

KEY TAKEAWAYS FOR CEE FROM THE DECEMBER 2023 EU COUNCIL SUMMIT

**EU makes historic step towards eastern enlargement as
Hungary secures access to blocked EU funds**

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EXECUTIVE SUMMARY

The European Union's landmark decision to open accession talks with war-torn Ukraine and neighbouring Moldova signals a major recognition of the efforts made by the two Eastern European countries to align themselves more closely with the standards, norms and values of the European bloc. The decision will likely provide new impetus for political, judicial, administrative and other reforms in both countries, as well as for Ukraine's ongoing defence towards Russia's aggression.

Although Hungary's veto meant the EU failed to agree on its 2024-2027 financial aid package to Kyiv, Aretera's baseline scenario assumes that the next EU Council summit, scheduled for early 2024, will see the unblocking of this aid package. In exchange, Hungary, which recently was granted access to €10 billion in frozen EU cohesion funds, is expected to receive an even larger share of cohesion and post-pandemic recovery funding, previously blocked due to rule-of-law and transparency concerns.

While the summit was a setback for the Western Balkans' accession ambitions, the decision to grant Georgia EU candidate status is also seen a remarkable development. As in the case of Ukraine and Moldova, the decision could accelerate much needed reforms and help the country attract new investment, while it may also reduce political polarization. However, Russia may put economic pressure on Tbilisi to reverse or at least scale back its EU accession bid.

Looking beyond the decision's symbolism, as well as its short-term political and economic implications, much of what comes next remains uncertain, due to a number of complicating factors, not least Russia's war against Ukraine, as well as the territorial disputes Georgia and Moldova have with Moscow. Even without these complex factors, past experience suggests EU enlargement can take many years, even up to a decade, as in the case of Croatia, the last country to join the EU in 2013.

 Below, Aretera takes deeper look at the December 2023 European Council summit, as well as its implications for the CEE region, with special focus on Hungary, Ukraine, Moldova and Georgia.

EU OPENS ACCESSION TALKS WITH UKRAINE & MOLDOVA

On 14-15th December, EU heads of state and government gave their much anticipated consent to opening accession negotiations with Kyiv and Chişinău. Stakes for last week's EU summit could not have been higher for Ukraine after Hungarian Prime Minister Viktor Orbán, a longstanding critic of Ukraine's potential accession, stepped up his opposition to the country's EU membership. While the rest of the European bloc feared a potential Hungarian veto, the Hungarian PM ultimately withdrew his opposition, allowing the bloc to greenlight the opening of accession talks.

18 months on from Ukraine and Moldova were granted EU candidate status, the decision bears strong symbolic significance to the two Eastern European countries, particularly war-torn Ukraine as Kyiv continues with its defence efforts against Russia's aggression. Aimed at maintaining the momentum for EU support to Kyiv amid uncertainties about future EU and US financial aid, the decision also follows a corresponding recommendation from the European Commission.

The move is also significant recognition of the reform efforts made by Ukraine and Moldova to align themselves more closely with the European bloc in terms of policy and regulation, reaffirming the strategic course the two countries embarked on years ago.

SHORT-TERM IMPLICATIONS FOR KYIV & CHIŞINĂU

Extending well beyond symbolic significance, the EU Council decision on Ukraine will provide new incentives for Kyiv to continue with the implementation of much-needed political, public administration and judicial reforms. This means a strong addition to the EU's Deep and Comprehensive Free Trade Agreement (DCFTA) with Ukraine, one of the key elements of Ukraine's EU Association Agreement, covering bilateral economic and trade relations. The opening of accession talks is also likely to further boost discussions around recovery and reconstruction.

For neighbouring Moldova, which also has an Association Agreement with the European bloc, the corresponding decision also comes at a critical time. Chişinău has been marred by geopolitical divides for decades and is gearing up for presidential elections in 2024 and parliamentary elections in 2025. Incumbent President Maia Sandu, from the pro-EU Party of Action and Solidarity (PAS), and the country's PAS-led governments have been instrumental in reaffirming their country's pro-European aspirations, introducing a series of political and economic reform measures, as well as decreasing energy dependence on Russia.

The opening of accession talks also seeks to strengthen the EU's credibility as Moldova will likely be tested by next year's presidential elections, in which pro-Russian political forces hope to make an electoral comeback. The decision will also prompt Moldova to seek the reintegration of its Russian-controlled breakaway region, Transnistria, as the EU integration process may serve as a catalyst for doing so. The EU argues that Moldova could join the bloc without the breakaway region.

Both Kyiv and Chişinău will also promote the decision as a means of reassurance to current and potential investors, hoping it will help attract much needed new investment moving forward.

