sovereign Risk**

The funding gap coincides with material pressure on Hungary's public finances. The general government deficit is projected at 4.9% of GDP in 2024 and 4.6% in 2025 (European Commission, 2025. Eurostat, 2025). Public debt is expected to edge up from 73.5% of GDP at end-2024 to 74.5% in 2025 (European Commission, 2025. Eurostat, 2025), while gross financing needs remain high at around 14% of GDP (International Monetary Fund, 2025).

In this context, the dispute over EU funds can add to a two-sided financing squeeze: Hungary foregoes concessional EU financing and may need to rely more heavily on market issuance at higher yields. Major credit rating agencies explicitly cite uncertainty about EU fund inflows and EU-Hungary tensions as constraints on the sovereign credit profile (Moody's Investors Service, 2025. Scope Ratings, 2025). This framing is consistent with an elevated risk premium, although Hungary's borrowing costs also reflect global interest rates, regional risk appetite, and domestic policy credibility.

## **2.4 Foreign Direct Investment and Investor Confidence**

The picture for Foreign Direct Investment (FDI) in Hungary is complex and presents a tale of two diverging trends. On one hand, the country has achieved remarkable success in attracting large-scale, targeted investments, particularly in the electric vehicle (EV) and battery manufacturing sectors. Hungary has become a primary European destination for Chinese FDI in this domain, with major plants from companies like CATL and BYD underway (OECD, 2024).

On the other hand, the aggregate FDI data reveals significant underlying instability. Net FDI flows have been extremely volatile, showing a massive negative figure of -\$72.23 billion in 2023 and hitting a record low in the fourth quarter of that year before rebounding in 2024 (Eurostat, 2025). This

volatility suggests that while specific mega-projects can be secured, the broader investment climate is fragile.

The prolonged dispute with the EU and the withholding of funds may contribute to this fragility by increasing perceived policy and regulatory uncertainty (European Commission, 2025. Moody's Investors Service, 2025). Business surveys highlight concerns about ad hoc tax changes and limited regulatory predictability (European Commission, 2024). Together with other factors affecting the investment climate, these issues can weigh on broader investor confidence beyond the handful of large, negotiated projects.

### 3 Sectoral Setbacks

The macroeconomic damage from the RRF funding gap is mirrored by severe setbacks at the sectoral level. Hungary's own National Recovery and Resilience Plan (RRP) laid out an ambitious roadmap for modernization, heavily focused on the green and digital transitions, as well as strengthening healthcare and social resilience. With the funds frozen, these critical initiatives are stalled, jeopardizing not only specific projects but also the country's long-term competitiveness and alignment with EU strategic goals.

#### 3.1 The Green Transition: A Stalled Engine

Hungary's commitment to the green transition, at least on paper, is substantial. Its modified RRP dedicates a remarkable 66.9% of its total value to climate-related objectives, a share that far exceeds the mandatory 37% minimum and is a significant increase from the 48.1% in its original plan (European Commission, 2023). This heavy weighting indicates a clear and stated reliance on the RRF as the primary financial engine for its decarbonization strategy. The suspension of these funds has therefore brought this engine to a halt, putting a wide array of transformative projects at risk:

**Energy Grid Modernization:** The plan allocated significant investment for the development of both classical and smart electricity grids. This is not a trivial upgrade. It is a fundamental prerequisite for integrating a higher share of intermittent renewable energy sources like wind and solar into the national energy mix (European Commission, 2023. Government of Hungary, 2022). Without these grid improvements, Hungary's capacity to expand renewable generation is severely constrained.

**Renewable Energy Deployment:** The RRF was set to directly finance the expansion of renewables. This included a €471 million program to support nearly 35,000 low-income households in installing solar panel systems and modernizing their heating (European Commission, 2023). It also included crucial reforms to remove regulatory barriers to the deployment of wind turbines, a sector that has lagged in Hungary (European Commission, 2023).

