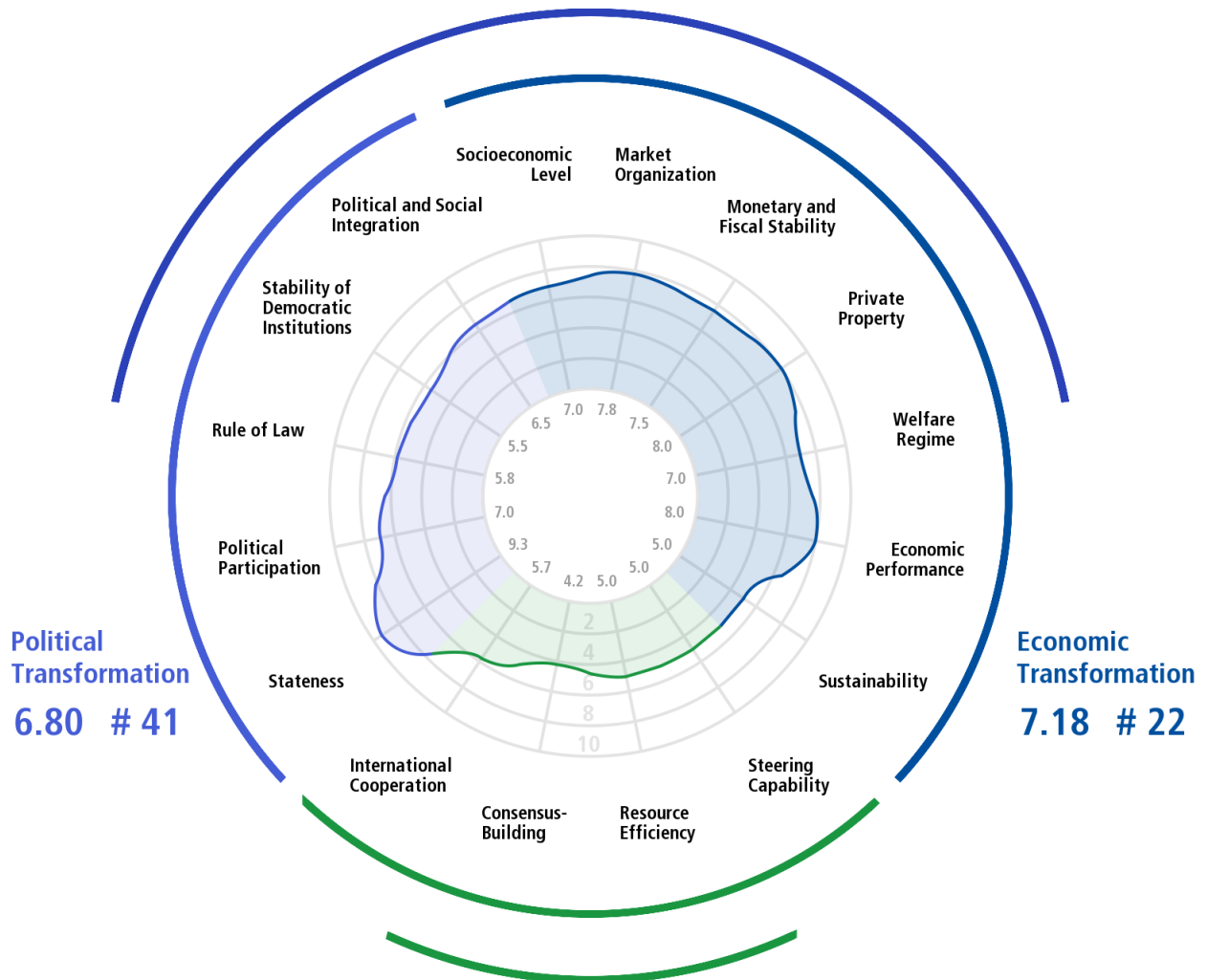


Hungary

Status Index

6.99 # 25

on 1-10 scale out of 137



Political Transformation
6.80 # 41

Economic Transformation
7.18 # 22

Governance Index

4.13 # 93

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2020**. It covers the period from February 1, 2017 to January 31, 2019. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	9.8	HDI	0.845	GDP p.c., PPP \$	30673
Pop. growth ¹	% p.a.	-0.2	HDI rank of 189	43	Gini Index	30.4
Life expectancy	years	76.1	UN Education Index	0.816	Poverty ³	% 1.0
Urban population	%	71.4	Gender inequality ²	0.258	Aid per capita \$	-

Sources (as of December 2019): The World Bank, World Development Indicators 2019 | UNDP, Human Development Report 2019. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.20 a day at 2011 international prices.

Executive Summary

Although leaders of hybrid regimes do not necessarily aim to dismantle the framework of democratic institutions in their country, they do seek to place constraints on liberal democracy. Aiming to present their regimes as functioning democracies, in reality they maintain only the spectacle of pluralist competition. The erosion of the system of checks and balances, the restriction of horizontal accountability, clientelism and crony capitalism, the constant narrowing of civil space and the implementation of an anti-Western orientation and rhetoric under Viktor Orbán's leadership fit this picture. Nine years after Fidesz came to power, the illiberal system is constantly on the lookout for a new enemy to demonize, be it opposition parties, communists, liberals, non-governmental organizations (NGOs), the IMF, the European Commission, George Soros or immigrants.

The defects of Hungarian democracy have persisted and have become even more entrenched during the period under review. In 2014, the constitutional system's reorganization seemed to be completed, but after Fidesz's 2018 election victory, checks and balances were further curtailed. The expansion and centralization of government influence over the media also increased. Hungary has the only public broadcaster in the EU that openly spreads Russian propaganda. The attacks on the central European university (CEU) led to the university relocating to Vienna in 2018. The government has opened new fronts in its "cultural war," for instance against the Hungarian Academy of Science, which illustrates that the regime seems particularly afraid of intellectual centers independent of it.

The opposition parties failed to cooperate in the most recent election campaign and their power has been further eroded since. Toward the end of 2018 however, they unexpectedly began to cooperate on a number of issues and mobilize unprecedented numbers to take to the streets. Nevertheless, this constitutes a minimal threat to the government. The expansion of government-controlled media keeps its supporters in an alternate universe where opposition protests are part of a Soros-led conspiracy.

The government pays attention to macroeconomic indicators, and the pace of economic growth has increased as a result of this and EU transfers to the country. Fiscal rigor is a fundamental priority for the government, to which it adheres to consistently, having learned from its predecessors' mistakes. It realizes that economic vulnerability could undermine its support. Instead of classic state capture where economic interests take over a weak executive, in Hungary a powerful executive cooperates in a non-transparent manner with business circles that it has itself created. The governing elite and economic actors around it govern according to their private interests.

History and Characteristics of Transformation

After the 1956 revolution, Hungary featured the most liberal state socialist regime that was increasingly open to the West. As a result, Hungary – along with Poland – was in the 1990s one of Eastern Europe's trendsetters in terms of democratization and Europeanization. Hungary's transition to democracy took place in 1989, when roundtable negotiations were held between the communist leadership and the emerging opposition parties. These negotiations resulted in an agreement to hold free elections in 1990 and to initiate the necessary constitutional amendments. The first democratic elections were won by center-right opposition parties. In the years that followed, Hungary was able to establish a stable democratic political system characterized by alternating governments of either center-right or socialist-liberal coalitions that were largely sustained over their full terms of office. Hungary joined the Euro-Atlantic integration process, becoming a member of NATO in 1999 and the European Union in 2004.

The global financial and economic crisis of 2008 hit Hungary harder than other East-Central European countries because of its successive governments running excessive budget deficits, its high exposure to international financial markets, its dependence on foreign investment and its high levels of foreign currency denominated loans. These economic conditions and effects were compounded, firstly, by an erosion of confidence in the post-1989 political regime that had failed to deliver the massive prosperity benefits the citizens had been expecting from democracy, economic reforms and European integration.

Historical polarization between the two major political camps became insurmountable and led to a very tense atmosphere by autumn 2006, when a closed caucus session speech of then-Prime Minister Ferenc Gyurcsány leaked out, in which he swore and admitted that they lied to the voters during the election campaign. The leading right-wing opposition party Fidesz skillfully mobilized the widespread popular dissatisfaction not just against the prime minister and the governing socialist-liberal coalition, but against the way the Hungarian democracy worked as a whole. This led to Fidesz winning a two-thirds majority in 2010, 2014 and 2018 parliamentary elections (the latter two being aided by a new electoral system).

Fidesz saw in its 2010 victory an opportunity to rectify the derailed democratic transition and leave behind the 20-year-long consensus built on the separation of powers, designing a significantly

more centralized institutional system. Fidesz has used its supermajority to fundamentally transform Hungary's constitutional, political and social economic system. The government has expanded its influence not only over the public media but also over a significant share of the private media. The government has curtailed the autonomy of the judiciary, the Constitutional Court, the Office of the prosecutor-general, the National Bank of Hungary, the state audit office and local self-governments. It approved a new constitution in 2011 that sought to "cement" Fidesz policy priorities by making future changes to the respective laws contingent upon a two-thirds parliamentary majority. However, the constitution has been modified by Fidesz itself seven times since then. Viktor Orbán's so-called illiberal regime has become a role model for populist parties abroad, and his ambition is to become a political leader of a "Europe of Nation-States."

The BTI combines text analysis and numerical assessments. The score for each question is provided below its respective title. The scale ranges from 1 (worst) to 10 (best).

Transformation Status

I. Political Transformation

1 | Stateness

The state's monopoly on the use of force is uncontested. Public order and security are fully guaranteed throughout the entire country.

Question
Score

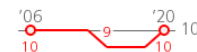
Monopoly on the
use of force
10



Since Hungary can be regarded as a relatively homogenous nation-state since the 1920 Treaty of Trianon, the entire population accepts the nation-state as legitimate.

State identity
10

13 minority groups are officially recognized. Their members are all part of the Hungarian nation and have Hungarian citizenship. These minorities are constitutionally entitled to establish self-governing bodies. In 2018, an ethnic minority representative (from a German minority list) was elected to the National Assembly, for the first time benefiting from a special lower electoral threshold for ethnic minority lists; the other 12 maintain a “nationality advocate” observer in the parliament.



In 2011, the government passed legislation to help ethnic Hungarians living outside the country to acquire Hungarian citizenship. By 2017, the number of newly naturalized citizens had reached one million, according to government figures.



The state is secular. However, religious dogmas exert a moderate influence on the legal order.

An amendment to the fundamental law in 2013, only supported by the self-defined Christian-Conservative governing parties, introduced a restrictive definition of family as a union between a man and a woman, which critics consider to be exclusionary. Nevertheless, this has not coincided with tougher anti-abortion legislation, or the ending of registered partnerships, available to same-sex couples since 2009.

Church-owned schools play an increasing role in education. In 2018/19, 215,900 (13.9%) children were educated in church-owned schools, up from 191,800 (11.5%) five years earlier.

Public administration remains centralized. State authorities and public services are subordinated to political considerations, and institutional and local autonomies are restricted. The campaign and result of the 2018 general election demonstrated that the ruling Fidesz grants a prominent role to mayors affiliated with the party. Government commissioners are political appointees and are charged with local political mobilization. Fidesz's vote share was higher in less well-developed municipalities with a poorer and less educated population. Rather than demonstrating satisfaction with the party, this is a sign of dependency and political constraints. This has been the driver of the centralization of public services and their financing since Fidesz's rise to power in 2010.

