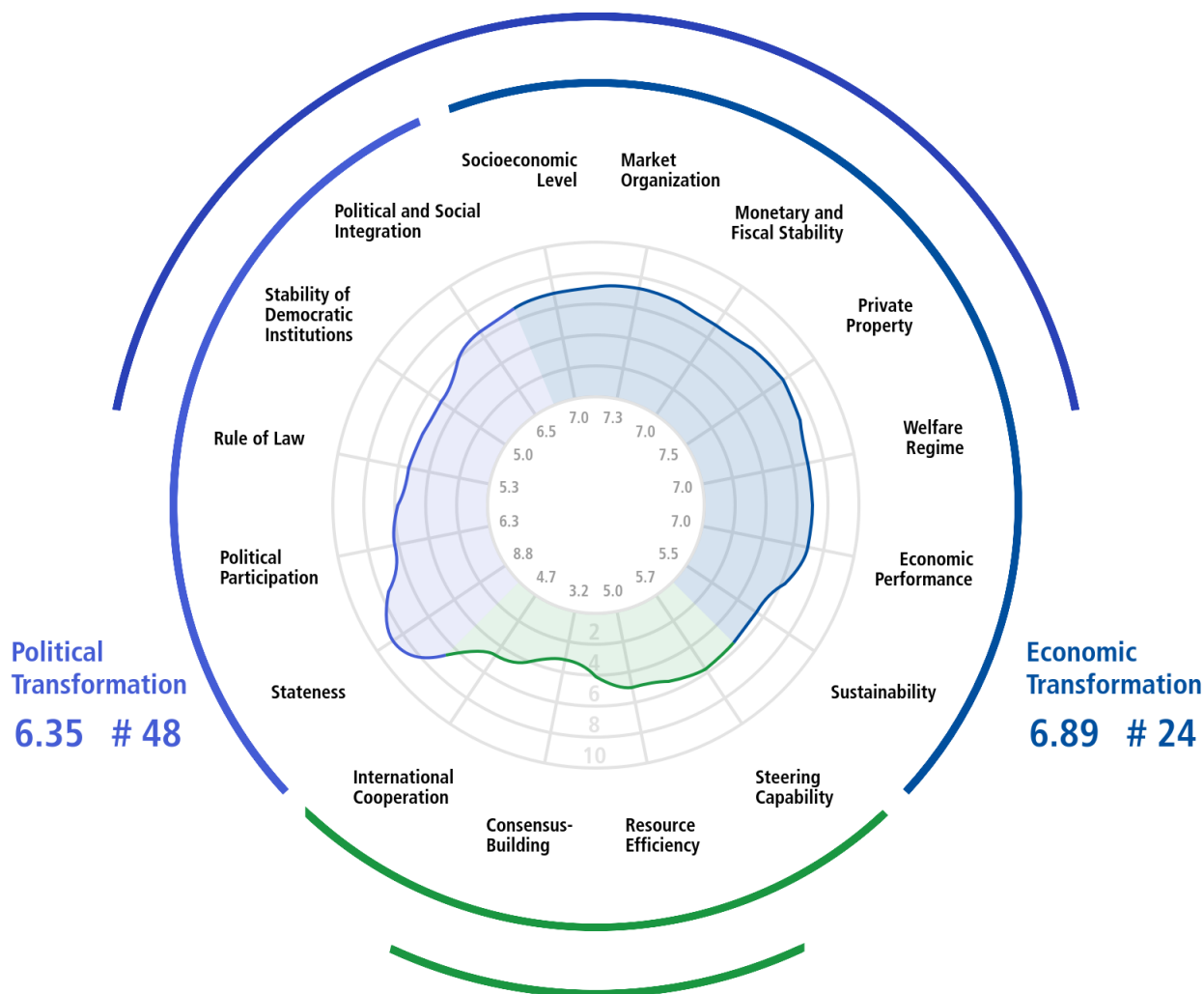


# Hungary

## Status Index

**6.62 # 29**

on 1-10 scale out of 137



**Political Transformation**  
**6.35 # 48**

**Economic Transformation**  
**6.89 # 24**

## Governance Index

**3.86 # 102**

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2022**. It covers the period from February 1, 2019 to January 31, 2021. 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	<b>9.7</b>	HDI	<b>0.854</b>	GDP p.c., PPP \$	<b>33084</b>
Pop. growth <sup>1</sup>	% p.a.	<b>-0.2</b>	HDI rank of 189	<b>40</b>	Gini Index	<b>29.6</b>
Life expectancy	years	<b>76.0</b>	UN Education Index	<b>0.821</b>	Poverty <sup>3</sup>	% <b>0.5</b>
Urban population	%	<b>71.9</b>	Gender inequality <sup>2</sup>	<b>0.233</b>	Aid per capita \$	-

Sources (as of December 2021): The World Bank, World Development Indicators 2021 | UNDP, Human Development Report 2020. 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

The decade since Prime Minister Viktor Orbán and his Fidesz Party entered power has been marked by continuous autocratization. Political competition remains real, but the political playing field is extremely skewed. Hungary's institutional and political framework provides an overwhelming systemic advantage to Fidesz. Notwithstanding this, the perception of political competition grants democratic legitimacy to the political system, even if the substance of politics and policy formulation is increasingly authoritarian. The elimination of institutional checks and balances, domination of the media landscape and public discourse, as well as informal power networks and centralized political corruption are key pillars of the Fidesz's state-capture in Hungary.

Fidesz exploits a populist narrative based on an existential "us and them" dichotomy between "the people" and the constructed concept of "public enemies" to maintain and deepen the conflict lines in Hungarian society. This allows the party to remain firmly in power with the support of a plurality of the electorate. During the last couple years, left-liberal elites, foreign investors, the European Union, migrants and asylum-seekers, civil society organizations, representatives of the free media, the person of George Soros and recently the LGBTQ+ community were systemically instrumentalized as constructed "public enemies" in the domestic political discourse.

Autocratization proceeded and became more entrenched during the period under review. Following the surprising success of the united opposition at the 2019 municipal elections, the government instrumentalized the COVID-19-related state of emergency to strip municipalities of crucial income sources and occasionally also of their property and contractual rights, in spite of the fact that municipalities bore the brunt of the pandemic's social impact. The government also exploited the disarray created by the pandemic to constrain the rights of vulnerable groups, like the LBTQ+ community. While the government was preoccupied with further cementing its power and ideological narrative, Hungary had one of the highest mortality rates compared to the

number of COVID-19 infected in the EU. The country's health system remained completely unprepared for the second wave of the pandemic in the autumn of 2020.

The regime proceeded with the reform of higher education in 2019 – 2020, privatizing universities and placing them under the control of newly established foundations, the boards of which were filled with Fidesz politicians. In case of the University of Theater and Film Arts, the reorganization resulted in months of protests against the government's education policy.

The six parties of the united opposition agreed in August 2020 to nominate a single common opposition candidate in all 106 single-member constituencies to challenge the incumbent Fidesz. While, according to polling data, the united opposition has a fair chance to beat the incumbent party at the 2022 general election, without constitutional power, it may face serious difficulties in overcoming the anti-democratic veto actors entrenched by the current regime.

Traditionally, the Fidesz government has pursued a conservative fiscal policy centered around budget discipline, but its pro-cyclical economic policy left it with limited leeway to act in a negative-growth environment. In 2020, the debt-to-GDP ratio jumped from 66.3% to 81.2% due to the fiscal implications of the COVID-19 pandemic. This broke a 25-year record, exceeding the level of the 2008/2009 global economic crisis and negated all the government's debt reduction efforts over the past decade.

Hungary pursues a multivector foreign policy strategy. Aside of being member of NATO and the European Union, the government of Viktor Orbán pursues short-term pragmatic benefits via close cooperation with systemic rivals of the above organizations, like Russia and China, weakening the integrity and resilience of both NATO and the EU. The exposure of the corrupt use of EU funds in Hungary was one of the main triggers behind the EU's rule of law conditionality regulation. However, due to the Hungarian-Polish blockade of the 2021 – 2027 EU multiannual financial framework and the coronavirus recovery package, the de facto implementation of the regulation was suspended.