**Energy Efficiency:** A cornerstone of the green plan was a massive energy efficiency drive, with over €1.73 billion dedicated to improving the performance of residential homes, public sector buildings, and corporate facilities. A key target was the energy-efficient renovation or new construction of 2 million square meters of public building floor area, including schools and hospitals, to achieve a 30% reduction in primary energy use (European Commission, 2023). The loss of this funding creates a long-term "lock-in of inefficiency." Any domestically funded replacements, constrained by fiscal pressure, are likely to be for cheaper, "shallow" renovations (e.g., only replacing windows) rather than the "deep" retrofits planned under the RRF. A building that receives a shallow renovation today is unlikely to be upgraded again for decades, thereby locking in higher energy consumption and making future climate targets vastly more expensive to achieve.

**Sustainable Transport:** The RRF targeted major investments in greening the transport sector, including the modernization of key railway lines, the purchase of 300 zero-emission buses, the development of tram and trolleybus infrastructure, and financial support for the acquisition of over 12,500 electric vehicles and associated charging stations (Bruegel, 2022. European Commission, 2023). The absence of these funds slows the decarbonization of a key emitting sector.

### 3.2 The Digital Transformation: Widening the Gap

The failure to implement the digital components of the RRP represents a direct blow to Hungary's future economic competitiveness. The country entered the post-pandemic period with significant digital weaknesses. In the EU's 2022 Digital Economy and Society Index (DESI), Hungary ranked a low 22nd out of 27 member states (European Commission, 2022). The report highlighted critical deficiencies in human capital. Here, only a quarter of the population possesses above-basic digital skills, and in the integration of digital technologies by businesses. Here, the adoption of tools like enterprise resource planning (ERP) systems, cloud services, and artificial intelligence is well below the EU average (European Commission, 2022).

The RRF was designed to be the primary public funding mechanism to address these very challenges. The Hungarian RRP allocates 29.8% of its funds, amounting to €1.7 billion, specifically for digital measures (European Commission, 2022. European Parliament Research Service, 2025). The suspension of these funds means that a targeted strategy to close the digital gap is now unfunded. Key initiatives at risk include:

**Digitalization of Public Services:** Investments aimed at modernizing e-government, the justice system, and rolling out a comprehensive e-Health system are stalled. The quality and availability of digital public services, especially for cross-border interactions, remains a key challenge that the RRF was intended to solve (European Parliament Research Service, 2025. Government of Hungary, 2022).

**Education and Skills:** The plan included crucial funding for modernizing digital infrastructure in schools, developing new digital curricula for vocational training, and upskilling the workforce to meet the demands of a modern economy (European Commission, 2023. Government of Hungary, 2022). Without these investments, the digital skills gap is likely to persist, creating a bottleneck for innovation and productivity.

**Business Digitalization and Infrastructure:** The RRP contained support for the digital transformation of businesses, particularly Small and Medium-sized Enterprises (SMEs), and the development of Digital Innovation Hubs to foster technological adoption (European Commission, 2021. European Commission, 2023. Government of Hungary, 2022). It also planned investments in the roll-out of very high-capacity broadband and 5G networks, particularly in rural areas (European Commission, 2021. European Commission, 2023). The EU's estimate of a €125 billion annual digital investment gap across the Union underscores the immense scale of the opportunity being missed (European Investment Bank, 2023). This is not merely a technological setback. It is a long-term impediment to the "smart, sustainable and inclusive growth" that underpins modern economic competitiveness (European Commission, 2021).

### 3.3 Resilience Under Strain: Healthcare and Social Cohesion

Beyond the twin transitions, the RRF was also intended to bolster Hungary's social and institutional resilience, particularly in the wake of the pandemic's strain on the healthcare system. The original draft of the RRP allocated a massive 34% of its funds (€2.39 billion) to the health sector, signaling the urgency of the needed reforms (Bruegel, 2022).

The Hungarian healthcare system suffers from long-standing structural issues, including deficient management systems and inflexible, non-performance-based financing schemes (OECD/European Observatory on Health Systems and Policies, 2021). The RRF was poised to provide the capital injection necessary for a significant modernization push. Planned investments included the development of primary healthcare, the upgrading of hospital infrastructure to "21st-century conditions," the acquisition of modern medical equipment, and a major push for digitalization through a national e-Health system (Bruegel, 2022. European Commission, 2023. Government of Hungary, 2022).