The government has almost completely centralized education and health care, while local governments only manage local implementation. However, centralization has not improved the quality of public services. As the central public administration grew too large, the government fired some 3,000 public employees in 2018. At the same time, state-run public services suffer from labor shortages – over 4,000 positions were vacant in public education in 2018. The number of unfilled general practitioner posts rose to 334 in 2018, according to the national health care services center. Hospitals face a skilled workers shortage with intensive care especially strongly affected. In 2018, hospitals in Budapest and in rural areas experienced multiple mass resignations due to heavy workloads and low wages. This has led to a significant deterioration in equality in access to health care, since basic health care is now unavailable in some parts of the country.

No interference of religious dogmas

8



1

Basic administration

9



1

2 | Political Participation

The ruling party can be replaced under current electoral rules. The majority of fundamental electoral principles are adhered to; however, the conditions political actors face are far from consistent. The national election commission (NVB) consists of mostly pro-government members elected in 2013 for nine-year terms. In general, the NVB conducts its activities fairly, but in critical moments, it does the bidding of the government.

Majoritarian features of the electoral system – the increased share of mandates won in single-member constituencies, the abolition of the second round of voting and the so-called “winner compensation” – are all elements that have favored Fidesz at the time of their implementation, but they could benefit an opposition force in a later election – if its popularity was significantly higher than that of Fidesz. Therefore, the most criticized components of the system could provide an opportunity for the opposition.

However, there are numerous other elements that consistently favor the governing party (e.g., the gerrymandered district map) and the government can run a virtually unrestricted electoral campaign under the guise of public service advertisements while opposition parties have few opportunities to broadcast political advertisements on commercial TV and radio channels. Due to its near-unlimited public resources, the government can exploit the lack of campaign regulations outside of the official campaign period, which lasts for 50 days. Civil society organizations can campaign without restrictions, and the regulations on the disclosure of their expenses are even laxer than those for political parties.

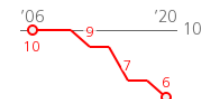
The lax regulations on civil society organizations also benefits the governing party, which has set up sham civil groups. In addition, changes in campaign financing rules have encouraged the proliferation of sham parties – a change in 2017 made embezzling subsidies more difficult, but 13 sham parties still managed to amass a total of HUF 2.15 billion (€6.7 million) in the 2018 election campaign. The national audit office (led by László Domokos, a former Fidesz member of parliament) fined several opposition parties in 2018 for benefiting from cheap rates for outdoor advertising – that Fidesz has made use of previously.

Fidesz-KDNP regained its parliamentary supermajority in the 2018 general election. A report by the OSCE Office for Democratic Institutions and Human Rights (ODIHR) found that while the elections were efficiently administered and offered genuine choice, Fidesz was advantaged because of its use of public resources, biased media and lax campaign funding regulations.

Electoral laws were fine-tuned shortly after the election, but criticisms made by ODIHR and other organizations were ignored. Most of the amendments are technical and the new regulations further favor the government.

Free and fair elections

6



1

The political system allows the elected parliamentary majority and the government appointed by it to work very efficiently. The government has had a two-thirds majority in the National Assembly since 2018, which is enough to amend the fundamental law. Since 2010, the government has made a number of amendments to the constitution to serve its political goals. Hence, the political system does not restrict the government's politics, but the government adjusts the former to its own needs.

Power is concentrated in the hands of the prime minister both formally and informally. Important decisions are made by a tight circle around the prime minister. The governing elite and associated economic actors govern in their private interests. The privatization of public power was both the cause and effect of the dissolution of the democratic system of checks and balances.

The freedom of association and assembly is guaranteed by the constitution. A new law on the freedom of assembly came into force on October 1, 2018. This addressed shortcomings of the previous law – e.g., competing demonstrations in the same place and at the same time – but also strengthens the power of the police over citizens. The law threatens the right to assembly as the police have the right to ban demonstrations by referring to hypothetical illegal acts that have not taken place. Although this may prevent the violent dissolution of protests, the police might abuse its powers and ban protests on the ground that they threaten others' rights or public order. Nevertheless, court oversight of the police remains in place. The new law also enables the police to ban demonstrations on the grounds of the neighbors' right to privacy. This can be used to block demonstrations in front of the homes of politicians and, most importantly, the prime minister, legalizing an existing practice.

The government has continued its attacks on civil society organizations critical of it. It has introduced a special tax called "Stop Soros," which allows the tax and customs office (NAV) to collect tax - the amount of which is open to interpretation by the NAV – from selected organizations. Numerous NGOs challenged the law in the Constitutional Court and the European Court of Human Rights, while the European Commission launched an infringement procedure over it. The Venice Commission called for the law to be annulled in December 2018. In September 2018, several prominent international civil society organizations (e.g., Human Rights Watch, Amnesty International, Reporters Without Borders, International Federation for Human Rights) demanded the European Parliament launch an Article 7 procedure against Hungary citing the government's complete disregard for fundamental European values and the rule of law.

At the same time, in 2017 and 2018 the authorities allowed participants of the Budapest Pride Parade to march in the streets - and not behind cordons – for the first time in ten years. While counter-protests took place in both years, there were no serious incidents. Still, the right to protest is severely restricted by an amendment to the penal code made in 2018 that criminalized non-violent disruption of a

Effective power to govern

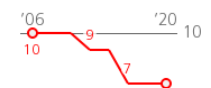
10



1

Association / assembly rights

7



1

demonstration. The amendment was in response to large-scale whistling (organized by an opposition politician) during Vladimir Putin’s 2017 visit to Budapest. This act may now incur prosecution under the new penal code.

Since 2010, Fidesz has harassed and taken over independent media outlets, particularly after its return to office in 2014. The fragmented pro-government media was centralized after Fidesz’s third consecutive election victory in 2018. The public broadcaster (MTVA) is under absolute government control and there are a large number of pro-government private TV channels and radio stations. The private channels all air a news program edited by the government news agency that is more influential than the news programs on the main state news channel M1. Pro-government circles control all local printed media.

Although the expanding pro-government media empire has always resolutely backed the government, its fragmented structure had to be rationalized, as most of these outlets were financed by state advertisements. Media companies linked to Fidesz received as much as 66% of state advertisements according to June 2018 data from the investigative news site Átlátszó (in addition to 14% that went to the public broadcaster).

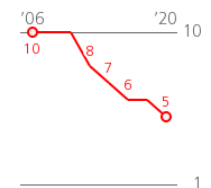
More than 400 titles, including most flagships of Fidesz’s media empire, were transferred to the central European press and media foundation (KESMA) in November 2018. This consolidation occurred as oligarchs linked to Fidesz donated their media shares to the foundation in quick succession. KESMA also took control of the formerly-leftist Szabad Föld, the last significant printed newspaper with a large audience in rural areas.

After the 2018 elections, Lajos Simicska – an oligarch who fell out with Orbán, whose outlets were openly anti-government between 2015 and 2018 – put down his weapons against the prime minister, closing two newspapers and a radio station. His Hír TV continued to broadcast for a few months, but the outlet was soon purchased by an oligarch loyal to Fidesz, and KESMA became eventual owners.

Some independent media outlets still exist. The government has so far failed to obtain control over Index, Hungary’s most popular online portal. Nationwide TV channel RTL Klub is on a solid footing, as is the Central Media Ltd, which manages the popular 24.hu, among other interests. There are several other online media and weeklies with smaller audiences. ATV, a widely available public affairs TV channel, is the only one remaining that adopts a somewhat critical tone of opposition to the government. As its owner, Hit Gyülekezete (the Congregation of Faith), is on good terms with the government, the channel performs the role of pseudo-opposition (e.g., the editorial staff are independent, but the channel airs government “information ads” relatively frequently). Politicians affiliated with Fidesz also take part in their programs.

Freedom of
expression

5



3 | Rule of Law

The ruling party Fidesz, which has been in power since 2010, won another parliamentary supermajority in the 2018 general election, enabling it to change the constitution. Since 2010, the government has almost completely curtailed the authority of nominally independent state institutions. This has been achieved by changing the remit of institutions and appointing Fidesz-loyalist leaders. Consequently, the system of checks and balances has collapsed, as these bodies are very rarely capable of providing a counterweight to the executive branch. The president since 2012, János Áder, who should supposedly act as a balance against the executive branch, is a former Fidesz-affiliated politician. In his first years in office, Áder sent laws back to the National Assembly for re-evaluation multiple times and asked the Constitutional Court for the prior constitutionality review of several laws. Now he no longer offers any opposition. Other affected institutions include the prosecutor-general's office, the Constitutional Court, the state audit office of Hungary and the national tax and customs administration.

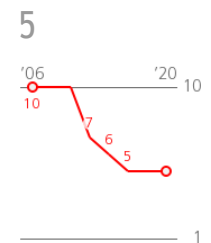
Arbitrary amendments to legislative acts and tailoring laws to individual needs have become common practice. Hungarian regulations generally do not restrict the government's power but rather serve as its tools. This is illustrated by the fact that the fundamental law has been amended seven times since 2012 (most recently in June 2018).

Fidesz has also attempted to further regulate referenda to minimize the chances of successful opposition initiatives. When the government senses a defeat, it backs down, making the referendum redundant. This is how the administration gave up on the mandatory Sunday shop closure in 2016 and on Budapest's Olympics bid in 2017.

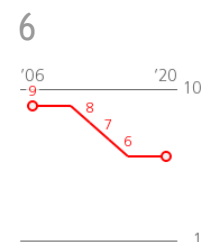
The relative independence of the judiciary has prevented a complete collapse of the system of checks and balances. Biased decision-making in favor of the government and ruling parties remains rare, despite the fact that the judicial leadership is close to Fidesz. Courts often decide against the government in cases important to the regime. For instance, lawsuits to force the publication of data of public interest often end with the loss of the defending governing institution or state-owned firm. For example, in autumn 2017, the curia obliged the ministry for national economy and the ministry for human capacities to publish data on tax-deductible contributions by companies to sports associations; documentation on Paks II nuclear power plant expansion was also ordered to be partially published.

However, the government has not given up on legislative efforts to curtail the impartiality of verdicts. Soon after regaining its supermajority in 2018, Fidesz decided to establish a separate public administration court system from 2020, ignoring strong protests from the opposition. The new courts raise serious concerns for multiple reasons. For example, the judges deciding on cases concerning

Separation of powers



Independent judiciary



demonstrations, strikes or even elections – issues that are highly important to the government – will be appointed and promoted by the minister of justice. Hence, this amendment hands the government unprecedented power not seen since the democratic transition and runs counter to the principle of the separation of powers. The European Commission, which is still examining the proposal for public administration courts, condemned how the Hungarian judicial system operates in its 2018 country report, pointing out that certain decisions might have a negative influence on the independence of the courts.

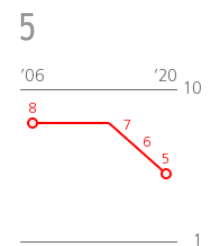
Over the past eight years, the Constitutional Court has generally functioned as a subordinate to the executive rather than a check on it. Except for a few verdicts (e.g., it decided in 2018 that the transparency of the financial support given to specific individuals by the national bank of Hungary [MNB] was unconstitutional), it has failed to seriously confront the government.

The office of the prosecutor-general is under strong government control since the chief public prosecutor is a former Fidesz politician. The impartiality, objectivity and legal operation of the office are not guaranteed, and the transparency and accountability of the prosecution's institutional system is not ensured. Péter Polt, the chief public prosecutor, elected in 2010, is able to remain in his position even after the end of his nine-year mandate (expires December 14, 2019) or reaching the age of 70, provided the National Assembly does not elect a successor with a two-thirds majority.