## History and Characteristics of Transformation

From the late 1960s until 1989, Hungary featured one of the most liberal communist regimes whose political ties and financial indebtedness to the West began to grow from the early 1980s. The conditions of democratic transition – constitutional reform, political pluralism and legal continuity – were negotiated at roundtable discussions held between communist leaders and newborn opposition parties in 1989. The country's first democratic elections were held in April 1990. The following alternating governments of either center-right or socialist-liberal coalitions mostly survived full terms in office. By the early 1990s, Hungary's political transition had matured to a functioning and stable pluralist liberal democracy. Throughout the 1990s, Hungary was one of the pioneers of democratic and economic transition in Central and Eastern Europe, a fact recognized by the country being included in the first round of both NATO's eastern enlargement (1999) and that of the European Union (2004).

The democratically elected governments of the 1990s privatized state-owned companies, liberalized markets, attracted FDI and restructured the economy, which became dominated by private and internationally competitive companies. However, as of 2001, the country's competitiveness began to wane in comparison to its main regional competitors, while its fiscal stability and indebtedness worsened due to the stalling reforms in many policy sectors, including social care and health care. As a result, Hungary's growth remained below the regional average. Post-accession fatigue, poor governance performance of the left-liberal coalitions (2002-2010) and Fidesz's ability to block reforms torpedoed Hungary's economic development in the first decade of the 2000s.

Following its electoral defeat in 2002, Fidesz slowly evolved to become a party of systemic opposition, questioning the democratic legitimacy of the left-liberal governments first and the whole political system later on. Political polarization between the two camps became insurmountable, culminating in widespread street protests in October 2006 following a scandalous speech of then-Prime Minister Ferenc Gyurcsány.

The global financial and economic crisis of 2008 hit Hungary hard due to its excessive budget deficits, high exposure to international financial markets, dependence on foreign investment and high levels of foreign currency-denominated loans. Fidesz skillfully mobilized widespread popular dissatisfaction with the governing coalition and how Hungarian democracy as a whole was functioning.

This led to Fidesz winning a constitutional supermajority in the 2010 elections, marking a new era of Hungarian politics. Instead of pursuing the long-needed structural reforms, the government of Prime Minister Viktor Orbán focused on the creation of a political system that reduces political competition, guarantees a systemic advantage of the incumbent party, and allocates a considerable share of public resources to political cronies via channels of political corruption. Through constitutional engineering, the governing party neutralized checks and balances and was able to insert fill positions in key institutions like the Constitutional Court, the National Bank, the Media Council or the Prosecutor General with its allies. The independence of the judiciary was gradually curtailed. After having won political control over the public media through regulatory measures as well as mergers and acquisitions, the government has successfully installed its cronies throughout Hungary's private media market as well. In order to institute its political agenda and distract public attention away from its ongoing march to autocracy, Fidesz has leveraged a populist discourse aimed at mobilizing the public against constructed enemies (e.g., asylum-seekers, the LGBTQ+ community) and waging war against an independent civil society. The process of autocratization has affected elections as well. Neither the 2014 nor the 2018 general elections fully met the standards set by the OSCE and were deemed "free but not fair."

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

There is no realistic competition to the state's monopoly on the use of force. Public order and security are fully guaranteed throughout the entire country. However, in isolated cases, the incumbent party outsources political violence to radical-right groups, football ultras and security companies close to the government with the aim of intimidating political opponents, independent media and civil society.

Question  
Score

Monopoly on the  
use of force

10



1

Hungary has been a relatively homogenous nation-state since the tragedies of the World War II and its immediate aftermath and since the large-scale assimilation of minorities during the communist era. Consequently, the entire population accepts the nation-state as legitimate.

State identity

10



1

Since 1993, 13 officially recognized national or ethnic minority groups are constitutionally entitled to establish self-governing bodies at the local, regional and state levels, based on the principle of collective autonomy. Ethnic minorities are entitled to Hungarian citizenship and constitutionally recognized members of the Hungarian nation. In 2018, a representative of the German minority elected as member of parliament to the National Assembly was the first to benefit from the lower electoral threshold for minority lists. The other groups delegate “national advocates” as observers in parliament.

Hungary maintains special ties as a kin-state with ethnic Hungarians living abroad. In 2010, the National Assembly passed a citizenship legislation amendment that allows ethnic Hungarians from neighboring countries to acquire citizenship without residence in Hungary. By 2020, the number of newly naturalized citizens reached 1.1 million, according to government figures.

Hungary is a secular state. However, religious dogmas play an increasing role in politics and constitutional matters.

Since 2013, Hungary's Fundamental Law defines a family exclusively as a union between a man and a woman. Although the government refrained from interfering in abortion legislation or the regulation of registered partnerships available to same-sex couples, in 2020 the radical-right Fidesz government sharpened its anti-LGBTQ+ rhetoric, presenting LGBTQ+ people a public enemies.

During the coronavirus-related state of emergency in April 2020, the National Assembly amended the Civil Registry Act, replacing the category of "gender" with "sex at birth" and forbidding the alteration of that entry, practically banning any effort to change someone's legally registered gender in Hungary. The Ninth Amendment of the Fundamental Law in November 2020 altered the constitutional definition of family, declaring that "the father is man, the mother is woman," infringing on same-sex couples' efforts to adopt children. Furthermore, since the Ninth Amendment of the Fundamental Law, "Hungary shall protect the right of children to a self-identity corresponding to their sex at birth and shall ensure an upbringing for them that is in accordance with the values based on the constitutional identity and Christian culture of our country."

Church-owned schools play an increasing role in education. In 2019/20, 195,739 (6.2%) children were educated in church-owned primary and secondary schools, including schools of vocational training.

Public administration remains centralized. Since 2010, the Fidesz-led government significantly curtailed municipal autonomies, the local branches of state administration, taking over key competencies. However, centralization has not improved the quality of public services, which was clearly demonstrated in the health care and education system during the COVID-19 pandemic, negatively affecting citizens' access to these public services. State authorities and public services are subordinated to political considerations, just as state subsidies are provided for municipalities. The threat that opposition-led municipalities may lose access to public funds, including EU funds, has a significant blackmailing potential during local elections.

In November 2019, an amendment to the law on government offices transferred powers regarding construction matters – including construction permits – from municipalities to government offices. Thus, Hungarian municipalities lost key competencies to decide what can be constructed on their own territories.

In April 2020, as an emergency measure to tackle the coronavirus pandemic, the government reallocated municipal income sources to the central budget, including the vehicle tax, although municipalities bore the brunt of anti-coronavirus efforts and face increased social expenditure due to the social impact of the pandemic. According to observers, government measures were aimed at punishing municipalities due to the landslide opposition victory in the 2019 municipal elections.

No interference of religious dogmas

7



1

Basic administration

8



1

Despite the strong centralization of the Hungarian education system, its responses to the coronavirus pandemic and the related lockdowns were often deficient. The understaffed, underfunded health care system was stretched to its limits by the coronavirus pandemic, resulting in the suspension of medical surgeries in non-life-threatening cases and in one of the lowest number of tests conducted and highest death rates in the European Union. In-person education was suspended, and online education was introduced in primary and secondary schools from March 15, 2020 until the end of the spring semester in June 2020 and in secondary education from November 16, 2020 until the end of the year-end holiday in January 2021. In both cases, schools only had a couple of days to prepare for the transition to online education, resulting in frequent disruptions in the education process.

## 2 | Political Participation

The ruling party can be replaced under current electoral rules, but elections since 2014 demonstrate an accelerating deviation from OSCE principles of democratic elections. According to the OSCE election observation missions, neither the 2014 nor the 2018 general elections fully met democratic election standards.

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, does the bidding of the government as demonstrated before by several, mostly referendum-related cases. Ilona Pálffy, the head of the national election office (NVI), resigned in August 2020. Her successor, the Fidesz politician and former state secretary of the Ministry of Interior, Attila Mihály Nagy, was appointed in September 2020.

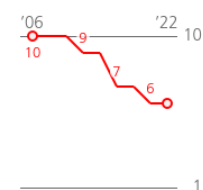
The majoritarian elements of the electoral system, like the increased number of first-past-the-post districts, favor the largest party (the incumbent, populist, radical-right Fidesz). To offset the negative impact of the electoral system, in August 2020, the six main opposition parties declared their intention to nominate a single joint candidate in all 106 single-member constituencies to challenge the incumbent party.

Several other features of the electoral, campaign and media regulations systematically favor Fidesz. While political advertising is restricted to the campaign period, this does not hamper the government's ability to conduct an uninterrupted political campaign in the form of public interest advertisements. The government's advertising and communication budget, overseen by the head of the Prime Minister's Cabinet Office, has increased annually since 2015. Since 2018, government advertising exceeds 10% of all advertising spending in the Hungarian market.