Furthermore, the RRP addressed social cohesion through investments aimed at reducing regional disparities and supporting vulnerable populations. This included funding for the construction and renovation of social housing, measures to improve living conditions in disadvantaged municipalities, and programs for employment and skills development tailored to local needs (European Commission, 2024. Government of Hungary, 2022). The absence of this funding can weaken Hungary's capacity to address poverty and social exclusion. This remain significant

challenges, with nearly 20% of the population at risk of poverty or social exclusion (AROPE) in 2023 (International Monetary Fund, 2025).

## 4 Comparative Analysis Results

To fully grasp the economic cost of Hungary's RRF impasse, it is useful to place its situation in a regional context. A comparative benchmark with its Visegrád Group (V4) partners (Poland, Czechia, and Slovakia) highlights the **opportunity cost**. While these countries are drawing on their RRF allocations to support investment and reforms, Hungary faces a weaker policy mix and lower public investment capacity. Over time, this is consistent with a widening gap in infrastructure quality, productivity-enhancing spending, and growth potential relative to close competitors (Holzner & Schwarzappel, 2021).

### 4.1 Poland, Czechia, and Slovakia: RRF as a Growth Catalyst

Hungary's V4 peers demonstrate the intended function of the RRF as a powerful catalyst for post-pandemic recovery and modernization.

**Poland:** With access to a massive €59.8 billion RRP (€25.3 billion in grants, €34.5 billion in loans), Poland is set for a strong investment-led recovery (European Commission, 2023). After resolving its own rule-of-law disputes with the new government, the country received its first payments and is accelerating implementation, with calls launched for over 93% of the funds by late 2024 (Clingendael Institute, 2024). Both the European Commission and the IMF explicitly cite the absorption of NGEU funds as a key positive driver for Poland's robust GDP growth forecast of 3.3% to 3.5% for 2025 (European Commission, 2025. International Monetary Fund, 2025). EU-funded public investment is expected to pick up strongly, targeting decarbonization, the digitalization of public administration, and bolstering healthcare resilience (European Commission, 2023. European Commission, 2025).

**Czechia:** The Czech RRP is a critical component of its economic outlook. Forecasts indicate that a resumption of investment growth in 2025 will be driven by the "increased absorption of EU funds" (European Commission, 2025). The country's plan focuses on strategic areas such as energy efficiency, renewable energy, sustainable mobility, and the digital transformation of both businesses and public administration (European Commission, 2023. European Commission, 2023). The active co-financing of RRF-backed projects by the European Investment Bank (EIB) further amplifies the program's impact, supporting everything from railway modernization to venture capital for digital startups.

**Slovakia:** The RRF is described as the "main impetus" for the Slovak economy in 2025, with investment activity expected to "pick up steam significantly" as funds are drawn down (European Commission, 2025). Slovakia has demonstrated strong implementation capacity, having already received 42% of its €6.4 billion allocation by mid-2024 (Government of the Slovak Republic, 2024). These funds are providing crucial support for growth and investment at a time when the country is undergoing fiscal consolidation, with resources directed toward reforms in education, energy, and research and innovation (European Commission, 2025).

### 4.2 The Divergence Risk: Hungary's Path of Exception

The contrast with Hungary could not be more dramatic. While its peers are utilizing a synchronized, large-scale injection of EU capital to modernize their economies, Hungary is experiencing the precise opposite: falling investment, stalled reforms, and suppressed growth (Holzner & Schwarzappel, 2021). This is creating a widening gap in competitiveness, infrastructure quality, and future growth potential that will become increasingly difficult for Hungary to close. The V4, once a relatively cohesive economic bloc, is being fractured into a group of three moving forward with EU support and one being left behind (Berend, 2021).