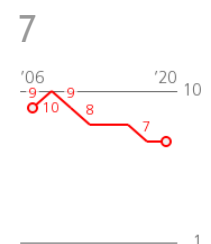
As a result of this lack of independence, serious corruption cases with political ties are left unpursued. The office has refused to investigate the billions of dollars coming to Hungary from Azerbaijan, the corruption scandals surrounding Microsoft Hungary or the Elios case (the European Anti-Fraud Office (OLAF) believes that actors linked to the prime minister's son-in-law earned EU funds corruptly using local governments' public procurement tenders). In contrast, investigations have been regularly launched against opposition politicians, recently against Momentum party president András Fekete-Győr and LMP-co-president member of parliament Márta Demeter.

Civil rights are legally codified and protected. The right to a fair and public trial is guaranteed, but there are significant problems with the implementation of these laws in practice. In Hungary, the Roma, religious and sexual minorities and refugees are the most common victims of hate crimes. However, in many cases Roma are found guilty of committing hate crimes against Hungarians, but when they are the victims, the perpetrators are rarely found to be committing hate crimes. The police have not published any statistics on the phenomenon, so civil society is trying to compile them. Using these figures, it appears that fewer than 50 hate crimes are charged by police every year. There are complicated reasons for the rate of hate crimes remaining

Prosecution of office abuse



Civil rights



unreported and the discrepancy in prosecution rates depending on the victim's identity.

The government introduced a new element into its asylum regulations in July 2018, allowing the government to turn down asylum applications and return the applicant to a "safe country" that they have recently transited through. The European Commission launched an infringement procedure against Hungary because of the amendment, as EU regulations on the asylum procedure do not allow for denying one's asylum application on such grounds. Authorities' treatment of asylum seekers has been frequently criticized. For instance, on one occasion in August 2018, only selected members (children and a new mother) of an Afghan family were offered food.

4 | Stability of Democratic Institutions

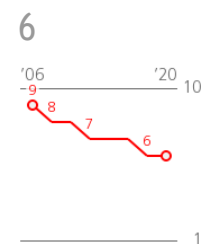
The Hungarian political system can be described as a defective democracy where democratic institutions and the rule of law exist but are restricted and ineffective. Since 2010, the role of democratic institutions in overseeing the activities of those in power has been increasingly restricted.

The National Assembly has long been subordinate to the executive branch and this trend has strengthened since 2010. The National Assembly's powers of oversight over the executive are ineffective due to the dominance of Fidesz, the ruling party. The opposition's role in the legislative process is minimal. Only one opposition-initiated proposal among the 730 laws or legislative amendments was approved during the 2014 to 2018 parliamentary period; 781 mostly opposition-initiated proposals were not even tabled. Sometimes Fidesz even voted down opposition proposals they themselves supported; these were later approved after being submitted them as their own.

No examination committees have been established in the National Assembly since 2010. The opposition has tried multiple times to call a sitting of the national security committee to discuss issues that could have shown Fidesz in a bad light (e.g., residency bonds, refugee status for ex-Macedonian prime minister, Nikola Gruevski), but the government obstructed these efforts by abstaining from the sitting.

The Fidesz-affiliated speaker of the National Assembly banned the opposition from using demonstrative tools (banners, etc.) in the parliament. In December 2018, while processing the amendments to the labor code, which prompted nationwide protests, the parliamentary rules of procedure were ignored when no meaningful debate was held on opposition amendments. The law was approved under questionable circumstances.

Performance of democratic institutions



Most democratic institutions are accepted as legitimate by most relevant actors; however, as a consequence of changes since 2010, the approach of relevant actors to institutions is increasingly skeptical. Parties no longer expect the prosecutor general to launch meaningful inquiries into cases concerning the ruling party. The national audit office has appeared biased, by issuing fines to opposition parties. Independent actors (NGOs, political parties) trust courts the most, which is partly the reason for the government establishing public administration courts.

The level of political polarization is high in Hungary. The consequence of political polarization is that acceptance of democratic institutions mainly depends on which parties are in government and opposition. Before 2010, the supporters of parties and politicians in opposition did not trust institutions, only their own political representatives. Since 2010, the formerly governing leftist and liberal political actors have become distrustful of institutions. Thus, democratic norms are instrumentalized, political actors do not respect rules and institutions. The Orbán regime has used this polarization and lack of trust to disempower and nullify democratic institutions.

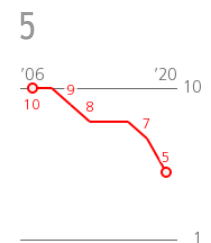
5 | Political and Social Integration

The party system is dominated by the right-wing populist Fidesz, which has governed the country since 2010. The party officially governs together with its minor coalition partner, the Christian Democratic People's Party (KDNP), but the latter has no independent political agenda or support. The governing parties hold 133 out of 199 seats, granting them a two-thirds supermajority in the National Assembly. Prime Minister Orbán labeled this as a “centralist party system” with one large party forming the “center,” surrounded by weak parties without a role in the decision-making process.

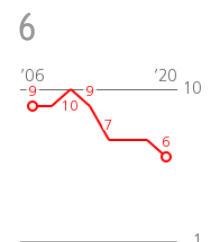
The fragmentation of the opposition accelerated after the 2018 elections; however, they were able to cooperate on certain political issues at the end of the same year. After the 2018 elections, both Jobbik (For a Better Hungary) and LMP (Politics Can Be Different) have split. Although these two opposition parties received more votes in 2018 than ever before, the results were far behind their expectations. Internal tensions swiftly erupted. The splinter group from Jobbik founded the party Mi Hazánk (Our Homeland) under the leadership of László Toroczkai, the former Jobbik vice chairman and an emblematic figure of the far right. Four former Jobbik MPs joined them. The two former co-chairs of LMP – Bernadett Szél and Ákos Hadrázy – left that party and its parliamentary group, which now has six only members of parliament. It is uncertain whether the two aforementioned opposition parties will be able to rejuvenate themselves or even survive.

The Hungarian Socialist Party (MSZP) remains the largest party on the left (15 members of parliament), followed by the Democratic Coalition (DK) of former prime

Commitment to democratic institutions



Party system



minister, Ferenc Gyurcsány (8 MPs), and Dialog (Párbeszéd, 5 members of parliament). Momentum, a new liberal party, failed to reach the 5% threshold in 2018.

Fidesz is the only party with a nationwide network. The previously well-organized MSZP has significantly weakened organizationally since 2010, as has Jobbik since the split. The other parties have no nationwide network to speak of. After a decline in voter turnout between 2002 and 2014 (from 70.5% to 61.7%), 2018's 70.2% turnout rate was surprising. It can be mostly attributed to Fidesz's extremely effective mobilization efforts in smaller towns and villages.

Between 1990 and 2010, the party system appeared rigid and stable. In 2010, two parties established in 1989 (MDF and SZDSZ) disappeared, and two new formations emerged (Jobbik and LMP). Since then, Fidesz's support has been very stable (moving between 40% to 50% of dedicated voters, while the aggregated support for opposition parties has not grown).

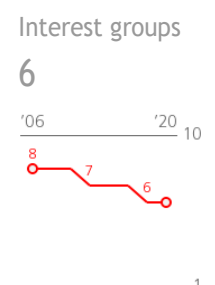
Fidesz is the only party that has a strong and effective network. Formerly MSZP was said to be well-organized, but after its 2010 defeat (and the 2011 split of DK) the socialists' network has deteriorated. Jobbik put considerable resources into developing their network between 2006 and 2018, but after the above-mentioned 2018 defeat and split their network weakened significantly. None of the further parties have a substantial network.

The situation is the same with clientelism: though other parties have a few stakeholders around them, only Fidesz has a powerful and effective clientele.

There are many interest groups in Hungary. Together they are a relatively accurate reflection of the interests of the majority of the society. However, some societal groups are poorly represented in the social dialog (e.g., the Roma), while the representation of employees' interests is weak and employers' interests are clearly prioritized by the government. Furthermore, social dialog has become vacuous since 2010, due to legal changes, the restructuring of the reconciliation procedure and the governing methods of Fidesz.

The reconciliation of conflicting interests through dialog has become significantly more difficult. To secure its dominance over public discourse and eliminate restrictions on its power, the government has attempted to weaken and silence societal actors that are ideologically and financially independent from the ruling party. This can be seen in the campaigns and attacks against civil society organizations, academia and independent media outlets. It has increased the potential for social conflict because the space for reconciling conflicting interests has further diminished.

According to the Hungarian central statistical office (KSH), the number of non-profit organizations, trade unions and professional, employer organizations decreased marginally to 61,151 in 2017 (1,000 fewer than in 2015). These include 794 trade unions, and 2,010 professional and employer organizations. 3,123 of these



organizations were active in professional, economic advocacy, 580 in rights protection, 2,040 in environmental protection and 280 in politics (all types of organizations saw decreases compared to 2015).

As the debate in December 2018 about the amendment to the labor code to increase the amount of possible overtime and to relax remuneration rules illustrated, the government prioritizes employers' interests. However, ineffective demonstrations, and the absence of strikes after the adoption of the new rules, highlighted the weak mobilization of employees' interests. KSH data from 2015 show that only 25% of all employees had a trade union in their workplace and only 9% were members of a trade union (down from almost 20% in 2001). The weak representation of employees' interests is reflected in strict strike rules and the low credibility of trade unions. The weakness of trade unions is also a consequence of their politicized nature and varying relations with parties. Trade unions are fragmented and, instead of cooperating, often push their specific interests at each other's expense. Finally, trade unions are increasingly vulnerable financially and are becoming dependent on the state as fewer members (fees) harms their income.

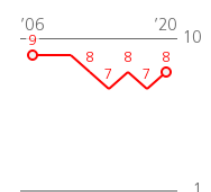
The main platform of social dialog, the national economic and social council (NGTT) includes representatives of employers, employees, churches, civil society, academia and the arts. However, as the government does not participate in it, the body only has a consultative role. A further limitation on the reconciliation of social interests is the hollowing-out of the process of soliciting feedback on legislative proposals. Major legislative proposals are usually submitted to the parliament as private member's motions, which are exempt from legislation on social dialog. In other cases, opinions are often simply ignored.

Although most Hungarians do not embrace authoritarianism, a significant proportion of society prefers having a strong leader instead of elected politicians. According to a 2018 survey by Political Capital, 26% of respondents believed that Hungary would be governed better if important decisions were left up to a strong leader instead of elected politicians. Even though the Orbán regime has been frequently criticized for systematically eroding democratic institutions, satisfaction with the way democracy works in the country has improved in recent years. According to the Standard Eurobarometer 90 (November 2018), 53% of Hungarians were (very or fairly) satisfied with the way democracy works in Hungary, while 45% were dissatisfied. In spring 2017, most respondents were rather dissatisfied (60%) and those pleased with Hungarian democracy were in the minority (39%). The level of satisfaction with democracy is highest not only in the review period but among all Eurobarometer surveys since 2004.

Besides the assessment of democracy at a general level, evaluation of democratic institutions has improved as well. According to the four waves of Eurobarometer surveys polled during 2017/2018, 51% of Hungarians tended on average to trust the national legal system. This is an increase of 6 percentage points on results from the

Approval of
democracy

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preceding two years. There is a similar trend evolved regarding the assessment of public administration, where the level of trust increased from 48% to 57%.

The 2017 European Social Survey (ESS) examined the assessment of the operation of Hungarian democracy. Opinions were highly divided. The proportion of satisfied respondents was just three percentage points higher than that of dissatisfied Hungarians. This is an improvement over the previous survey from 2015, when there were more dissatisfied than satisfied respondents. However, 68% of respondents believed that the Hungarian political system “very rarely or never” allows them to influence what the government does.