KYIV ON TRACK TO RECEIVE FURTHER EU AID IN EARLY 2024

While Hungarian Prime Minister Viktor Orbán eventually abstained from blocking the opening of accession talks with Ukraine, he did formalize his veto on endorsing €50 billion of EU financial aid to Kyiv, which combines €33 billion in preferential loans and €17 billion in grants for monthly disbursement during the next three years. While this came as a blow to Kyiv, especially over recent reluctance in the Republican-dominated US House of Representatives to provide a similar aid package to Ukraine, EU leaders reaffirmed that Ukraine will eventually be granted access to this aid package, “with or without Hungary’s support.”

The decision to greenlight the EU’s 2024-2027 assistance package to Ukraine is likely to come at an extraordinary summit of EU leaders early next year. Assuming the US Congress will soon give the go-ahead to its own Ukraine aid package (worth \$50 billion), Aretera’s baseline scenario is that the Hungarian PM, whose delegation sought to encourage Ukraine-sceptics in Congress to continue with their opposition to US aid to Kyiv, will also lift his veto. This will likely come in exchange for the EU’s expected unblocking of an additional share of frozen cohesion (and potentially post-pandemic recovery) funds.

The expected approval of the EU and US aid packages comes at a time when the EU and the G7 are also searching for additional financial sources to provide the war-torn country with much-needed support. The European Commission is considering how to use €200 billion in immobilized Russian central bank assets for rebuilding Ukraine, while G7 countries have also started discussing the same issue more actively.

ACTUAL EU MEMBERSHIP PATH REMAINS UNCERTAIN

While the opening of accession talks is a strong signal that Ukraine’s eventual membership, regardless of Russia’s war, is now irreversible, the timing of any final accession remains uncertain, for a number of reasons. Aside from Russia’s ongoing aggression, these include the lack of a clear timetable from the European side and the need for internal EU reform to prepare for a potential eastern enlargement through a series of EU policy changes. Such debates could still take years, with the war likely to remain a decisive factor. The Ukrainian government aims to secure membership within two years of the start of the accession talks, however Brussels sees this as unrealistic. Officially, Moldova and Georgia are both aiming for joining the European bloc by 2030. The latest member to join the EU – Croatia – did so in 2013 after an accession process that took more 10 years.

Although Hungary abstained from the decision to open accession talks with Kyiv, the Hungarian PM reiterated his opposition to Ukraine’s EU membership, citing a potentially negative impact on Hungary’s agriculture and ongoing bilateral disputes about the rights of ethnic Hungarians in western Ukraine. While Ukraine has offered concessions to Hungary and is aiming to reset its relations with Budapest, Orbán stressed that Hungary may still decide to block the procedure. Other EU countries, including Austria, Slovakia or the Netherlands, may also choose to prolong or even block the process under a more negative scenario.

GEORGIA RECEIVES EU CANDIDATE STATUS

The EU’s historic decision to grant Georgia candidate status was welcomed by all sides of the aisle in the country’s polarized political environment, as well as by Georgia’s pro-European society, which pursues EU membership as a key strategic objective.

The South Caucasian country has been – more or less actively – seeking closer ties to the West ever since the so-called Rose Revolution in 2003, which led to the presidency of Mikheil Saakashvili (2004-2013). During Saakashvili's rule, Georgia was dragged into a brief war with Moscow in 2008, with Russia still controlling around 20% of Georgian territory. The war's aftermath, combined with accusations of authoritarian rule, slowly resulted in Saakashvili's fall from power in 2013.

Since 2012, Georgia has been governed by the Georgian Dream party linked to billionaire businessman and former Prime Minister Bidzina Ivanishvili, with the opposition accusing the GD-led government of cozying up to Moscow and showing authoritarian tendencies. Most notably, the government in Tbilisi, which is also known for restoring economic relations with Moscow following the 2008 war, did not join the West in imposing sanctions on Russia over its actions in Ukraine, and is actively seeking economic ties to China. At the same time, the Georgian government claims to be in full compliance with the EU's sanctions regime and to have prevented several attempts at sanctions evasion.

Under a positive scenario, the EU candidate status may reduce Georgia's political polarization, which has been one of its greatest challenges in recent years. Achieving EU candidate status was one of the main foreign policy objectives of the current government, which has now vowed to fulfil all necessary requirements for accession. As Tbilisi will now turn to seek the opening of accession talks, the EU decision will also create increased pressure for political and economic reforms, particularly in areas affecting the rule of law, the media, as well as the functioning of the judiciary and other democratic institutions. Furthermore, the candidacy will mean access to a number of different EU assistance programs, including funds for economic and infrastructure development and social reforms, while it will also positively impact Georgia's economic relations with the EU, which remains the country's largest trading partner.

Under a negative scenario, Georgia's EU candidacy may be hurt by political tensions between the Georgian Dream and its opposition as the country heads towards presidential and parliamentary elections in 2024. Held in 2020, the country's last parliamentary elections, in which the Georgian Dream emerged victorious but was accused of election fraud, led to weeks of post-election protests calling for new elections, an opposition boycott of the country's parliament and a new government, while the post-election conflict even required EU mediation.