The divergence is most evident across key indicators. While Poland's public investment is projected to exceed 5% of GDP in 2025, bolstered by EU funds, Hungary's investment has contracted sharply, with domestically funded spending reduced in response to fiscal pressures (European Commission, 2025. Eurostat, 2025). A sustained investment shortfall is likely to be reflected in relative growth outcomes over time, although forecast differences also incorporate a

range of country-specific and external factors. The 2025 GDP growth forecasts for Poland (3.3%), Czechia (1.9%), and Slovakia (1.5%) are partly supported by RRF absorption, while Hungary's forecast is 0.8% (European Commission, 2025). The following table provides an at-a-glance visualization of these differences.

*Table 1: Visegrád Group - RRF Status and Key Economic Indicators (2024-2026F)*

Country	RRF Allocation (Grants/Loans, €bn)	RRF Funds Disbursed (%)	EC GDP Forecast 2025 (%)	EC GDP Forecast 2026 (%)	EC Gov. Deficit 2025 (% GDP)	EC Public Debt 2025 (% GDP)
Hungary	€10.4 (€6.5/€3.9)	0%*	0.8%	2.5%	-4.6%	74.5%
Poland	€59.8 (€25.3/€34.5)	~17%**	3.3%	3.0%	-6.4%	58.0%
Czechia	€9.2+ (grants & transfers)***	>13%****	1.9%	2.1%	-2.3%	44.5%
Slovakia	€6.4 (total)	42%*****	1.5%	1.4%	-4.9%	60.9%

Sources: RRF Allocations & Disbursement: (Bruegel, 2022; Clingendael Institute, 2024; European Commission, 2023; European Commission, 2025, Government of the Slovak Republic, 2024).

\*Excluding pre-financing. No regular payments have been made.

\*\*As of May 2025. Includes first payment request and REPowerEU advance.

\*\*\*Includes original grant allocation, REPowerEU grants, and transfer from Brexit Adjustment Reserve.

\*\*\*\*Includes pre-financing and first payment.

\*\*\*\*\*As of mid-2024, after fourth payment request.

This data starkly illustrates Hungary's exceptionalism. It is the only V4 country with no significant RRF disbursement, the lowest projected growth for 2025, and the highest public debt ratio alongside Poland's temporarily elevated deficit. The RRF is not just maintaining the status quo for its neighbors. It is actively propelling them forward, thereby accelerating Hungary's relative economic decline (Canova & Pappa, 2025).

## 5 Discussion

The continuing standoff over Hungary's RRF funds has a rapidly approaching deadline, which raises the risk of a discrete fiscal shock if disbursements remain blocked. Consistent with the paper's methodological scope, this section frames the forward-looking outlook as scenario analysis and derives analytical implications for macro stability and EU governance, rather than prescriptive policy advice.

### 5.1 Scenarios for 2025-2026: The Ticking Clock

The RRF is a temporary instrument with a hard deadline: all reforms and investments must be completed by August 2026, with the final payments disbursed by the end of that year (Afman et al., 2021. European Commission, 2021. European Commission, 2023). This ticking clock creates immense time pressure and frames two primary scenarios for Hungary.

**Scenario 1: Continued Impasse and Permanent Loss.** This is the baseline scenario if the current political stalemate persists. If the Hungarian authorities do not meet the 27 'super milestones' to the satisfaction of the European Commission before the instrument's deadline, Hungary would forfeit all or part of its €10.4 billion RRF allocation. A precedent for deadline-related losses has already been set with the expiration of €1 billion in Cohesion Funds at the end of 2024 due to missed timelines (Clingendael Institute, 2024).

**Scenario 2: Late-Stage Compromise and the 'Implementation Cliff'.** In this scenario, a political compromise is reached in late 2025 or early 2026, unlocking the funds. While this would avert a total loss, it would compress the implementation window. Absorbing and executing more than €10 billion within roughly 12-18 months would increase operational risks: project selection may become more

constrained, timelines tighter, and delivery capacity stretched. These conditions can raise the likelihood of delays, lower-quality spending, and control weaknesses, including governance risks that are already central to the dispute. The European Court of Auditors notes that, even under standard timelines, RRF implementation across the EU faces risks of delays and challenges in meeting objectives (European Court of Auditors, 2022). For Hungary, a late release would therefore shift the problem from access to execution quality, potentially reducing the net growth impact relative to headline allocations.