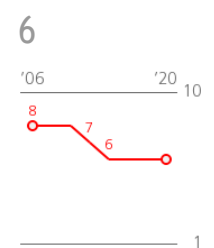
Hungary has one of the lowest levels of interpersonal trust among the EU countries. In the 2017 European Social Survey’s (ESS), a majority of Hungarians reported low levels on three questions related to interpersonal trust; the country was ranked in the bottom four of the 23 participating countries. However, comparing these findings with results from ESS 2015 suggests an increasing level of trust in all three aspects, mirroring the increasing social capital in 18 of the 20 countries covered by the study.

61,200 organizations worked in the non-profit sphere, 1.6% less than in 2015 (Hungarian central statistical office, 2017). 15.2% of non-profit organizations dealt with culture, 8.8% with social care and 3.3% with environmental protection. The number of organizations involved in these three fields has decreased over recent years, with cultural associations most affected (a decline of 5.4%). According to ESS 2017 data, 4.1% of Hungarians had worked for an association (excluding a political party) in the previous year – a marginal increase over the figure in 2015 (3%) but still lower than all countries in the survey except for Russia and Lithuania.

The government continued its drive against civil society in 2017/18 approving a law on the transparency of NGOs funded from abroad and a “Stop Soros” legislative package. Fidesz and the government also waged an intensive negative campaign that may have led to the deterioration in Hungarian society’s perception of NGOs.

The distrustful environment and closed mentality is unrelated to economic development and Hungary’s social structure, as this characteristic has gone unchanged for a considerable time. Compared to the majority of citizens in Western democracies, the average Hungarian considers civil and political liberties to be less important, is not as active in daily politics, is not as tolerant of minority opinions and believes self-realization to be less important. The overall level of social activity is also low – people meet their friends less, do not help each other out as frequently, and participate in clubs and engage with civil society organizations less often than most West Europeans.

Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

According to the Human Development Index (HDI), Hungary is at a very high level of human development but scored fourth lowest in the EU in 2017 (0.838). The score is more affected by poverty than in neighboring countries (Hungary's lower score on the HDI due to inequality was 7.7% compared to 5.3% and 6.8% in the Czech Republic and Slovakia, respectively).

Along with economic growth, the risks of poverty and social exclusion have declined in recent years, although Hungary remains one of the most unequal societies in the EU. Economic progress has been slower for the poor than for those better off. Inequalities have increased since the Orbán government took office in 2010, in line with a redistribution policy that generally favors the well-off. The Gini coefficient has declined between 2014 and 2017 from 28.6 to 28.1. This is lower than the EU average (30.7) but similar to countries in the neighboring region.

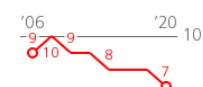
The percentage of people at risk of income poverty after social transfers was higher in 2017 (13.4%) than in 2010 (12.3%). 2017's figure did however mark a decrease from 2015's figure of 14.9%. More specific calculations on income inequality show that a widening gap is emerging between the rich and the poor. The poorest decile is endangered by social exclusion. In terms of household net income after transfers per individual, the poorest decile earned just 26% more in 2017 compared to 2010, while the richest decile enjoyed a growth in income of 42%.

Vulnerable groups such as pensioners, children, the unemployed and those from a Roma background are particularly exposed to poverty. Poverty risk among pensioners rose to 11.1% in 2017 from 4.4% in 2010. In-work poverty doubled between 2010 and 2017 (from 5.3% to 10.2%). Poverty and social exclusion risk was alarmingly high – 31.6% in 2017 (EU average 24.9%). The Roma were almost 3.7 times more likely to live in poverty and social exclusion than their non-Roma peers in 2017. On the other hand, the share of Roma population living in poverty declined significantly, from 89.9% in 2013 to 67.8% in 2017.

Question
Score

Socioeconomic
barriers

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Economic indicators		2015	2016	2017	2018
GDP	\$ M	123074.1	126008.0	139761.1	155703.1
GDP growth	%	3.5	2.3	4.1	4.9
Inflation (CPI)	%	-0.1	0.4	2.3	2.9
Unemployment	%	6.8	5.1	4.2	3.7
Foreign direct investment	% of GDP	-4.5	54.9	-9.3	-46.8
Export growth	%	7.2	5.1	4.7	4.7
Import growth	%	5.8	3.9	7.7	7.1
Current account balance	\$ M	3356.5	7759.9	3848.0	626.8
Public debt	% of GDP	76.7	76.0	73.4	70.9
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-2.1	-1.9	-2.3	-
Tax revenue	% of GDP	23.4	23.3	23.2	-
Government consumption	% of GDP	19.8	20.2	20.2	19.1
Public education spending	% of GDP	4.6	4.7	-	-
Public health spending	% of GDP	4.7	4.9	-	-
R&D expenditure	% of GDP	1.4	1.2	1.4	-
Military expenditure	% of GDP	0.9	1.0	1.1	1.1

Sources (as of December 2019): The World Bank, World Development Indicators | International Monetary Fund (IMF), World Economic Outlook | Stockholm International Peace Research Institute (SIPRI), Military Expenditure Database.

7 | Organization of the Market and Competition

The IMF estimates that Hungary's informal economy amounted to 22.2% of its GDP in 2017, over five percentage points above the European average. This is mainly the result of the still relatively high tax burden on work in the country, although the government implemented a series of tax cuts in 2017 and 2018: the social contribution tax was cut from 27% to 19.5%, and corporate tax and the taxes on SMEs were also cut.

VAT in Hungary is the highest in the EU at 27%; the government has implemented a series of targeted VAT cuts instead of a general decrease. Overall, the tax system remains highly complicated with 58 different taxes in force in 2018. Hungary is ranked 53rd in the World Bank's Doing Business 2019 report – 12 places lower than in 2017. Establishing a business in the country is not a well-facilitated process: it takes six procedures, seven days and costs 4.9% of the average income per capita, placing Hungary 82 out of 190 in the sub-index "Starting a Business."

State-administered pricing remains in place for public utilities for households. The income of state-owned firms in the sector often does not cover all expenses required for infrastructure maintenance. This is likely to cause long-term problems when critical infrastructure needs to be repaired. Prices are state-administered for waste management. Special sectoral taxes remain prevalent, although the highest bracket of bank tax was cut from 0.21% to 0.2%. In January 2018, a tourism development contribution of 4% was levied on restaurants, making it the latest addition to the long list of sectoral taxes.

The incumbent Hungarian government strongly interferes with the economy to inhibit free-market competition in sectors it considers strategically important (energy, media, banking and retail) for political purposes. It does this through the adoption of legislation discriminating specifically against targeted firms. The aim of such interference is either to implement popular measures such as the utility price cuts, control the public discourse through a pro-government media empire or to enrich businesspeople with ties to the ruling party.

Hungary's comprehensive competition laws, which seek to prevent monopolistic structures and conduct, are largely compliant with EU regulations. The Hungarian competition authority (GVH) is responsible for enforcing competition rules. GVH generally operates fairly and evaluates cases along professional considerations; however, it remains liable to government interference or self-censorship in cases when pro-government businesspeople or strategically important sectors are involved. Moreover, the government can classify mergers as "strategically important" to avoid compliance procedures, which weakens the enforcement of competition law in the country.

Market organization

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Competition policy

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In the case of media mergers and acquisitions, the GVH must request a preliminary resolution from the media council (MC). The council's resolution is binding on the competition authority. The independence of the two institutions is questionable, especially that of the media council. It has permitted businesspeople with ties to the ruling party to assume control over a disproportionate share of Hungarian media outlets. In December 2018, businesspeople donated more than 400 of their media outlets to the central European press and media foundation (KESMA). The media council and competition authority should have examined and challenged the merger as it was clearly against Hungarian competition law. However, the government classified the merger as “strategically important” to avoid scrutiny. The Hungarian prime minister has decreed that the creation of a vast pro-government media conglomerate cannot be challenged by competition authorities.

Foreign trade is liberalized both with the European Union and with third countries. The World Bank's Doing Business 2019 report gave Hungary a score of 100 on the trading across borders scale, which ranked it joint first. Hungary fully complies with EU regulations on trade and the central administration understands the important role foreign trade plays in the economy. The administration offers state support to large multinational companies that generally export the goods they manufacture in the country in the form of strategic partnership agreements.

The Hungarian banking system is on a relatively stable footing and oriented toward international standards, albeit that some issues threaten this balance. The National Bank of Hungary (MNB) is responsible for the supervision of Hungarian banks and other financial institutions. The November 2018 financial stability report of the MNB claimed that the banking sector is strong in terms of liquidity and capital adequacy and highlighted that banks have started to increase their corporate and household lending. The capital adequacy ratio stood at 17.2% at the end of June 2018. The proportion of non-performing household loans has fallen considerably since its peak of over 16% in 2013, to just over 4% in 2017.

The state owns the Budapest Bank (BB), although it was scheduled to sell it by 2018. In August 2018, it was revealed that the firms owning the Hungarian Foreign Trade Bank (MKB), sold by the state in June 2016, were owned by the most influential Hungarian pro-government businessman, Lőrinc Mészáros. The ownership structure of the bank allows Mészáros to grant loans to his own enterprises more easily, as rules concerning this only apply if his ownership share in the bank nominally exceeds 50%. The MKB has granted significant loans to other pro-government businessmen. Hungarian media reported in May 2017 that the MKB had borrowed €50 million to owners of pro-government media outlets, while the investigative journal *Átlátszó* found around €401 million worth of “politically risky loans.” Businessmen with ties to the government have the financial resources to repay these loans as long as they can receive a steady income from EU- and state-funded projects, but they might

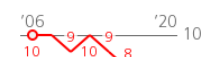
Liberalization of
foreign trade

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Banking system

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become insolvent if these sources dry up. The increasing cross-ownership between the banking sector and pro-government businessmen could pose a long-term risk to the Hungarian banking system.

8 | Monetary and fiscal stability

The mid-term inflation target of the Hungarian National Bank (MNB) is 3%. Consumer prices displayed more volatility in 2017 and 2018 than in previous years, increasing by 2.4% and 2.8%, respectively. The MNB's forecasted in late 2018 that inflation could stabilize at 3% in 2019. The MNB closely monitors not only the inflation index but changes to core inflation as well. It is ready to use its entire toolkit to achieve price stability, preferring non-conventional tools. The base interest rate has been 0.9% since May 25, 2016. Maintaining lax monetary conditions in the long-term is in line with government economic goals.

Though the independence of the MNB is clearly established in law, concerns have occasionally been raised by domestic stakeholders and the European Central Bank. The current governor, György Matolcsy, is a former economic minister from the first and second Orbán cabinets. Furthermore, according to Matolcsy, it is a task of the MNB to help the economic policy of the government. All this indicates that though the MNB is de jure independent of the government, de facto it is not.

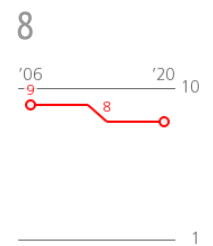
The value of the Hungarian forint (HUF) against the euro has gradually decreased from HUF 309 in Q1 2017, to HUF 323 in Q4 2018. One reason behind the forint's fall was the low base interest rate at a time when international markets were interest rates rising. According to Eurostat data, from 2016 to 2018 the real effective exchange rate index increased only moderately, by one point to 92.29 (where 2010 = 100). There is no exchange rate target, so the MNB and the government were under no pressure to intervene. With the conversion of foreign currency loans and the gradual decrease of the proportion of state bonds denominated in foreign currency, the country's external vulnerability has decreased considerably.