Hungary's public broadcaster is under direct political control, clearly favoring the incumbent party's political narrative. Public and private electronic media is only allowed to broadcast political advertisements for free during the campaign period,

Free and fair elections

6





providing the same airtime for all parties, including the burgeoning number of sham parties. This regulation makes most private broadcasters uninterested in offering any airtime for political purposes during the campaign period, amplifying the incumbents' media advantage.

The October 2019 municipal elections resulted in a breakthrough victory for the opposition in Budapest and in half of Hungary's 23 larger cities, while Fidesz maintained its predominance in the countryside and in mid-level county councils. The irregularities experienced during the 2019 municipal elections surpassed by far those in previous contests. Vote-buying, organized transportation of voters from Ukraine, and physical violence against opposition politicians and journalists were widely documented.

The COVID-19-induced Authorization Act in March 2020 suspended all local and national elections and referenda. This development was especially alarming because the act lacked any sunset clause. After the act and the constitutional State of Danger were revoked in June, suspended by-elections were rescheduled for September 2020.

The December 2020 amendment of the electoral code increased the required number of single-member candidates that parties need to field in order to run national-level lists from 27 to 71. The government argued that the law aimed to constrain sham parties. In fact, it constrained opposition parties' strategic options in the run-up to the 2022 elections, practically forcing them either to abandon the joint candidate agreement or to create a joint national party list – neither of which option was ideal for maximizing the vote. The law did not address the overdue need to adjust of the electoral map to account for population shifts. The gerrymandered electoral map continues to favor the incumbent party.

The political system allows the elected parliamentary majority and the government to work very efficiently. The Fidesz-led government has had a two-thirds constitutional majority in the National Assembly with interruptions (2015 – 2018) since 2010. Constitutional engineering – adjusting the rules of the constitutional system to the ruling party's political interests – is a regular phenomenon in Hungarian politics. Hungary's one-party constitution, the Fundamental Law, has been amended nine times since coming into force in 2012 by the same incumbent Fidesz Party which adopted it in 2011.

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. In case of a future opposition victory, these informal power circles may evolve into veto groups powerful enough to undermine democratic governance.

Effective power to govern

9



The freedom of association and assembly is guaranteed by the constitution. The law on assembly empowers the police to ban assemblies on grounds of maintaining public order, the threat of potential crimes or others' right to privacy, including the privacy of politicians and public figures. In February 2020, during the early stage of the COVID-19 pandemic, the police's high discretionary power to ban or permit demonstrations was exploited for political purposes. While radical-right counterdemonstrations to Roma civil rights marches were authorized, government-critical assemblies were banned, with the police imposing serious fines on participants in non-authorized demonstrations. The freedom of assembly was fully suspended from March to June 2020 and again in November 2020, with the restrictions still in place as of January 2021. As in these periods, there was practically no legal opportunity to exercise the freedom of assembly. The restrictions clearly failed to meet the requirement of proportionality. Restrictions were enforced by the police.

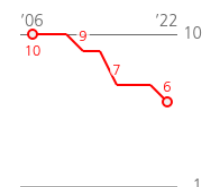
Civil society organizations established on the basis of the freedom of association have been operating in an increasingly hostile environment in Hungary since 2016.

In June 2020, the European Union Court of Justice (CJEU) ruled that Hungary's 2017 "lex NGO" constituted a breach of EU law. The Hungarian NGO law, which closely resembles the Russian and Israeli foreign agent laws, ordered the compulsory public registration of civil society organizations receiving more than HUF 7 million (€19K) financial support from abroad. Refusing to register may result in fines and ultimately the dissolution of the organization. Despite the CJEU ruling, Hungarian authorities started applying the law in the summer of 2020, when applications for EU grants were rejected if the applicant organization refused to submit a declaration of its foreign-funded status. An amendment to the Hungarian NGO law, which would ensure its compliance with EU law, is still outstanding.

Since 2010, Fidesz has harassed and taken over independent media outlets. 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 many pro-government private TV channels and radio stations. Pro-government circles control all local printed media. After termination of the broadcasting rights of Hungary's last government-critical radio station (Klubrádió), independent news coverage shrunk to merely a handful of online and print newspapers and news sites, as well as to two largely independent private television stations with national coverage. As the 2020 edition of the Council of Europe's annual media freedom report formulates, "since 2010 the government has systematically dismantled media independence, freedom and pluralism, achieving a degree of media control unprecedented in a member state of the European Union." In the 2020 World Press Freedom Index, Hungary ranked 89th out of 180 countries, a decline of 66 places since 2010 when Fidesz came to power.

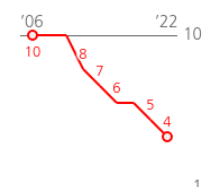
#### Association / assembly rights

6



#### Freedom of expression

4



In 2018, most of Hungary's pro-government private outlets were consolidated under the control of the Central European Press and Media Foundation (KESMA), which oversees more than 400 outlets. The merger was allowed by a government decree granting exemption from the competition rules for merger control. Since 2018, the European Commission has failed to investigate the legality of exemption, despite repeated calls from Hungarian civil society. In February 2020, the Hungarian Constitutional Court dismissed complaints about the contested legality of the competition exemption.

In 2019, four new members were elected to the five-person Media Council due to the expiration of their predecessors' mandates. The Media Council has a key regulatory role within the Hungarian Media Authority and the right to nominate the heads of public media outlets. All opposition candidates were denied participation in the selection process; thus the Media Council continues to consist of Fidesz nominees only. In October 2019, Speaker of National Assembly László Kövér introduced new house regulations for journalists operating in the parliament building, limiting interviews and questions to a small, cordoned-off area and excluding journalists from most parts of the National Assembly building.

The COVID-19-related Authorization Act of March 2020 amended the Criminal Code to penalize the spreading of distorted facts that could alarm the public during an emergency or information that could hamper the successful containment of the pandemic. The regulation threatened alleged offenders with prison sentences and thus imposed a chilling effect on reporting, especially because authorities deliberately hampered access to official information regarding the health care situation. Although journalists were not persecuted based on this law, several people, including opposition activists, were arrested, and questioned by the police.

Further crackdowns on independent media outlets occurred in 2020. Following a dispute over alleged political influence asserted by the new company leadership, the editor-in-chief of Hungary's most popular news site Index.hu was dismissed in July 2020 by the company's board. Seeing that editorial independence was no longer guaranteed, the editorial board of Index.hu and almost all the journalists working for the outlet resigned. Under new editorial staff, the former independent and critical reporting of Index.hu underwent significant changes. Although former Index.hu journalists successfully launched a new news platform called Telex.hu, the collapse of advertising spending under the COVID-19 crisis poses a considerable threat to the long-term existence of Telex.hu and other remnants of independent media in Hungary. In September 2020, the Media Council refused to extend the broadcasting license of Hungary's last government-critical radio station, Klubrádió, due to alleged recurring breaches of the media law, despite of these being only small technicalities. Klubrádió ceased broadcasting in February 2021, continuing its operation online.

### 3 | Rule of Law

The ruling party Fidesz has held a constitutional majority with small interruptions since 2010. Through deliberate constitutional engineering, the government has almost completely curtailed the authority of nominally independent state institutions by changing the competences of institutions and appointing Fidesz-loyalist leaders.

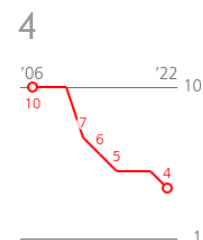
The institutions of the president, the Constitutional Court, the prosecutor general, the State Audit Office, the Media Council, and the tax and custom administration are all under political control and operate in line with the political interest of ruling party in politically sensitive cases.

Arbitrary amendments to legislative acts and tailoring laws to individual needs have become common practices. Hungarian regulations generally do not restrict the government's power but rather serve as its tools. This is illustrated by the facts that the Fundamental Law has been amended nine times since 2012 (most recently in December 2020) and that the government abused the COVID-19 state of emergency to push through legislative items unrelated to containing the pandemic, like depriving the LGBTQ+ community of certain rights. The 'state of danger' declared in March and November 2020 and the 'state of medical preparedness' introduced in June 2020 granted excessive powers to the executive, thus limiting parliamentary and judicial oversight, even though parliament was not suspended. In the period between March and June 2020, the 'state of danger' had no time limit, which constituted a breach of Hungary's Fundamental Law. In contrast, the 'state of danger' introduced in November 2020 has a sunset clause compliant with the Hungarian constitution and has been repeatedly prolonged by the parliament.