Heading into 2024, a key question will be Georgia's ongoing approach to its controversial relationship with Russia, as foreign policy alignment is one of the key requirements for joining the European bloc. The incumbent government will likely seek a balanced approach, however Moscow, which continues to downplay the importance of this historic EU decision, is certain to apply economic pressure on Tbilisi to derail its EU trajectory.

HUNGARY GETS CLOSER TO ACCESSING FROZEN EU FUNDS

Largely due to rule-of-law and transparency concerns, the EU has been withholding €30 billion in cohesion funds from Hungary, as well as €10.4 billion in post-pandemic recovery funding under its Recovery and Resilience Facility.

Most analysts agree that the EU's decision to unblock €10 billion in cohesion funds for Hungary was made in exchange for Orbán dropping his threatened veto to opening accession talks with Kyiv and to greenlighting the EU's three-year financial assistance package to Ukraine. Aretera expects this €50 billion aid package for Kyiv to be approved at the next EU summit early in 2024, while Hungary will

gradually receive access to the blocked part of its EU funds in the lead-up to the 2024 European parliamentary elections.

In the short term, this informal agreement will allow for a compromise deal, in which both sides can claim a political victory: the EU will be able to maintain its credibility on Ukraine, while Hungary's ruling Fidesz party will secure access to much-needed EU funds, expected to have a hugely positive impact on the country's economy. Under Hungary's revised National Recovery and Resilience Plan, Budapest is entitled to €5.8 billion in non-repayable grants and €4.6 billion in preferential loans, most of which will be used for supporting the green and digital transitions.

DISAPPOINTMENT FOR THE WESTERN BALKANS

The summit proved an expected disappointment for the Western Balkans. In contrast to the accelerated route to accession talks with Ukraine and Moldova, the summit concluded that the five Western Balkans EU candidates (all WB countries except Kosovo) have shown insufficient signs of progress. Albania and North Macedonia were the two latest countries of the region to start membership talks with the EU in 2022, however negotiations have stalled over bilateral disputes with Greece and Bulgaria.

Serbia, the region's largest country, became an EU candidate in 2012, and – following several setbacks in bilateral relations around a series of domestic and international issues – it remains uncertain if the process can be meaningfully revitalized. The country's EU membership bid remains problematic for a number of reasons, including Serbia's close ties to Russia and China, its economic predicament and strained relations with Kosovo, which Belgrade (and five EU member states) do not recognize as an independent state. As Serbia just this week held snap parliamentary elections, in which the Serbian Progressive Party (SNS) of incumbent President Aleksandar Vučić scored a decisive yet controversial victory, it is yet to be seen if either Brussels or Belgrade will change course.

Membership talks with Bosnia & Herzegovina will commence only if Sarajevo meets the necessary degree of compliance as recommended by the European Commission, with this decision to be reviewed in the spring of 2024. This came as a disappointment to Bosnia's federal government, which hoped to unlock the start of accession talks by adopting last-minute legislation in line with EU requirements. At the same time, critics argue the country remains far from meeting the criteria to start the accession talks, while the secessionist rhetoric of Bosnia's Serb-dominated entity, Republika Srpska, remains an additional concern.

Elsewhere in the region, Montenegro, granted candidate status in 2010, remains the clear front-runner for EU accession, with the country's recently formed government¹ aiming to give new impetus to membership talks. However, this is heavily dependent on whether Podgorica is able to maintain political stability amidst a tense and fragmented political environment.

IMPLICATIONS FOR 2024

While the landmark decision to commence EU membership talks with Ukraine and Moldova (and grant Georgia EU candidate status) has been hailed as a historic step forward, much of what comes next remains uncertain, at least in terms of concrete timing.


¹ See [here](#) for Aretera's overview of Montenegro's new government from November 2023

For international businesses in EU candidate countries, key developments to follow include potentially upcoming regulatory and policy changes aimed at closer alignment with the European bloc. An additional factor to consider is the series of upcoming electoral contests in 2024, which have the potential to impact the EU membership path of these countries. These include presidential and parliamentary elections in Georgia and North Macedonia, parliamentary elections in Moldova, as well as the upcoming European parliamentary elections in June 2024, all of which will require constant political and policy monitoring to evaluate potential changes to the business environment.

As for Hungary, the release of €10 billion in cohesion funds suggests that Budapest is likely to secure access to an even larger share of its frozen cohesion and recovery funds as the EU hopes to secure a compromise on providing further assistance to Kyiv in early 2024. This access could positively impact Hungary's economic outlook, presenting opportunities to investors, particularly to those active in the green and digital transitions. While Aretera's baseline scenario assumes a compromise between Budapest and Brussels on EU funding to Hungary and aid to Ukraine, Hungary's stance on Kyiv shows that the country has a fundamental disagreement with the EU consensus. This will likely result in more Eurosceptic rhetoric in Budapest in the run up to the June 2024 European elections, as well as further political disputes between the two sides as EU discussions about enlargement continue.

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If you would like to schedule a discussion of this paper, please contact:
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