The budget deficit in 2017 was 2.2% of GDP. The government estimated that this would rise to 2.4% in 2018, but it is likely to remain around 2%. Increased domestic consumption and additional measures targeting the informal economy and tax evasion have resulted in better than expected tax and contribution revenues. The deficit did not rise sharply despite the 2018 general election.

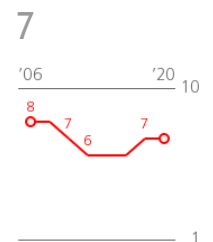
Although the government seeks to consistently cut the budget, it has spent a considerable amount on measures to encourage economic growth. This is the reason why Hungary's budget deficit is higher than that of regional competitors.

The gradual decline of state debt is required both by the EU's Maastricht criteria and the Hungarian fundamental law, and the government is committed to adhering to

Monetary stability



Fiscal stability



these. The MNB suggests that state debt fell by 3.6 percentage points between 2016 and 2018 to 72.4%. The government estimated a further decline by the end of 2018, and their long-term predictions are for it to fall below 60% by 2022.

In 2016, all three large credit rating agencies raised Hungarian sovereign debt into the recommended for investment category. However, further improvements did not follow in 2017/18. Hungary's outlook was improved to positive by Fitch and Standard and Poor's.

9 | Private Property

Property rights and regulations covering ownership are generally well-defined and enforced in Hungary, and exceptions to these rules are clearly defined. According to the World Bank's 2018 Doing Business Report, Hungary ranks 29th in the world in terms of registering property. The country's score has remained largely unchanged since 2017. In the report, Hungary is ranked 13th in enforcing contracts through courts, and the authors emphasize that Hungary has made this process easier by introducing an e-payment system for court fees.

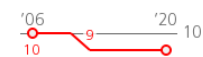
In late 2017, the government approved a decree stating that the state can register a pre-purchase option on more than 80,000 properties situated on world heritage or natural heritage sites. The administration has proven itself willing to restrict property rights if it serves its political or private goals. For instance, the government will buy the required properties for the upcoming BMW factory in Debrecen, using compulsory purchases if necessary.

The government views private companies as the primary engines of economic production in the vast majority of economic sectors. P enjoys adequate legal safeguards. However, in sectors considered strategically important (energy, media, banking and retail) or in areas that feature the interests of the ruling party's clientele (mainly construction), the state severely interferes with private companies through legislative means. Public procurement tenders remain the main source of funding for pro-government businessmen: competition in public procurement tenders decreased in 2017 to 2018. The financial gains of pro-government businessmen are sometimes supported with legislation tailored to their needs. These oligarchs then use their wealth to expand their - and consequently the government's - influence over the economy.

The ruling party's perceived political or private interests can overwrite the rules of the free market and interfere with private company ownership. The government has also shown willingness to implement legislation that discriminates against foreign firms, for instance in the retail sector, but these have largely been struck down by the European Court of Justice. Nevertheless, export-oriented businesses that require a high level of expertise and create high added value remain unaffected.

Property rights

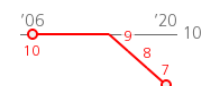
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Private enterprise

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10 | Welfare Regime

Before 2008, Hungary had a strong social safety net compared to its regional neighbors, but the 2008 financial crisis necessitated a number of austerity measures. The Orbán cabinet took office in 2010 and announced a strong workfare agenda that left its mark on redistribution policies. Since then, the value of tax allowances has increased more than tenfold, while the value of universal family support has decreased by more than 13%.

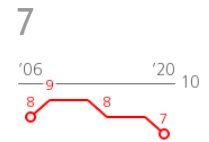
Access to disability benefits and early pensions was significantly curbed and vocational early pensions were abolished. As a result, approximately 600,000 individuals (21.5% of those formerly eligible for pensions) were excluded from the pension scheme by 2012. While the pension ceiling was abolished, the minimum pension was held for more than 10 years at €90. People excluded from the pension scheme were left with a weakened social assistance system. As a result, poverty and social exclusion risk among pensioners rose to 11.1% in 2017 from 6.8% in 2015 and 4.4% in 2010. Those remaining in the public pension system are relatively well-off, with a 67% replacement rate (the highest in the region). Positive disability policy changes include the 2018 increase of the nursing fee from €189 to €315 paid to persons who provide long-term care to a disabled or permanently ill relative.

The length of unemployment benefit is three months, the shortest in the EU. A large-scale public works scheme dominates active labor market policy schemes such as training, mentoring or wage subsidies. However, the government started to cut back on the number of public works participants. By 2018, 150,000 public works participants were in the scheme each month, approximately 100,000 fewer than two years earlier. The at risk of poverty rate (60% of the median income after social transfers) of unemployed persons increased from 44.8% in 2010 to 51.0% in 2017.

Social assistance was cut from 20% to 15% (€72) of the minimum wage in 2010 and has not been adjusted since. Social assistance has been coupled with tightened behavioral conditions and stricter sanctions (e.g., compulsory participation in public works). A major housing support program called the family housing allowance scheme provides the majority of its support to the most well-off families due to tight eligibility criteria.

The government spent 4.8% of GDP on health care in 2017, higher than previous years' spending but lower than the 2010 figure of 5.1%. Households' out-of-pocket spending on health care services amounted to 29.7% of total health care funds in 2016. This figure is very high compared to the EU average or to earlier Hungarian spending data (28.3% in 2010). In general, public health care struggles with severe problems such as long waiting lists, shortage of doctors and nurses and low-quality infrastructure. This affects the poorer most, who cannot afford the costs of the private health care system, which has steadily expanded in recent years.

Social safety nets



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Despite school enrollment rates in Hungary of 99.9% and 100% in primary, and 99.2% and 99.7% in lower-secondary school for boys and girls respectively, school segregation and drop-out are burning issues. Roma children are 40% less likely to complete secondary school than their non-Roma peers, and no political commitment to building a more inclusive education system is forthcoming. Lowering the compulsory schooling age from 18 to 16 years in 2012 increased school drop-out rates from 10.8% in 2010 to 12.5% in 2017. Providing three times more state financial support to church-run schools than to state-run schools (church-run schools are a hotbed of segregation, particularly in smaller settlements) is indicative of the government's lack of effort to address segregation. So too does its emphasizing of traditionally lower-quality vocational schools over secondary schools. As a result, Hungarian schools are less likely to counter the impact of a child's socioeconomic background, according to OECD's PISA 2015 results.

The gender wage gap and employment gap are below the European average (14% and 15% respectively), however, male employment grew more (from 65.5% to 81%) than female employment (54.6% to 65.7%) between 2010 and 2017. Research suggests that women face significant barriers to returning to the labor market after giving birth. Childbearing is also responsible for a significant part of the gender wage gap. Since 2010, there has been no change in the share of women on companies' boards. According to the European Institute for Gender Equality (EIGE), Hungary scores very low among EU countries in the areas of power (equality in decision-making in political, economic and social areas) and time (time allocated to social and care activities).

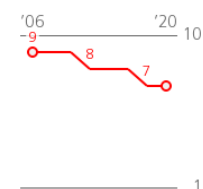
11 | Economic Performance

2017 and 2018 were the strongest performing years of the Hungarian economy since the democratic transition. According to data from the Hungarian central statistical office, GDP expanded by 4.4% in 2017 and by 4.9% in 2018. Despite strong growth, the country's position relative to the EU28 has not changed. According to Eurostat, Hungary's GDP per capita in purchasing power parity (PPP) terms was 68% of the EU28 average in 2017, the sixth lowest value among member states.

The country's debt-to-GDP ratio is high compared to its regional neighbors, which has a detrimental impact on the country's risk assessment. Strong economic growth and a stringent fiscal policy have helped to gradually reduce state debt. The general government deficit stood at 2.2% of GDP in 2017 and in 2018. Though these figures are slightly higher compared to the preceding two-year period, they are still far from the Maastricht criterion. Regarding the labor market, the unemployment rate fell to a record low of 3.7% in 2018, while the employment rate grew by over two percentage points to 69.7%. According to official statistics, the number of unfilled jobs was close to 90,000 in 2018. However, estimates suggest that hundreds of thousands of workers are missing from the labor market, which is an increasingly serious cause for concern in certain economic sectors.

Equal opportunity

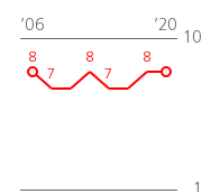
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Output strength

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12 | Sustainability

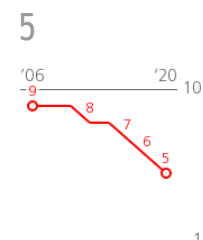
Environmental taxes are relatively high in Hungary, representing 2.7% of GDP and 6.9% of total tax revenue in 2016 (OECD), although they are declining. Besides being a significant contribution to the state budget, environmental taxation fails to account for the actual environmental costs of energy use and economic activities, and it fails to improve environmental consciousness. Hungary collects most of its environmental taxes through the consumption of energy products (77.0%) and vehicle use and ownership (13.6%). Altogether, Hungary has one of the lowest effective tax rates on energy in the OECD. As a result of such distortions, a vast share of CO₂ emissions (43%) arising from energy use remain untaxed and the effective carbon tax rate on road transportation is among the lowest in the OECD countries. In contrast, the mortality and welfare cost of exposure to air pollution are among the highest in the bloc.

In 2016, 70% of Hungary's energy supply was comprised of fossil fuels, while nuclear power was responsible for 16% and renewables, mainly biomass, for 11%. With respect to electric power generation, nuclear power is the predominant source of fuel, representing 50%, while renewables represent only 10%, the latter being much lower than either the OECD or regional average. The share of nuclear power is expected to increase further as a result of the Paks II power plant expansion.

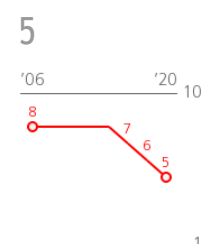
The government's emphasis on environmental protection and sustainability has declined significantly, as reflected in its policy choices. Merging the ministry of environment into the ministry of agriculture in 2010, and subordinating the formerly independent green authority to the county government offices in 2015, both resulted in a weak and fragmented institutional background without real enforcement powers. The power of authorities was further weakened by lay-offs affecting 44% of the secretariat's staff (2018) and further regulatory changes which left little to no room for enforcement in the case of large, state-supported infrastructural investments (2012). The last eight years have been marked by large-scale investments raising serious environmental issues (e.g., the case of the state-supported expansion of the Audi car factory into a Natura 2000 territory).

According to a report from the World Economic Forum (WEF) covering 2017 - 2018, Hungary ranked 87 out of 137 countries in quality of basic education, 73rd in higher education and training and 62nd in innovation. Businesses reported that the most significant barrier to doing business in Hungary was the inadequately educated workforce. According to the same WEF ranking, Hungary fell from 36th to 57th place in the world regarding the skills of the future workforce. Hungary scored 0.815 in 2017 on the education index by the United Nations, which represents a decline from its highest score of 0.834 in 2013.

Environmental policy



Education policy / R&D



The school system places emphasis on traditional pedagogical methods, the objective of which is to improve factual knowledge, not non-cognitive skills or adaptability. PISA 2015 results show that the collaborative problem-solving skills of young Hungarians are below the OECD average and among the worst in the region. In reading and mathematical skills, Hungarian schools reached, respectively, 31st and 29th rank among 36 OECD countries.

Crucially, the education system has been unable to address the educational attainment attributed to differences in socioeconomic background. In OECD countries, it is Hungary where this factor has the most impact on determining pupils' school performance. The proportion of early school leavers has increased to 12.5% in 2017 from 11.4% in 2014, probably affected by the lowering of the school leaving age from 18 to 16 in 2012.