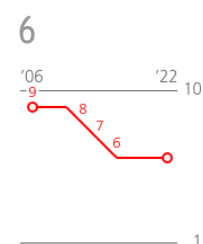
The still relatively independent judiciary has prevented the total collapse of the system of checks and balances, although political pressure on the judiciary is increasing. Biased decision-making in favor of the government and the ruling party remains limited. Even though the judiciary's leadership is increasingly close to Fidesz, courts still often decide against the government in cases important to the regime.

The mounting pressure on the judiciary is illustrated by legislative changes and political interventions. In November 2019, the government submitted an omnibus bill that allowed administrative authorities to appeal to the politically captured Constitutional Court in cases of unfavorable rulings by lower courts. The same law allowed the election of members of the Constitutional Court to the Kúria, Hungary's Supreme Court, even if they have never served as justices before. Based on this legislation, the National Assembly elected Fidesz loyalist András Zs. Varga the Kúria's new president in October 2020, further strengthening political control over the country's highest court.

Separation of powers



Independent judiciary



In January 2020, Prime Minister Orbán publicly criticized a ruling by the Regional Court of Debrecen, which issued compensation for Roma families whose children have been educated under illegal, segregated conditions. Orbán also publicly criticized rulings that ordered compensation for inmates due the substandard conditions in Hungarian prisons and ordered the minister of justice to suspend payment. Orbán's statements were accompanied by widespread attacks against judges in the pro-government media.

Following the introduction of the 'state of danger,' all court proceedings were suspended for a couple weeks, but from early April courts resumed their operations using written procedures and hearings held via video conferences.

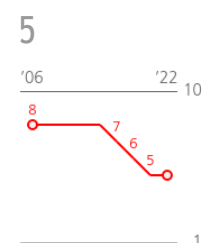
Officeholders who break the law and engage in corruption generally are prosecuted under established laws, but the government influences whether and which cases of office abuse are investigated. This influence is exerted, among others, through Prosecutor General Péter Polt, a former Fidesz politician who was re-elected for a further nine-year term in November 2019. However, he can remain in office longer if the National Assembly fails to elect a successor with a two-thirds majority. 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. The Office of the Public Prosecutor exercises broad discretion regarding whether to initiate investigations and its decisions cannot be contested. The 2019 institutional reform further centralized the investigation and prosecution of corruption under the Central Chief Prosecution Office.

Political control over the Public Prosecutor's office through Prosecutor General Péter Polt resulted in the absence of any serious investigative efforts in corruption cases with alleged involvement by high-level Fidesz politicians or associated oligarchs. The prosecution of corruption is limited to those cases which can be considered political petty corruption, happening outside of the negotiated rules of the power pyramid and serving solely the private enrichment of the involved persons without further political considerations, like the 2018 detention of the Fidesz Member of Parliament Roland Mengyi (the Woldemort case) or the 2020 arrest of Deputy State Secretary János Nagy.

The European Anti-Fraud Agency, OLAF, claimed in 2019 that Hungary is the only EU member state where national authorities detected fewer irregularities in the use of EU funds than OLAF did. The report also alleged that the share of EU funding affected by fraudulent irregularities is approximately ten times higher than the EU average (3.93% vs. 0.36%).

While critical reporting on alleged corruption cases is widespread by the remnants of independent media, this hardly has any impact on the investigation of corruption by the Public Prosecutor's Office.

Prosecution of  
office abuse



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. The Roma, religious and sexual minorities and refugees are the most common victims of hate crimes, but the prosecution of these crimes shows systemic deficiencies.

In 2018, an amendment of Hungary's Fundamental Law introduced constitutional ground for the criminalization of homelessness. In June 2019, the Constitutional Court rejected legal challenges to the amendment.

Hungary's asylum policy is characterized by the systemic violation of international and European legal standards. In 2019, asylum-seekers detained in the Röszke Transit Zone were repeatedly subject to inhuman and degrading treatment and starved. The European Court of Human Rights (ECtHR) repeatedly ordered authorities to provide the asylum-seekers with food. In May 2020, the CJEU declared the Hungarian asylum policy – which automatically rejected asylum-seekers arriving through countries declared as “safe third countries” – to be in breach of EU law. In response, the Hungarian government shut down the Röszke Transit Zone and made the submission of asylum requests practically impossible.

Institutional safeguards of civil rights have been significantly weakened during the reporting period. The ombudsperson, one of the key civil rights watchdogs before, became largely uncritical and biased since 2013 toward acts of the legislative and central executive branches infringing on civil rights. As a sign of concern about the independence of the ombudsperson, the Global Alliance for National Human Rights Institutions (GANHRI) suspended the accreditation of the Hungarian ombudsman in 2019 which has been under review since then.

The capture of the Constitutional Court and the election of former Prosecutor and Constitutional Court Judge András Zs. Varga, who reportedly maintains close ties to the governing party, as president of the Supreme Court, Kúria, in October 2020 have a negative impact on the protection of civil rights, due to the erosion of judicial independence and constitutional checks and balances.

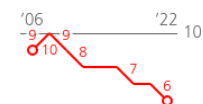
#### 4 | Stability of Democratic Institutions

Hungary exhibits both democratic and authoritarian features. Political competition remains real but not democratic – the political playing field is extremely skewed as the institutional and political framework provides an overwhelming systemic advantage to the incumbent Fidesz Party. Notwithstanding that, the perception of political competition grants some democratic legitimacy to the political system, even if certain moves by the executive clearly resemble authoritarian patterns.

The National Assembly is subordinate to the executive branch; its powers of oversight over the executive are ineffective due to the dominance of Fidesz. In 2020, under the guise of pandemic containment measures, parliament was further

#### Civil rights

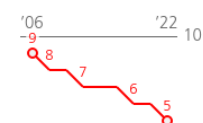
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#### Performance of democratic institutions

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sidelined, and democratically elected municipal authorities curtailed. The opposition's role in the legislative process is minimal. Since 2010, the opposition has been unable to establish a single committee of inquiry, despite repeated attempts. László Kövér, the speaker of the National Assembly, has extended the disciplinary rules that may be imposed upon opposition members of parliament, curtailing freedoms members of the parliament formerly enjoyed.

The legitimacy of most democratic institutions is not openly challenged by most relevant actors. However, due to ongoing autocratization beginning in 2010, the nearly complete exclusion of the opposition from policy formulation and the capture of formally independent state institutions by Fidesz ("party-state capture"), the approach of relevant actors to institutions is increasingly skeptical.

The prosecutor general, the State Audit Office and the Media Council are widely seen as mere political vehicles representing the will and interests of the incumbent party. The independence of the Constitutional Court and the ombudsperson is widely questioned as well. The ordinary courts remaining the last remnants of the constitutional order that enjoy a high level of legitimacy in all parts of Hungarian society.

The level of political polarization is high in Hungary. The main political cleavage between the incumbent Fidesz and the united opposition determines whether relevant actors or citizens embrace or reject the legitimacy of democratic institutions.

The exploitation of the COVID-19-related state of emergency by the government for non-COVID-19-related political purposes and the further concentration of executive power significantly contributed both to a deepening polarization, as well to the shrinking legitimacy of democratic institutions in Hungary.

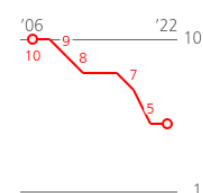
## 5 | Political and Social Integration

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.

Since the 2019 European Parliament and municipal elections, the opposition has undergone a significant consolidation process. In August 2020, representatives of the six main opposition parties – the left-leaning Hungarian Socialist Party (MSZP) and Democratic Coalition (DK), the liberal-centrist Momentum, the green parties, Politics Can Be Different (LMP) and Dialogue for Hungary (PM), as well as the

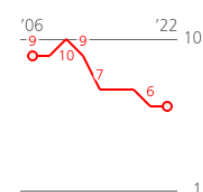
Commitment to democratic institutions

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Party system

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formerly radical-right party Jobbik, which has changed its political profile to one that is moderate, pro-EU right – announced their intention to coordinate the nomination process of single-member constituency candidates in the primaries in order to challenge Fidesz through a single joint opposition candidate in all constituencies.

Based on the 2019 election results and survey data, Momentum and DK appear to be the most significant opposition parties, each with electoral support of above 10%, while the electorate of MSZP shrunk significantly. In December 2020 – January 2021, electoral support for a united opposition list was even with that for Fidesz.

Fidesz is the only party with a strong and effective network. The former structures and networks of the MSZP have significantly deteriorated since its electoral defeat in 2010 and splitting with the DK in the following year. Jobbik invested considerable resources into developing its network between 2006 and 2018, but after its election defeat and split in 2018, its network also weakened significantly. None of the other parties has a substantial organization, although Momentum has been investing significant energy in network-building outside of Budapest.