## 5.2 Analytical Implications for Hungary

From a macro-stability perspective, three domestic policy areas are most relevant for the size of the opportunity cost under continued non-access to RRF funds:

**Analytical implication 1 - fiscal credibility.** A transparent, multi-year consolidation path that stabilizes debt dynamics would likely reduce Hungary's vulnerability to financing shocks and improve risk pricing, regardless of the RRF outcome (International Monetary Fund, 2025; Moody's Investors Service, 2025).

**Analytical implication 2 - business environment and predictability.** Greater regulatory predictability, fewer ad hoc tax measures, and more competitive procurement processes are consistently associated with stronger private investment conditions (European Commission, 2024; Transparency International, 2023; U.S. Department of State, 2022).

**Analytical implication 3 - investment prioritization under constraints.** If fiscal space remains tight, prioritizing a smaller set of high-multiplier infrastructure projects (e.g., grid and key transport corridors), potentially with IFI co-financing, can partially offset delayed RRF investment (Furceri & Zdzienicka, 2017).

## 5.3 Analytical Implications for the European Union

For the EU, the Hungarian case illustrates both the strength and the potential side-effects of performance-based conditionality in a context of macro divergence and tighter financing conditions.

**Analytical implication 1 - credibility of conditionality.** Maintaining clear, verifiable benchmarks supports the integrity of the RRF model, but continuous technical engagement can reduce ambiguity about compliance pathways (European Court of Auditors, 2024).

**Analytical implication 2 - monitoring second-order effects.** The mechanism can affect investment, financing conditions, and domestic political narratives; assessing these spillovers helps calibrate enforcement and communication (Clingendael Institute, 2024).

**Analytical implication 3 - post-2026 design.** The dispute provides evidence for the trade-offs the EU faces when linking funding to rule-of-law safeguards, which is relevant for future MFF architecture and governance tools (European Commission, 2021; European Commission, 2025).

## 6 Conclusion

This paper assessed the macroeconomic and fiscal opportunity costs associated with Hungary's prolonged non-access to Recovery and Resilience Facility (RRF) resources. Using secondary macroeconomic indicators, comparative benchmarks within the EU, and an institutional reading of the suspension mechanism, the analysis framed the RRF freeze not as a single-cause explanation of recent macro outcomes, but as a factor that plausibly amplifies existing constraints. In this sense, the findings are best interpreted as an assessment of credible economic mechanisms and trade-offs under uncertainty, rather than an econometric causal estimate.

The evidence is consistent with the view that the absence of RRF-financed investment has likely contributed to weaker medium-term growth prospects and a slower recovery of public investment capacity, especially in an environment shaped by global monetary tightening and subdued external demand. The paper also argued that the suspension may interact with the sovereign risk channel: while spreads and ratings respond to multiple global and domestic determinants, persistent EU-level uncertainty can reasonably be expected to add to risk premia at the margin, thereby increasing the cost of financing and narrowing fiscal space. These channels matter not only because they affect headline growth, but because they condition the state's ability to sustain productivity-enhancing investment without resorting to pro-cyclical adjustment.

At the same time, the analysis explicitly acknowledges counterarguments related to absorptive capacity, implementation risks, and potential inefficiencies. Even under conservative assumptions—where only a portion of the planned RRF investment would translate into effective capital formation—the opportunity cost of delayed or foregone access remains substantial. This is because the value of RRF resources is not limited to their nominal volume; it also includes their timing, their role as a catalyst for private co-financing, and their potential to reduce the reliance on more expensive market-based borrowing.

Overall, the paper's central implication is that the RRF impasse operates as a macro-fiscal constraint with meaningful intertemporal consequences. The longer the uncertainty persists, the more likely it is to deepen divergence pressures by weakening investment momentum and raising the cost of adjustment. Future research could strengthen these conclusions by applying structured counterfactual scenarios, more granular project-level absorption evidence, and formal identification strategies once sufficient time-series and microdata become available.

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