Hungarian universities perform weakly in international comparisons. According to the world university rankings' list of emerging economies' universities, the best Hungarian university ranks 61st; the country has three universities among the top 100 and another three among the top 200. Enrollment rates have fallen by 21.1% between 2012 and 2018 and the share of the population aged 25-29 with a tertiary degree has fallen from 31.4% to 27.8% (in 2016). Public spending, which accounts for two-thirds of the higher education budget, has declined from 4.8% in 2010 to 3.7% in 2016. Higher education and academia are also weakened by government attacks against the central European university (CEU). CEU – the highest ranked university in Hungary in all international rankings – announced in December 2018 that due to its unresolved disputes with the government, it would be forced to move its campus to Austria.

While investment in research and development including government and private funds reached 1.35% of GDP in 2017, academic freedom has been severely curtailed since the 2018 election. Among others, the government banned gender studies programs in all universities and a new ministry of innovation and technology assumed financial control over 70% of the funds earmarked for the Hungarian academy of sciences (MTA), largely curtailing the latter's financial independence.

Governance

I. Level of Difficulty

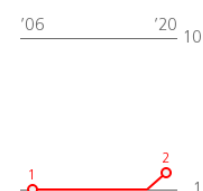
The structural constraints on governance in Hungary are relatively low, albeit that some concerning trends have emerged in recent years that could pose challenges in the long-term. These trends include high levels of poverty and especially child poverty, a poorly performing education system and a failing health care system. According to Eurostat, 25.6% of the population were at risk of poverty or social exclusion in 2017, the 8th worst rate in the European Union. The proportion of children facing this threat was 31.6%, the 5th worst in the bloc. Having children considerably increases the risk of poverty, which does not support efforts to improve the country's demographic situation. The United Nations predict the Hungarian population will fall to 8.3 million by 2050, and the Hungarian central statistical office (KSH) predicts a vast expansion of the population segment over the age of 65. Hungary's total fertility rate was just over 1.5 in 2016 (Eurostat), slightly below the EU average and well below the 2.1 needed for maintaining the population level naturally.

The Hungarian education system does not help to moderate poverty levels in the country but rather preserves the social positions of Hungarians. Students are divided into schools and classes based on their social background and skills resulting in very limited social mobility. The emigration of young and highly-educated workers continues, and, according to Táarki's social report 2018, Hungary is losing a significant proportion of its population who hold tertiary qualifications. These trends already constitute structural constraints, but their effects could become increasingly severe in the future. They will pose serious risks for Hungary in the long-term unless they are remedied.

Hungarian society is generally characterized by a statist attitude: citizens are considered to be subordinate to the state and they expect it to take care of them. This is primarily a consequence of the absolutist and feudal systems that prevailed in Hungary for centuries and the socialist system that followed. After the regime change, civil society developed rapidly. However, by 2017, only 3.3% of the approximately 61,000 non-profit organizations were active in environment protection, 0.9% in rights protection and 0.5% in politics according to the Hungarian central statistical office (KSH).

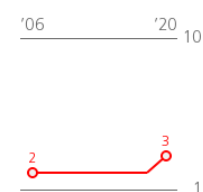
Structural constraints

2



Civil society traditions

3



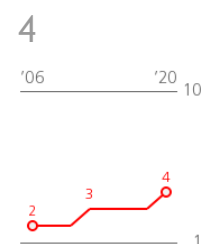
A culture of participation and donation is not widespread. Organizations dealing with political and social issues are not embedded in society and have been largely dependent on the state or on a few major (mainly foreign) donor institutions to function. According to the most recent data of the European Social Survey from 2017, Hungarians are among the least active in Europe when it comes to participation in public life.

The legal, financial and political environment for non-governmental organizations (NGOs) has significantly worsened since 2010. State funding to independent NGOs that deal with social and political questions has almost completely disappeared, as the funding is now distributed on a political and ideological basis through a mechanism (national cooperation fund) led by the head activist of the civil unity forum (CÖF), an organization loyal to the ruling party. The government uses such government-controlled non-governmental organizations, predominantly funded by public money, to advocate its policies domestically and abroad. In addition, ongoing political attacks and smear campaigns have occurred against independent NGOs since 2013, recently targeting those that are partially funded by the Open Society Foundations, established by George Soros. Two major milestones in this campaign were the adoption of the act on the transparency of organizations receiving foreign funds in June 2017 and the adoption of the so-called “Stop Soros” law package in June 2018. The former prescribed that NGOs receiving more than HUF 7.2 million per year from a foreign source must register with the authorities and indicate in all of their public communication that they are an “organization funded from abroad.” The latter bill essentially criminalized the provision of any kind of aid to refugees and migrants. Both the smear campaign and the policy measures against NGOs have contributed to the rapid decrease of trust in and positive perception of the civil sphere.

Hungarian politics has become increasingly confrontational since 2010 and this characteristic has become even more pronounced since 2017. The main element of the ruling party’s political strategy is the conscious polarization of society through fueling fear of, and anger against, enemies (e.g., refugees and migrants, NGOs, the EU, George Soros). In Fidesz’s narrative, the government represents national interests, therefore dissenters and critics represent foreign interests and hence should be excluded from the “nation.”

As the main reason of polarization is political, the deepest cleavage runs between those who support and those who oppose Prime Minister Viktor Orbán. However, divisions exist along social and more importantly along ethnic cleavages too. Traditionally the Roma were the most discriminated against, which even culminated in deadly attacks on them in 2008 and 2009. However, since 2015 “platonic xenophobia” (anti-immigration sentiment without immigrants) has risen to prominence, fueled primarily by the government. According to the 2017 data of polling institute Medián, 87% of the population are against having refugees/migrants as neighbors and 72% are against Arabic and Roma neighbors. Blacks were rejected

Conflict intensity



as neighbors by 63%, homosexuals by 56% and Jews by 37%. According to the polling institute Tárki, the ratio of xenophobes, those who would not allow any asylum-seekers to settle in Hungary, has continuously increased since 2015: representing 39% of those polled in 2014, 60% in January 2017 and 67% in October 2018.

While verbal aggression has been on the rise, only a few cases of physical violence have been reported between 2017 and 2019. International human rights organizations (e.g., Médecins Sans Frontières) claimed in 2017 that Hungarian border guards used violence against asylum-seekers who tried to enter Hungary. While violent acts by citizens against migrants did not become public, perceived foreigners were often reported to the police. In 2017, the car of a local pension owner, who had invited some refugees to his house in Ócsény, a village in Southern Hungary, was damaged by residents. Viktor Orbán implicitly approved the offense in a comment. Anti-Semitism, which has primarily been encouraged by conspiracy theories and fueled by the government's anti-Soros campaign, has primarily been expressed via hate speech, but in April 2018, a Canadian rabbi in Hungary was physically assaulted.

II. Governance Performance

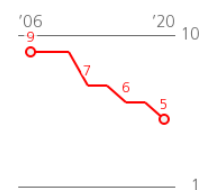
14 | Steering Capability

Fiscal rigor is a fundamental priority of the government, which it adheres to consistently. The main reason for this is that the current government learned from its predecessors' mistakes, and thus know that a potential economic crisis could discredit it completely. Beyond this, the government's decisions are often not transparent, even to members of the cabinet not involved in the decision. Decisions are generally instinctive and not based on professional rationality. Rather they are guided by power politics and political communication. For instance, the Hungarian government has vetoed multiple EU foreign policy decisions. One such decision was an agreement between the EU and the African Union with the aim of decreasing immigration to Europe – one of the main priorities of the Hungarian government. However, Hungary vetoed the agreement because in its political communication the EU is the “enemy” that encourages immigration, so the bloc cannot be seen as part of the solution. Line ministers and their subordinates rarely dare to make decisions independently due to the all-encompassing nature of power political goals, which results in unpredictability and the chaotic operation of the government. Predictability and the few measures aimed at strategic planning are also often overwritten by political goals and decisions. It is regularly unknown what calculations and estimations form the basis of decisions because preparatory documents are very often classified. The decisions are actually

Question
Score

Prioritization

5



made by Prime Minister Viktor Orbán and a very tight circle around him, so the government itself is highly centralized. The main centers of political, public administration management and government communications operate directly to the prime minister.

Unpredictable decision-making is the result of the government's emphasis on power politics instead of good governance. However, successive Orbán governments have had a long-term plan to transform the Hungarian political system. The second Orbán government (2010 - 2014) laid the foundations of illiberal system-building with the introduction of the new constitution and electoral rules, while the third- (2014 - 2018) and fourth (2018 - present) are implementing legislation that leads to the progressive deterioration of the system of checks and balances and the rule of law.

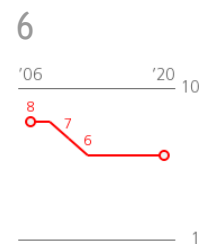
The government generally has the National Assembly approve the following year's budget in spring, which could strengthen predictability and economic actors' ability to plan forward. However, it has become common practice that the government completely rewrites the budget at the end of the year, which has the exact opposite effect on predictability.

In the period under review, the Hungarian government continued its long-standing practice of taking political decisions hastily, without preparing the necessary impact assessments or consulting with the expert community. Such policy decisions, which are often tailored to the needs of pro-government business circles or to serve short-term political goals, are frequently pushed through the National Assembly in fast-track procedures to avoid any debates on their merits or lack thereof. The illiberal system-building efforts of the central administration remain an obstacle to long-term planning.

The Orbán government has some strategic goals, but these often appear to be unsustainable or simply empty promises. The government wants to maintain economic growth of more than 4% and to catch up to Austria by 2030 in terms of living standards, but so far it has been reluctant to implement the education and competitiveness reforms that would lay the foundations for strong, sustainable growth. For instance, a group of experts prepared a new national curriculum (NAT) for public education under the umbrella of the ministry of human capacities, which was praised in professional circles. However, the government set out to amend it because it was insufficiently "patriotic" in character, delaying its implementation by at least a year. Meanwhile, the government forced the central European university to teach most of its courses in Vienna and launched an attack on independent intellectual centers, most importantly the Hungarian academy of science (MTA).

In 2016, a national competitiveness council was established, but it has achieved little so far. The council and the government approved a competitiveness package after significant delay, but its implementation did not begin in the period under review.

Implementation

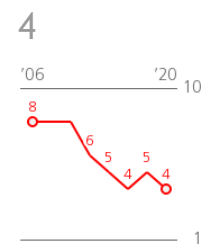


The Hungarian government is highly centralized and the most important strategic decisions are taken by Prime Minister Viktor Orbán and a small circle around him. This leaves little room for individual ministers to take the initiative, and experts rarely have a decisive say in policy-planning.

A good example of the above-mentioned practices is abolishing state subsidies on housing savings accounts. The subsidies were slashed from 30% of account holders' yearly contributions to zero. The Fidesz-affiliated member of parliament Erik Bánki submitted the legislative proposal on October 15, 2018. The National Assembly approved it on October 16 and President János Áder signed the law later the same day. This subsidy was very popular among Hungarians, as it could be used to buy accommodation. The only other meaningful support scheme available is the family housing allowance program (CSOK), which is only available to couples with children or couples who promise they will have children. The government has not implemented any other initiative to help Hungarians buy their own homes, which suggests a lack of long-term, strategic thinking on the issue.