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

The electoral basis of Fidesz has undergone significant changes since 2010: parallel to the party's nativist turn, its support decreased among the urban and higher educated electorates, while increasing among voters in the rural areas. The parties of the united opposition block have rather different social roots, representing the traditional political left, left-liberal circles, centrist-liberalism, environmentalism and radical-right protest agenda. Such an amalgamation of political groups and ideas was only possible because support for and opposition to Orbán's regime evolved to become the main political cleavage in Hungarian society.

Interest groups are numerous in Hungary and cover a broad spectrum of particular social interests. Vulnerable social groups are clearly under-represented in social dialogue (e.g., Roma), while the representation of employees' interests is weak, and employers' interests are clearly prioritized by the government. Social dialogue has lost substantial importance since 2010, since Fidesz pursues a strong majoritarian, sometimes even authoritarian approach to legislation, hollowing out or – in some cases, like the so-called National Consultations – only mimicking social deliberation.

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. It has increased the potential for social conflict because the space for reconciling conflicting interests has further diminished.

Interest groups





According to the Hungarian central statistical office (KSH), the number of non-profit organizations, trade unions and professional, employer organizations slightly decreased to 60,890 in 2019 (61,151 in 2017). The number of trade unions in 2018 decreased to 513 from 597 in 2017. Trade unions are often fragmented and are increasingly vulnerable financially, thus becoming dependent on the state. According to the 2018 European Social Survey data, 4.9% of the Hungarian respondents were members of trade unions.

The main platform of social dialogue, 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.

The social perception of democracy in Hungary poses a real logical puzzle. Even though the Orbán regime has systematically undermined democratic institutions, social perception of and satisfaction with democracy in Hungary do not fundamentally differ from those in other EU member states.

In spring 2020, 54% of Hungarians expressed overall satisfaction and 46% overall dissatisfaction with democracy (Eurobarometer). However, these figures do not systematically differ from those of 2018. Thus, the recorded attitudes of Hungarian citizens toward democracy hover around these percentages.

In the same period, trust in the national government slightly decreased (46% in spring 2020 compared to 48% in fall 2019), while trust in public administration significantly increased (62% compared to 57%).

According to the 2018 European Social Survey (ESS), 37.1% of Hungarians were satisfied with the operation of democracy, while 71.7% 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 2018 European Social Survey (ESS), a majority reported low levels on three questions related to interpersonal trust.

In 2019, 60,890 organizations worked in the non-profit sphere, 3.1% fewer than in 2015 (Hungarian central statistical office, 2020). Of these, 15.6% worked in culture, 8.9% in social care and 3.4% in environmental protection. While the number of cultural organizations experienced a slight but constant increase during recent years, the figure of social and environmental protection organizations has remained about the same. According to ESS 2018 data, 2.7% of Hungarians had volunteered or worked for an organization or association during the past 12 months, a significant decrease from 4.1% in 2016. The figure is not only one of the lowest in Europe, but the 34% decrease demonstrates the chilling effect on civic activism of the government’s anti-NGO and anti-civil society policies. Hungary’s mistrustful environment and closed mentality are unrelated to economic development and social structure that have remained unchanged for some time.

#### Approval of democracy

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#### Social capital

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However, there are also signs of positive developments regarding solidarity and support. In spite of the oppressive political environment, an increasing number of independent media outlets and civil society organizations have accomplished successful crowdfunding campaigns that enable the continuation of their operations.

## II. Economic Transformation

### 6 | Level of Socioeconomic Development

Hungary's UNDP Human Development Index (HDI) is at a very high level of human development (2019: 0.854) but the fourth lowest in the EU. Average life expectancy at birth is currently 76.9 years. The inequality adjustment of the Hungarian HDI (7.4%) is one of the highest in Central and Eastern Europe, demonstrating the high impact of poverty and inequality on human development.

Inequalities increased since the Orbán government took office in 2010, in line with a redistribution policy that generally favors the upper-middle class. According to Eurostat, the Gini coefficient increased from 24.1 to 28.6 between 2010 and 2014, and has since hovered around 28. Although lower than the EU average, this figure suggests significantly higher inequality compared to neighboring countries. Since 2010, the GDP share of the two highest income deciles has increased, underlining the bottom-up redistribution flow in Hungary.

According to the Hungarian Statistical Office (KSH), the percentage of people at risk of income poverty was 17.7% in 2019, following a constant decrease since 2012, with 12.2% suffering from relative income poverty. Vulnerable groups, such as pensioners, children, the unemployed and Roma are particularly exposed to poverty. Poverty risk among pensioners rose to 19.1% from 4.4% in 2010. Among the unemployed, 61.8% faced the risk of poverty or social exclusion as Hungary offers one of the least generous unemployment benefit schemes in the EU. Based on OECD data and methodology, in 2019, relative income poverty among children was 16.9%, which is significantly higher than Hungary's Central and Eastern European neighbors. The risk of poverty among the Roma is more than three times the national average (52.9% in 2019) but has significantly decreased (89.9% in 2013).

Although official statistics do not show a significant increase in unemployment during the COVID-19 pandemic (4.5% in February 2021), the real figures are likely much higher. Furthermore, challenges posed by periodic online education and the decrease in employment may have an above-average impact on people already at risk for poverty and exclusion. Thus, the pandemic may further fuel inequalities in Hungary.

Question  
Score

Socioeconomic  
barriers

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Economic indicators		2017	2018	2019	2020
GDP	\$ M	142961.6	160431.1	163503.7	<b>155012.9</b>
GDP growth	%	4.3	5.4	4.6	<b>-5.0</b>
Inflation (CPI)	%	2.3	2.9	3.3	<b>3.3</b>
Unemployment	%	4.2	3.7	3.4	<b>4.4</b>
Foreign direct investment	% of GDP	-8.5	-40.3	56.4	-
Export growth	%	6.5	5.0	5.8	<b>-6.8</b>
Import growth	%	8.5	7.0	8.2	<b>-4.4</b>
Current account balance	\$ M	2769.0	636.4	-620.3	<b>167.0</b>
Public debt	% of GDP	72.2	69.1	65.5	<b>80.4</b>
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-2.5	-2.2	-2.0	-
Tax revenue	% of GDP	22.9	22.6	22.5	-
Government consumption	% of GDP	20.2	19.7	19.8	<b>20.7</b>
Public education spending	% of GDP	4.6	4.6	-	-
Public health spending	% of GDP	4.7	4.6	-	-
R&D expenditure	% of GDP	1.3	1.5	-	-
Military expenditure	% of GDP	1.0	1.1	1.3	<b>1.6</b>

Sources (as of December 2021): 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

According to the IMF's 2018 shadow economy report, the informal economy amounted to 22.2% of Hungary's 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, although the government implemented a series of tax cuts in 2017 and 2018: the social contribution tax was cut from 27% to 19.5%. According to OECD, the overall tax burden decreased from 39.5% of GDP in 2008 to 36.6% in 2018.

Hungarian VAT is the highest in the EU at 27%; the consumption tax disproportionately affects low-income groups. The tax system is highly complicated – in 2020 the National Tax and Customs Administration collected 54 different taxes. While the number of taxes has slightly decreased in recent years, special taxes introduced during the COVID-19 pandemic reversed that trend. The government used the pandemic as a pretext to funnel local business taxes into the state budget, depriving municipalities of crucial income sources while prohibiting the introduction of new local taxes by municipalities.

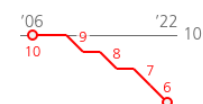
The World Bank's 2020 Doing Business report ranked Hungary 52nd, 11 places lower than in 2017. In the Starting a Business Index Hungary, was ranked 87th, down five places from 2019. Establishing a business requires six different procedures and seven working days, The cost of starting a business amounts to HUF 3 million (€9,600) for limited companies and HUF 5 million (€16K) for public limited companies.

State-administered pricing remains in place for public utilities for households. Special sectoral taxes remain prevalent. The previously disbanded special tax on retail was reintroduced in 2020, allegedly due to the COVID-19 pandemic, with a progressive tax rate varying between 0.1% and 2.5%. The incumbent government strongly interferes with the economy for political purposes to inhibit free-market competition in sectors it considers strategically important (energy, media, banking and retail). It does this through legislation that discriminates against specifically targeted companies.