The government has not been interested in independent advice from scholars. On the contrary, it discredits institutions independent of it or even makes it impossible for them to continue their work in Hungary in certain cases. For instance, the government might take the target's resources and take over its management as in the case of the Hungarian academy of sciences. Since there is no forum where the prime minister can be influenced by anybody except for his very close circle of advisors, innovative ideas or constructive criticism are rare. Regulatory impact assessments have a rather formal character, are confined mainly to environmental policy-making, and do not rely on regular consultations with stakeholders.

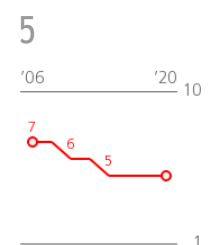
Policy learning



15 | Resource Efficiency

In 2016, Hungary spent 7.9% of its GDP on general public services, more than Austria, any other Visegrad group (V4) member state and more than the EU average. After the Orbán government came to power in 2010, the number of public sector workers increased gradually until late 2018 because of the vast number of nationalizations and the centralization of public administration. In October 2018, a proposal was leaked about planned public sector cuts affecting 9,000 employees, which was implemented in November 2018. However, the government made no efforts to cut back bureaucratic processes and tasks, meaning the burden on remaining employees simply increased.

Efficient use of assets



Politically motivated dismissals and appointments remain prevalent in Hungary. In 2014, it was leaked that members of Foreign Minister Péter Szijjártó's former futsal team received jobs in the foreign ministry. In 2018, there were two important dismissals: Gergely Pröhle, a former state secretary at the foreign ministry, was fired as chairman of the Petőfi literature museum; and József Pálincás, a minister for

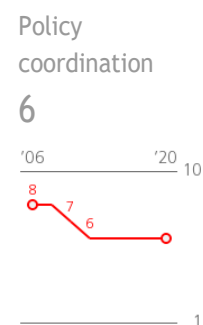
education in the first Orbán government, was fired as the head of the national research, development and innovation office (NKFIH). Pröhle was accused by a pro-government daily of giving too many opportunities to “leftist-liberal” authors, while another pro-government portal launched a campaign against Pálincás because he criticized the government’s decision regarding the central European university. Both were fired shortly after the smear campaigns against them were launched.

The centralization of responsibilities from local governments continued in the period under review. In December 2018, the government approved a decree that forced local governments to delegate construction tasks to a government appointed agency if the total value of a given project exceeded €2.2 million and involved state funding. The agency could decide to leave the project in the hands of local leaders, which allows the government to reward loyalty and punish opposition-controlled local governments.

The Hungarian budget deficit has remained under the 3% EU threshold in the period under review. It did however increase in 2017 in the wake of heightened spending on quality of life improvements before the 2018 general elections. Successive Orbán governments have managed to cut state debt from 80.5% of GDP in 2011 to 73.3% in 2018. However, the government is unfortunately not managing the budget in a transparent manner: the government does not publish three out of the eight most important budget documents (budgetary principles, halftime report and civic budget); and Hungarian citizens do not receive timely, easily accessible and detailed information on budgetary matters. Moreover, the government rarely keeps to its own budget law and instead amends the law on numerous occasions every year.

Since 2010, the Orbán regime has been gradually shifting away from governance based on negotiations with interest groups and clearly defined and separated policy areas. That has been replaced with “political governance” (there are no policy goals; policy is subordinated to changing political goals) based on a government structure of umbrella ministries overseeing a number of policy areas. In this system, professional considerations lag behind power political needs. Politically sensitive, conflictual sectors requiring negotiations, such as health care, the environment or education, are managed non-transparently and badly. It is often unclear how independent the ministers responsible for vast ministries and state secretaries responsible for individual policy areas really are. There are ministries with parallel competences. Issues are also caused by the prime minister making his cabinet members compete with each other. Changes in personnel are frequent; the state secretary for health care in the new government formed after the 2018 general election was replaced within half a year.

Power is concentrated in the hands of the prime minister, who often takes decisions informally. These decisions are not transparent to the public and sometimes to the government apparatus. The new governance structure, established after the 2018 general election, is formally even more centralized. A prime minister’s governance



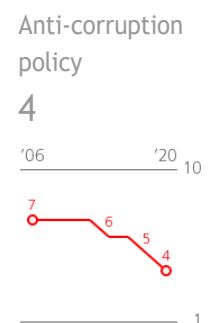
office, subordinate directly to the prime minister, was created and is responsible for managing the work of the government, coordinating the work of state secretaries for public administration, the management of the government control office (KEHI) and that of the new unified intelligence center. The cabinet office (unit for political control and government communications) also operates under the direct control of the prime minister. Thus, since 2018, the two centers of political and public administration management work directly under Viktor Orbán. The third important body, the ministry for the prime minister's office is primarily responsible for preparing legislation, codification and coordination. Government meetings are held in two formats: the national security cabinet chaired by the minister of interior and the economic cabinet chaired by the minister of finance.

Fidesz, the ruling party since 2010, has built a network of political allies, friends and associates who have grown into the wealthiest group of Hungarian businessmen. These oligarchs are key tools for the ruling party to maintain its grip on power. The commitment toward reducing corruption exists only on the rhetorical level: for instance, in 2016, Hungary left the open government partnership, an international organization committed to making government more open and accountable.

While corruption has been an acute problem historically, international assessments and academic research suggest that corruption in Hungary has reached unprecedented levels since 2010. The share of non-transparent, invitation-only tenders (i.e., only available to a selected group of bidders) among all contracts increased from 20% to 30% in 2005 to 2009, to 59% to 63% in 2014 to 2018. After a temporary decline in the share of single-bidder tenders in 2016 to 2017, a surge followed in 2018, in which it exceeded 30%. Single-bidder procedures are most frequent among EU procurements: in 2016, 36% of these had only one bidder. The extent of overpricing is on average around 30%, costing €1-1.26 billion to taxpayers (3.0-3.7% of Hungarian GDP) each year.

Institutional problems, inadequate party financing, asset declaration regulations and limited access to public benefit information amplify the risk of corruption in Hungary. The central institution tasked with addressing corruption is the prosecutor-general's office, which has the power to decide who can be tried by a court and what cases can be investigated by different authorities. No indictments have been made in any serious corruption case with links to the government since 2010. The institutional independence of authorities monitoring public procurement (the public procurement authority and the public procurement arbitration board) is highly disputed, since the government can directly influence the nomination of the leadership of both organizations. The cost of launching a procedure to remedy issues surrounding a public procurement tender are very high (€ 77,219), representing another significant barrier to preventing corruption.

The national audit office (NAO) is formally responsible for auditing state spending. The independence of its chairman since 2010, László Domokos, is questionable as he



has been a member of Fidesz since the party's foundation and has also served as a member of parliament. NAO has fined opposition parties on a number of different occasions. For instance, Jobbik was fined €2.08 million (approximately 17 months of state support provided to the party) four months before the 2018 general election, while the state audit office (headed by László Domokos, a former Fidesz member of parliament) never fined or issued a warning despite the fact that the same practice was applied by Fidesz as well. Since 2010, the governing party has never been subject to any similar investigations, despite numerous serious allegations by NGOs, watchdogs and experts that the governing party spent considerably more on campaigning than legally permitted and used state funds for party purposes. Asset declarations of office holders are not required by law to be in a machine-readable format. They are neither subject to stringent oversight nor linked to tax declarations. In practice, public office holders can declare as much of their wealth as they wish. For example, Viktor Orbán's 2018 asset declaration stated that the prime minister had just €3,150 in savings.

The right of access to public interest information was curbed significantly in the freedom of information act after it was amended in May 2013 following an expedited procedure lasting just three days. The amendment was strongly criticized as it made access to public interest information more burdensome by setting a charge for filing requests and making it easier for state authorities to reject such requests.

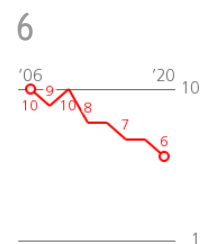
16 | Consensus-Building

There is no consensus on societal goals in Hungary. Fidesz continues to solidify its grip over the political and economic system through further institutional and market centralization, which the party claims to be reflective of the “will of the nation.”

The vast majority of opposition parties opposed the most important legislative amendments affecting the political organization of the country, but these were approved by the ruling party's lawmakers. The changes opposed by the opposition include a law on the transparency requirements of organizations receiving foreign funds enacted in 2017, and a law to establish a separate public administration court system. The opposition also objected to pro-government entrepreneurs' “voluntary” transfer of media outlets to the central European press and media foundation led by a Fidesz-loyalist.

The opposition wants to demolish the Fidesz-constructed political institutional system and the renationalized and oligarchy-controlled economy. However, they have been unable to offer a real alternative to the government's “selective anti-capitalism.” This is based on a Christian-conservative, traditionalist ideology, protecting economic sectors ruled by pro-government economic elite and strengthening cooperation with large foreign manufacturing firms.

Consensus on goals



While most opposition forces generally agree on the market economy being the desired model for Hungary, there are considerable disagreements about the role of the state and political intervention in the economy, the desirable path of economic development and the norms that should guide the behavior of economic actors. The lack of consensus on democracy and the free-market economy as strategic, long-term goals means that Fidesz remains unchallenged by the fragmented opposition.

The governing party Fidesz has become the most significant anti-democratic veto actor. It is not challenged by any democratic reformers. Fidesz's gradual centralization of political and economic power and the expansion of the "illiberal" state is disguised as governance reform ostensibly aimed at cutting red tape. Political reformers committed to a Western-style democracy are in no position to affect government decisions and are instead fighting for their organizational survival or have been co-opted by the government economic and interest groups before they articulate their desired reforms. This is especially common outside of Budapest.

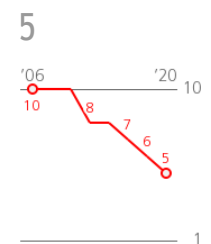
Nevertheless, in late 2018, the opposition parties reached a consensus for the first time on specific reform policies regarding the establishment of independent courts and public media, Hungary joining the new European public prosecutor's office (EPPO), and on limits to Hungarian workers' overtime.

The leadership relies on the strong political polarization of Hungarian society. The traumatic events of the 20th century created deep cleavages in the country. Both the ruling party and the opposition attempt to influence individuals' value orientation through identity politics that affect the formation, maintenance or disintegration of political communities and value groups. Consequently, tribal thinking has become increasingly prevalent in society, combining authoritarian views, fear of a loss of identity, anti-pluralism, and polarized worldviews. Perceiving the political opposition as an enemy is highly prevalent in Hungary. A Political Capital study found in 2018 that a fifth of voters said one can tell whether someone is good or bad based solely on which political side they are on.

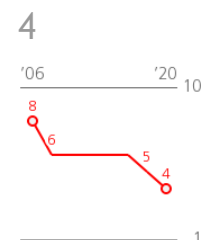
Fidesz's political strategy is based on deepening the political divide between "patriotic" and "unpatriotic" camps, and it strives to discuss all topics along these lines. If someone criticizes Fidesz's views, they find themselves in the latter group regardless of their arguments because the Orbán government portrays itself as the only representative of the national interest.

The governing party has used this strategy effectively since 2015 in dealing with the migration crisis. Their prominent campaigns tell citizens that opposition parties, NGOs critical of the government and the press are "on the aliens' side." The image of an external enemy (George Soros, Brussels bureaucrats, etc.) and internal tribal thinking has gradually been gaining strength in the political domain ever since.