Hungary's comprehensive competition laws, which seek to prevent monopolistic structures and conduct, are largely compliant with EU regulations. However, granting exceptions on a political basis by declaring mergers as of national strategic importance recently became a widespread phenomenon. Following the merger of government-friendly private media outlets under the control of the Central European Press and Media Foundation (KESMA) in 2018, in 2020, the government granted an exception from merger control for the creation of Magyar Bankholding Zrt which involved a merger of Budapest Bank, MKB Bank and MTB Savings Bank. The creation of the second-largest player on the Hungarian financial market may challenge OTP Bank, the country's leading financial institution, which is largely independent of the government.

Market organization

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Competition policy

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The Hungarian Competition Authority (GVH) is responsible for enforcing competition rules, but its independence is questionable. Although it generally operates fairly and evaluates cases according to professional considerations, it is liable to government interference and self-censorship when pro-government businesspeople or strategically important sectors are involved. For media mergers and acquisitions, the GVH must request a preliminary resolution from the media council that is binding on the competition authority.

Hungary has one of the highest numbers of public procurement processes with a single bidder in the EU. In January 2021, the European Commission asked Hungary to systematically reform its public procurement legislation and practices as they serve as vehicles for organized political corruption. Hence, public procurement can be considered a channel for politically redistributed subsidies, which undermines fair competition in various sectors.

Foreign trade is liberalized both with the EU and third countries. Hungary scored 100 (a joint first place) on the trading across borders scale in the World Bank's Doing Business 2020 report. Hungary fully complies with EU regulations on trade and the central administration understands the important role foreign trade plays in the economy. Hungary's Eximbank provides extensive guarantees, insurance and other schemes to support Hungarian companies' exports – these were further extended during the COVID-19 crisis. The government also provides important investment support, tax cuts and other incentives in the form of strategic partnerships to export-oriented large multinational companies.

The Hungarian banking system has a relatively stable foundation, oriented toward international standards. Nevertheless, the government refuses to participate in EU enhanced cooperation formats that guarantee high standards of stability for financial institutions, such as the Banking Union. The National Bank of Hungary (MNB) is responsible for the supervision of Hungarian banks and other financial institutions. Its November 2020 financial stability report claimed that the vast majority of banks have sufficient liquidity buffers to meet regulatory requirements, even in the event of severe liquidity stress, potentially triggered by the COVID-19 crisis. The capital adequacy ratio stood at 17.6% in the second quarter of 2020. Although the government introduced a facultative payment moratorium on personal loans to mitigate the risk of skyrocketing personal bankruptcies and their social impact during the COVID-19 pandemic, the MNB concluded that the ratio of loans at risk could increase significantly because of the economic downturn. In June 2020, approximately 60% of household loan customers lived with a possible repayment moratorium but the share of non-performing loans was 3.6% in the fourth quarter of 2020.

Increasing joint ownership between the banking sector and pro-government entrepreneurs is widespread and could pose a long-term risk to the banking system. In December 2020, the government exempted the merger of Budapest Bank, MKB

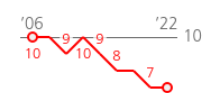
Liberalization of  
foreign trade

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Banking system

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Bank and MTB Savings Bank from competition rules, claiming the merger served strategic national interests. The state will hold 30.35% of shares in the new superbank; 15.34% will belong to companies in the Mészáros Group owned by Hungary's richest oligarch and Prime Minister Orbán's alleged strawman Lőrinc Mészáros. Promoting national capital in key sectors of the economy, like the finance industry, is a strategic goal of the Hungarian government.

## 8 | Monetary and fiscal stability

The mid-term inflation target of the Hungarian National Bank (MNB) is 3%. Core inflation was around 4% in 2019 – 2020 and expected to stabilize at 3% in 2022 or 2023, according to a MNB forecast from 2020. Beginning in May 2016, the MNB's base interest rate was 0.9%. It decreased to 0.75% in June 2020 and to 0.6% in July 2020. Maintaining a low-interest rate environment is the backbone of the Fidesz government's economic strategy since coming to power in 2010. Inflation remained moderate under conditions of the COVID-19 crisis.

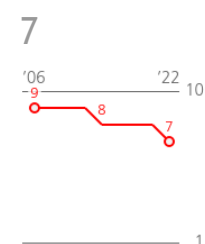
In line with EU legislation, the independence of MNB is established in law, although the new constitutional framework regulating its operations has been subject to EU infringement procedures in 2011, and concerns over its independence recur. The MNB's current director, György Matolcsy, is a former economic minister under Orbán. According to Matolcsy, the MNB's task is to support the government in achieving its macroeconomic and other political goals. In the same spirit, the private foundations established by the MNB in 2014 played a crucial role in financing academic, policy and PR projects initiated by stakeholders close to the incumbent party.

The Hungarian forint (HUF)/euro exchange rate has gradually decreased from HUF 321 in the first quarter of 2019, to HUF 358 in the first quarter of 2021. One reason behind the forint's fall was the lax monetary policy of the MNB, including the historically low base interest rates. The MNB and the government have no exchange rate target and the government sees a weak HUF as a precondition of export competitiveness. Thus, stakeholders perceive no reason to intervene.

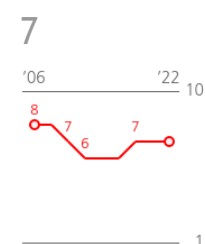
Hungary's budget deficit was to 2% of its GDP in 2019 and the Ministry of Finance expected a deficit between 7% and 9% for 2020, due to the declining tax income and increased spending as a result of the COVID-19 pandemic. Typically, the Fidesz government has pursued a conservative fiscal policy centered around budget discipline, but its pro-cyclical economic policy left it with limited leeway to act in a negative-growth environment.

In May 2020, the Hungarian government adopted its policy package in response to the coronavirus pandemic. Policies with direct impact on fiscal stability amounted to HUF 2,100 billion (€6 billion), which represented approximately 4.55% of GDP.

Monetary stability



Fiscal stability



HUF 600 billion (€1.7 billion) were allocated to cover increased health-related spending, while approximately HUF 1,300 billion (€3.7 billion) was assigned to various economic stimulus programs.

Policy measures without direct fiscal implications, like the repayment moratorium on household loans, or the beneficial loan and loan guarantee programs, were coordinated by the Hungarian National Bank with a draft financial allocation of approximately HUF 7,000 billion (€20 billion), equivalent to 15% of GDP.

The debt-to-GDP ratio in fiscal year 2019 was 66.3%. It has decreased significantly from its 80.8% level in 2011, which demonstrates the government's commitment to macro-economic stability, but still remained above the 60% threshold of the Maastricht Criteria. A constitutional debt brake is also enshrined in the Hungarian Fundamental Law. In 2020, the debt-to-GDP ratio jumped up to 81.2% due to the fiscal implications of the COVID-19 pandemic, which broke a 25-year record and exceeded the level during the 2008/2009 global economic crisis.

In 2016, all three large credit rating agencies raised Hungarian sovereign debt rating into the recommended for investment category. In February 2020, S&P improved Hungary's rating to BBB (which corresponds to Fitch's rating as well), while in September 2020 Moody's upgraded its rating to Baa3.

## 9 | Private Property

Property rights and regulations covering ownership are generally well-defined and enforced in Hungary, although political motivations in restricting property rights are increasingly prevalent. According to the World Bank's 2020 Doing Business Report, Hungary scores 80.1 and ranked 29th in the world in terms of registering property. The country's score has remained largely unchanged since 2017. In the same report, Hungary ranked 25th in enforcing contracts through courts, a steep decline from a 13th place in 2018, demonstrating government intrusion in the legal system.

The government issued a decree in April 2020 allowing for the establishment of special economic zones on municipal territories, enshrined in law following the repeal of the Authorization Act in June. The regulation transfers municipalities' real estate rights to the county level in special economic zones and thus strips them of enjoying the contractual benefits which were negotiated in exchange for granting municipal real estate for investment. The law is a serious infringement on the municipalities' property and contractual rights in a politically motivated and highly discriminatory manner.

### Property rights

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Private enterprise enjoys adequate legal safeguards and the government views private companies as the primary engines of the vast majority of economic sectors. However, in sectors considered strategically important (media, banking, energy, retail, telecommunications) or in areas that feature the interests of the ruling party's clientele (mainly construction and food processing), the state severely interferes with private companies through legislative means or via harassment by the tax authorities or various law enforcement agencies.

Public procurement remains the major source of subsidies for pro-government businesses. Based on European Commission data, in 2019, 24.1% of the tenders in Hungary had just one bidder, while 38.8% of procedures were not open, the second-highest rate in the EU. While the government rolls out the red carpet in the shape of a strategic partnership agreements for export-oriented large multinationals manufacturing high added-value products, the freedom of private enterprise overall increasingly suffers from nontransparent public procurement, the high-level of political corruption, and arbitrary legislative and executive measures that favor government-friendly business over any competitors.

## 10 | Welfare Regime

The Viktor Orbán government has fundamentally reshaped the Hungarian social welfare regime and redistribution policies according to its workfare society agenda. Redistributive policies are also actively used to promote the government's conservative social agenda and favor support for married couples over single parents. While the welfare system was restructured to favor the well-off over those at risk of poverty and exclusion, social expenditures were also cut significantly. Since 2010, Hungary's social expenditures have continuously fallen and dropped from 23% of GDP in 2010 to 18.1% in 2019; health expenditures also dropped, from 7.5% in 2010 to 6.4% in 2019.

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 remained at €90 for more than 10 years. The share of pensioners at risk of poverty and exclusion was 19.1% in 2019 – practically quadrupling since 2010 (4.4%) and nearly doubling since 2017 (11.1%).

The length of unemployment benefits is three months, the shortest in the EU. A large-scale public works scheme dominates active labor market policy measures such as training, mentoring or wage subsidies. The risk of poverty and exclusion for unemployed persons increased from 44.8% in 2018 to 61.8% in 2019. Social assistance is coupled to compulsory participation in public work schemes.

### Private enterprise

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### Social safety nets

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In 2020, the government launched an Economy Protection Strategy to cushion the economic and social implications of the COVID-19 pandemic-induced economic downturn. At the end of 2020, measures that were part of the strategy amounted to 28% of GDP, including subsidies of up to 70% of wages for non-active employees to preserve employment and a payment moratorium on household loans.

Equal opportunity legislation protecting vulnerable groups from discrimination formally exists in line with EU laws, but the government increasingly attempts to hamper the law's implementation. The National Assembly disbanded the Equal Opportunity Authority (EBH) in January 2021, passing its competencies on to Hungary's ombudsperson for fundamental rights. The EBH has acted as an independent and professional safeguard since its establishment by Hungary's first comprehensive equal opportunity act in 2003. Since the former and recent ombudspersons László Székely and Ákos Kozma since 2013 maintained an uncritical, often-biased attitude toward the executive, the EBH's dissolution may seriously hamper the enforcement of non-discrimination legislation. As a sign of concern about the independence of the ombudsperson, the Global Alliance for National Human Rights Institutions (GANHRI) suspended the accreditation of the Hungarian ombudsman in 2019, which has been under review since.

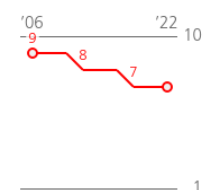
In 2020, Prime Minister Orbán publicly expressed his disagreement with a court ruling that issued payment of compensation to Roma families whose children were segregated for years in school. Following the statement, pro-government media conducted an intimidation campaign against judges, which might have a chilling effect on future equal opportunity jurisdiction.

School enrollment rates for boys and girls are 99.9% and 100% in primary, and 99.2% and 99.7% in lower-secondary schools, respectively. Male students are overrepresented in early school drop-out. School segregation and structural discrimination of Roma remain endemic; segregation is allowed by law in church-run schools if it serves the purpose of "the pastoral care of Roma."

The gender pay gap is below the European average (11.8% in 2018 vs. 14.8%), while the employment gap significantly exceeds the EU average (15.3% vs. 11.5%). Research suggests that women face significant barriers returning to the labor market after giving birth. Childbearing is also responsible for a significant part of the gender wage gap. According to the European Institute for Gender Equality (EIGE), the share of women in leading business positions is only 18.2% in Hungary.

Equal opportunity

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## 11 | Economic Performance

According to Hungarian Central Statistical Office (KSH) data, GDP expanded by 4.6% in 2019, following robust growth in the previous years. In contrast, the economy contracted by 5-6% in 2020 as a result of the COVID-19 pandemic, according to the Hungarian Ministry of Finance. According to Eurostat, Hungary's GDP per capita in purchasing power parity (PPP) terms was 73% of the EU27 average in 2019, the eighth lowest among member states. Although the increase (68% in 2017) is partially due to a lower EU level due to Brexit, Hungary has outperformed Poland and Slovakia since 2018.

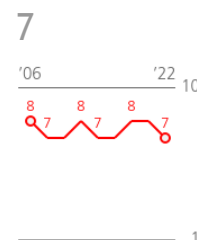
In 2019, the debt-to-GDP ratio totaled up to 66.3% after years of moderate but constant decreases. In 2020, due to the fiscal implications of the COVID-19 pandemic and the government's crisis management measures, it jumped to 81.2%. This value is not only higher than in the aftermath of the 2008/2009 global economic crisis, but also negated the results of debt reduction efforts over the past decade. The annual budget deficit was 2% of GDP in 2019, while in 2020 the Ministry of Finance expected a deficit between 7% and 9% of GDP. Regarding the labor market, in December 2020, the unemployment rate rose to 4.3% from 3.5% year-on-year.

## 12 | Sustainability

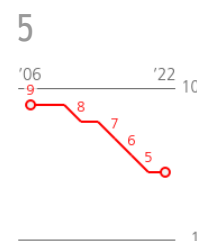
Even though sustainability is enshrined in the Hungarian Fundamental Law, environmental protection is rarely the government's priority over the economic interests of the state or the business circles close to Fidesz. According to OECD data, in 2018, environmental taxation represented 2.38% of GDP and 6.47% of total tax revenues, both above OECD leverage. Notwithstanding this, effective taxation of energy and CO2 emission remains low.

Oil and natural gas constituted 58% of total energy consumption in 2018 (OECD); nuclear power was responsible for 16%, coal for 8% and renewables, mainly biomasses, for 11%. Regarding electricity generation, 49% of it stems from nuclear power, 23% from gas, 15% from coal and approximately 12% from renewables. With the Paks II Nuclear Power Plant project, Hungary committed itself to the use of nuclear energy in electricity generation over the long term. Current Hungarian renewable legislation strongly discourages wind energy, and this has hampered the increase of the share of renewables in the energy mix over the past couple of years. The solar cell sector, which experienced significant expansion over the same period, is dominated by Hungarian and Turkish investors with close ties to the incumbent party. According to European Commission data, the share of renewables in energy consumption peaked in 2013 and has slightly decreased since, which makes compliance with Hungary's 2030 climate goals unlikely. In January 2020, the

### Output strength



### Environmental policy



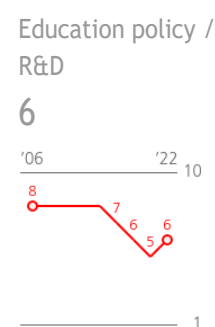
government adopted the National Energy and Climate Protection Strategy which anticipates nuclear energy and the solar sector as the backbones of Hungary's electricity generation in upcoming decades.

The main stakeholder in the National Energy and Climate Protection Strategy has been Péter Kaderják, state secretary of the Ministry for Innovation and Technology between 2018 and 2021. Due to his technocratic approach, Kaderják often violated the interests of investor circles close to Fidesz. In January 2021, he and State Secretary for Waste Management Anita Boros were suspended, and their secretariats merged with those for infrastructure development and construction. The new structure of the state secretariat for energy, climate, construction, infrastructure environment and sustainability can be seen as an institutional guarantee that climate policy considerations do not hamper the ruling elite's important economic interests.

Hungary spends one of the lowest proportions of GDP on education among OECD members (OECD Education at Glance, 2020); public expenditure on education amounts to 4.7% (2017) and on R&D to 1.6% (2018). According to the UNDP's inequality-adjusted education index, Hungary ranked 31st out of 171 countries in 2019 with a score of 0.796, representing a constant decrease from 0.834 in 2013. During the past decade, the lack of an adequately educated, skilled workforce has become the main barrier to investment and economic growth in Hungary. Although the COVID-19 pandemic-caused unemployment growth may mitigate the impact of the skilled labor shortage in short term, over the long term, the shortage will likely remain stable and or become worse, considering Hungarian education trends

Hungary's school system has undergone significant centralization since 2013, which resulted in a return to traditional pedagogical methods, the primacy of national values over critical thinking and factual knowledge over skills and adaptability. According to PISA 2018 results, Hungary showed short-term improvements compared to 2015 in all three main categories. But compared to tests conducted in the early 2000s, the trend is steadily negative and consistently below the OECD average. The gap between the best and worst-performing 10% of pupils is stable in reading and mathematics and widening at the field of science, underlining the selective and exclusionary nature of the education system and its inability to mitigate differences in educational achievement attributable to different socioeconomic backgrounds. In 2019, the overall school drop-out rate remained high at 11.8%.