Anti-democratic actors



Cleavage / conflict management



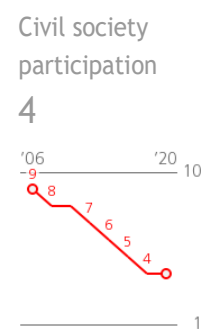
Ideologically, this political strategy is not only built on xenophobia and nationalism but on the more complex worldview of Orbánism. Orbánism – similar to Putinism - is a traditionalist way of thinking and pits the values, ideas and conditions it considers natural against the anti-natural (liberal) abstractions originated from the age of the enlightenment. It is related to the urban-rural divide that was clearly visible in the results of the 2018 general election: the ruling party’s support is considerably higher in the countryside than in larger settlements and the capital.

The Orbán regime’s strategy is based on the logic of generating conflict and not on reaching some form of national consensus: it does not seek to solve conflicts but deepen existing ones and generate new ones to set the political agenda and thus attract impressionable voters.

There is a wide range of civil society actors in Hungary. The legal environment of advocacy, interest representation and social consultation is also mostly regulated. Despite this, the practice of social participation in decision-making has been severely restricted since 2010. The government stresses the superiority of the legislative and executive branches over other institutions and social actors. According to the government’s argument, no institution can limit the power of the National Assembly, which is elected by the people. Accordingly, the institutionalized platforms of social participation have only consultative functions; the final decision is made by the government. Furthermore, the ruling party often circumvents the rules of social dialog by submitting legislative proposals as private member’s motions, which are exempt from rules on social consultation. In some exceptions, the government involves some social actors in the decision-making and policy implementation process, e.g., the Hungarian chamber of commerce and industry has become a major partner of the government in vocational education reform. However, these collaborations are very biased and far from transparent.

Civil society actors are obstructed when they try to participate in agenda-setting, policy formulation and decision-making. The government, claiming to be the sole representative of the people, contests the legitimacy of non-government organizations (NGOs) to participate in policy processes, citing the fact they are not elected bodies. Furthermore, the government divides the civil sector into “fake” and “useful” civil society (Szilárd Németh, Fidesz’s vice chairman, January 2017). The former are organizations that criticize the government, while the latter are loyal to the ruling party. While loyal organizations have access to state funding, those that criticize the government are considered enemies of the state. They are practically excluded from state funds and banned from cooperating with state institutions including the police and schools. Critical NGOs are continually targets of political attacks and smear campaigns, and increasingly face legal, administrative and financial barriers that limit their space for maneuver and threatens their existence.

In some cases, civil society actors can influence decision-making and initiate policy measures. However, this has only occurred in cases that are non-political or have

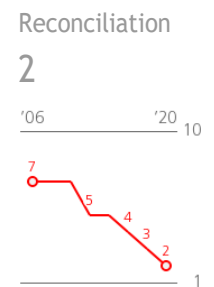


limited scope, and which the government finds politically advantageous to support. Two examples are the tightening of rules against the abuse of animals in 2016 and the increase of the home care allowance in 2018. In the latter case, the NGO campaign was only partially successful: even though the allowance was increased, the government did not listen to the recommendations of professional and parents' organizations.

The government has failed to heal the wounds from Hungary's history. On the contrary, Fidesz commonly emphasizes the victimhood of the past, consciously reinterpreting Hungarian history, especially during the 20th century. The fundamental law, approved only by the ruling party, states that Hungary lost its self-determination on March 19, 1944, when the country was occupied by Nazi Germany, so the latter is designated as the power bearing complete responsibility for the crimes committed during World War II, and any blame on Hungary is denied. This interpretation is reinforced by the government's politics of memory, the most notable example of which is the statue erected on Szabadság square in Budapest with the "German eagle" attacking the "Hungarian angel."

Hungary lags behind in reconciling the experiences of the communist past. Even though Orbán's government defines itself as resolutely anti-communist, some of its members and high-ranking officials had held important positions before 1990, and many were members of the leading Hungarian Socialist Workers' Party. The list of communist era secret agents is not public, which constitutes an important barrier to reconciliation. Furthermore, it is hard for Fidesz's to maintain its anti-communist image given the government's increasingly friendly stance toward Russia. Some renowned scholars of 20th century history are excluded from the formation of the government's politics of memory; new institutes led by historians with close ties to Fidesz have been established instead.

In December 2018, a monument to the 1956 revolution's martyr prime minister, Imre Nagy, (whose communist pre-revolutionary past proved to be unacceptable to Fidesz) was removed from a square near the parliament building, a striking illustration of Fidesz's change in attitude since Viktor Orbán had held his breakthrough speech at Nagy's reburial ceremony in 1989.



17 | International Cooperation

Hungary is one of the largest recipients of EU assistance. For the 2014 - 2020 period, €25 billion was allocated to Hungary. However, serious transparency and accountability-related problems characterize how the government uses these funds. In 2018, the European Commission found widespread irregularities in EU-financed projects in Hungary. Altogether 29 major projects were examined, of which irregularities were found in 25. As a result, more than €1.8 billion support is at risk of being suspended. The dispute is ongoing, delaying the transfer of EU payments.

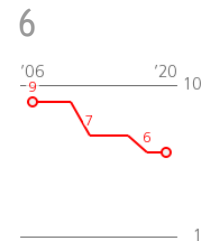
The government has often acted as an unreliable partner in international politics. This applies to the two most important alliances, NATO and the EU. However, acting against existing commitments does not necessarily mean that Hungary would prefer to quit these alliances. Instead, Budapest often acts against the coherence of these organizations, weakening their efficiency, but without intending to leave them. This policy is a manifestation of domestic political interests over foreign and security policy, and an extremely pragmatic foreign policy focused on short-term interests. Hungary's decision to quit the Open Government Partnership, an organization dedicated to transparency and the fight against corruption, was in line with the domestic political interests of the Hungarian ruling elite.

Hungary has let its disagreement over the controversial Ukrainian education law affect cooperation between NATO and Ukraine, blocking high-level cooperation since March 2017, ignoring criticism from the United States and other NATO allies. This policy has seriously hampered political cooperation between the alliance and Ukraine. In November 2018, Hungary's diplomatic services assisted Nikola Gruevski, former Macedonian prime minister, flee Macedonia, despite his passport being withdrawn after he was sentenced to prison on charges of corruption. Gruevski quickly received asylum status in Budapest. These actions contradicted the long-term foreign policy interests of Hungary and also seriously hampered NATO's efforts to integrate aspiring states of the Western Balkans.

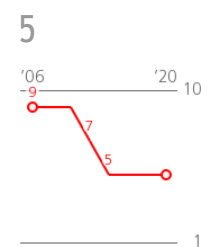
Besides blocking Ukraine's EU integration, Hungary was the only EU country that did not support the EU's highly critical declaration on China's One Belt One Road (OBOR) initiative. It also blocked a prospective agreement at the EU-Africa Summit in April 2018 even though it aimed to tackle migration – an issue that preoccupies the Orbán government.

Hungary has been faltering in its crucial commitments to Russia as well. The start date for the extension of the Paks nuclear power plant has yet to be set even though the project is already more than two years behind schedule. The dismissal of the state secretary for the Paks nuclear power plant in January 2019 was more a cosmetic move to please Russia than an indication of any real progress.

Effective use of support



Credibility



The Orbán government has applied a highly selective and diverse foreign policy toward its neighbors, ranging from close, almost cordial cooperation to open conflict and election interference. On the regional level, Hungary cannot be considered a reliable, constructive partner. Domestic considerations dominate its foreign policy toward, sometimes even at the expense of long-term EU and NATO interests.

Hungary enjoys its best relations with Slovakia. Ties between Budapest and Bratislava are pragmatic and cooperation is functioning well both bilaterally and within the Visegrad group (V4). The situation of the Hungarian minority in Slovakia has not been politicized by the Hungarian government. However, Hungarian-Slovakian relations do have their limits, as Bratislava is unwilling to engage with Hungary's plans to transform the Visegrad cooperation into an anti-Brussels alliance.

The situation is somewhat similar when it comes to Austria. Despite Hungary's initial, ideology-related hopes connected to the election of Sebastian Kurz, as well as to the emergence of the Freedom Party of Austria (FPÖ), Vienna is willing to confront Budapest in affairs related to the EU budget negotiations, the Paks nuclear power plant and the social allowances disbursed to Hungarian families working in Austria.

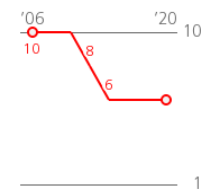
Relations with Serbia are similar to relations with Slovakia: there are no serious tensions between the two countries, and Budapest is very much in favor of Serbia's accession to the EU and NATO. The two countries share foreign policy priorities as well: both frequently host Vladimir Putin and are hoping to benefit from a major Chinese railway construction project between Budapest and Belgrade.

While Hungary wholeheartedly supports Serbia's integration into the EU and NATO, the situation is completely different vis-à-vis Ukraine. In protest against Ukraine's new education law, Hungary has blocked Ukraine's high-level cooperation with the EU and NATO since March 2017. Elevating a bilateral debate to the multilateral level is highly unusual in both alliances, inducing repeated criticism from European and Transatlantic allies.

Relations with both Romania and Slovenia are also tense, mostly because Budapest openly engages in and interferes with the domestic politics of these countries, partially via the Hungarian ethnic minority (in Romania) and by openly supporting a particular candidate in the national elections (in Slovenia).

Regional cooperation

6



Strategic Outlook

The Orbán government has won a two-thirds supermajority in three consecutive elections (2010, 2014 and 2018). Its latest victory has enabled it to complete the development of an “illiberal democracy.” During the previous electoral terms, Fidesz produced a new constitution (fundamental law), obliterated the system of checks and balances, captured all central institutions – including the Constitutional Court, the state audit office and the prosecutor-general’s office – and impaired the independence of the judiciary system. After the 2018 election it turned against academic freedoms and the autonomy of civil society.

The authoritarian system is based on both external and internal preconditions, both of which are threatened. The former are being undermined by the escalating conflict between the EU institutions and the Hungarian government and increasing calls by other members of the European People’s Party to expel Fidesz. Internal preconditions included the extensive transfer of EU resources from 2010 onward that allowed the government to reward loyal oligarchs while achieving economic growth (although more modest than in other V4 countries). This has now come under risk since the EU transfers will significantly diminish in the next financial cycle beginning 2020. The regime will be put under increased pressure as it seeks funding to continue to support its economic-political power pyramid and generate economic growth.

The democratic opposition has remained weak and fragmented, but since December 2018 has mobilized and united against the Orbán regime. Hence, the prospects of the Orbán regime are threatened both by diminishing resources and a strengthening opposition. Two crucial elections in 2019 – the European elections and municipal elections – will be serious tests for the Orbán regime.

The regime’s political strategy is not only built on xenophobia and nationalism but on a more complex worldview that we can call Orbánism. It pits the values, ideas and conditions it considers natural against the anti-natural (liberal) abstractions originated from the age of the enlightenment. Orbánism – similar to Putinism – is a closed, traditionalist, eastern way of thinking, related to and exploiting Hungary’s urban-rural divide. The urban-rural divide was clearly visible in the results of the 2018 general election: the ruling party won far more votes in rural areas compared to in larger settlements and the capital.

The regime’s strategy is based on generating conflict rather than reaching any national consensus; it does not seek to solve conflicts but deepen existing ones and generate new ones to set the political agenda and win the support of impressionable voters. The government is unlikely to change course. Nevertheless, if it were to be forward-looking, it could guarantee the independence of the still existing but severely inhibited institutions, enact measures to counteract the state capture that has occurred, and implement anti-corruption measures (such as an obligation to publish a meaningful financial statement with possible sanctions, transparent campaign financing system, campaign bank account, a public procurement law encouraging real competition, and the publication of data for public benefit). Transforming the current subservience to Russian interests into a Western orientation and launching meaningful reforms in health care, education and public administration would also be beneficial.