Hungarian universities perform weakly by international comparison. According to Emerging Economies University Rankings 2020, only one Hungarian university ranked among the top 100 (Semmelweis University, 70th), compared to three in 2016. There were two more in the top 200, compared to six in 2016, underlining the decreasing competitiveness of Hungarian higher education. According to World Bank, Hungary's tertiary education enrollment rate fell from its historical peak of 68.3% in 2007 to 50.3% in 2018.



Academic freedom is under considerable pressure. Following the expulsion of the Central European University and ending the autonomy of the research institutes of the Hungarian Academy of Sciences, the government pushed forward a reform of higher education in the past few years. In 2020, six universities were privatized and placed under the control of newly established foundations, the boards of which are filled with acting Fidesz politicians, ensuring political control over higher education and its spending, even if Fidesz faces an electoral defeat. While most of university privatization went unopposed, the privatization of the University of Theater and Film Arts triggered month-long student protests. In October 2020, the Court of Justice of the EU ruled in the “Lex CEU” case (i.e., an amendment to the Act on National Higher Education) that the changes in Hungarian higher education legislation constituted a breach of the EU law. As of February 2021, the Hungarian government has failed to commit to amending the law to comply with the CJEU ruling.

Regarding R&D, Hungary ranked 22nd in the 2020 European Innovation Scoreboard (European Commission) and continued to be among moderately innovative countries, reaching 66.4% of the EU average innovation performance in 2019.

## Governance

### I. Level of Difficulty

The structural constraints on governance are low, as Hungary has a well-developed core infrastructure and its territory is not contested externally or internally. Nor is it subject to frequent natural catastrophes. The ethnic composition of its population is relatively homogeneous.

Over the long term, however, several factors may constrain governance. With an average age of 42.5 years (2018) and a fertility rate of 1.55 in (2020), Hungary may face significant demographic challenges in upcoming decades. The demographic situation, coupled with the decreasing performance and competitiveness of the education sector, growing inequalities, the already-prevalent lack of a skilled labor force, and the ongoing immigration of young people with tertiary education, may significantly hamper economic growth in the future and pose a significant challenge to the sustainability of Hungarian economy and society.

The disruptive shock caused by the COVID-19 pandemic was fairly severe in Hungary. During the second and third waves of the pandemic, the country had one of the highest death rates in the EU, compared to the number of infected persons. By January 31, 2021, Hungary had over 368,000 cases for 9.8 million inhabitants and over 12,000 deaths. The GDP shrunk by 5.1% in 2020. However, as Hungary has been undergoing genuine autocratization since 2010, no democratic or market economy transformations are taking place in the country that could be obstructed by the COVID-19 pandemic. In contrast, the poor performance of the Orbán government in managing the pandemic may offer a new start to democratic transformation in Hungary.

Hungarian society is characterized by statist attitudes. A large portion of the population favors care provided by the paternalistic state over social activism and civic engagement – an attitude shaped by the country’s long authoritarian tradition and foreign occupation. Following the democratic transition in 1989 – 1990, Hungary experienced dynamic democratization and the development of civil society, which took a U-turn as a result of Hungary’s increasing autocratization since 2010. Critical NGOs are intimidated by public media and government-friendly private outlets on a regular basis. Since 2017, the “lex NGO” and “lex Stop Soros” target and criminalize foreign-funded civil society organizations and those active in supporting asylum-seekers. Although in 2020 the CJEU ruled that “lex

Structural  
constraints

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Civil society  
traditions

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NGO” constitutes a breach of EU law, as of February 2021 the Hungarian government had failed to comply with the judgment. The case of “lex Stop Soros” is still pending before the CJEU.

In 2019, 60,890 organizations worked in the non-profit sphere, 3.1% fewer than in 2015 (Hungarian Central Statistical Office, 2020): 8.9% of them focused on social care, 3.4% on environmental protection and 0.9% were legal watchdogs. According to the ESS 2018, 2.7% of Hungarians volunteered or worked for an organization or association over the past 12 months, a significant decrease from 4.1% in 2016. The figure is not only one of the lowest in Europe but demonstrates the chilling effect of the government’s anti-NGO and anti-civil society policies on civic activism.

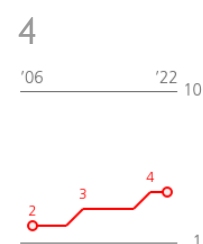
In 2017, independent CSOs established an umbrella organization called *Civilizáció* to coordinate forces in battling political intimidation, raise awareness for civic engagement and deepen the roots of CSOs in Hungarian society, achieving some limited success. Although the culture of donation is not widespread in Hungary, the importance of crowdsourcing in generating income for professional CSOs is increasing. As state funding – one of the civil society’s main income sources before 2010 – has become politicized and is practically unavailable for watchdog NGOs critical of the government, international funding, tax returns and crowdsourcing constitute the main income sources for independent civil society. In contrast, the government generously funds a plethora of GONGOs, established for the purpose of political mobilization, campaign support, promoting a positive Hungarian international image and influencing domestic political discourse, and the intimidation of critical CSOs in Hungary.

Hungary’s political culture has been conflictual since the early 1990s, but polarization accelerated and manifested itself in new ways over the past decade. The incumbent Fidesz Party exploits a populist narrative based on an “us-and-them” dichotomy between “the people” and the constructed concept of “public enemies” to maintain and deepen the conflict lines within the Hungarian society, allowing the party to remain firmly in power with the support of a plurality of the electorate. During the last couple years, left-liberal elites, foreign investors, the EU, migrants and asylum-seekers, civil society organizations, independent journalists, George Soros, and the LGBTQ+ community were systemically instrumentalized as “public enemies” in political discourse.

Because of this permanent populist mobilization against invented public enemies, the main systemic political cleavage runs between those who support and those who oppose the Orbán regime. However, mainly due to the weakness of institutionalized formats of interest representation and mediation, traditional social and ethnic division lines also endure.

Spontaneous political violence remains sporadic. Hate crimes against Roma, in particular, are systemically underreported and not prosecuted. Semi-organized political violence committed by security companies with links to the governing

Conflict intensity



party or by radical-right organizations tolerated and instrumentalized by the government has become a recurring phenomenon – demonstrated by attacks by the radical-right Légió Hungária on the Aurora Community Center in October 2019 and on a member of the left-punk group Hétköznapi Csalódások in October 2020.

## II. Governance Performance

### 14 | Steering Capability

The government sets strategic priorities and regularly subordinates them to the demands of office- and vote-seeking. Since 2010, the government has followed a long-term strategy to capture and neutralize institutional checks and balances, to capture the media landscape, and to maintain a highly centralized system of political corruption – these starkly contrast with its inability to craft or enact any complex, common good-oriented policy strategies.

As political loyalty is the executive’s key asset, the expertise of the ministers who oversee crucial policy portfolios is often questionable. Frequent structural and personnel changes in the ministries overseeing education, health care and R&D further hamper long-term policy formulation and the efficiency of these underperforming policy fields.

Strategy documents are often not well-integrated. Government decisions are often unclear even to cabinet members and based on the logic of power politics and political communication rather than professional rationality.

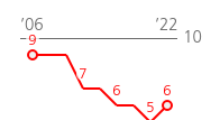
During the COVID-19 pandemic, protecting of the economy was prioritized over health concerns, resulting in rather soft lockdown regulations by European comparison. Furthermore, the government consciously instrumentalized the pandemic and the constitutional ‘state of danger’ to proceed with its identity politics agenda, crack down on the LGBTQ+ community, hamper the work of the free media and deprive opposition-led municipalities of key financial income sources.

The narrative of extraordinary circumstances is the most stable, long-standing characteristic of policy formulation and implementation in Hungary. This narrative is used to legitimize the permanent haste of decision-making, the lack of impact assessment and public consultation, as well as the frequent policy changes and the subjugation of policy rationality to short-term political interests. This was further exacerbated during the COVID-19 pandemic when the incumbent party invested considerable resources in stripping opposition-led municipalities and opposition parties of financial resources and violated the rights of vulnerable groups like the LGBTQ+ community. While the government was preoccupied with further cementing its power and ideological narrative, Hungary had one of the highest

Question  
Score

Prioritization

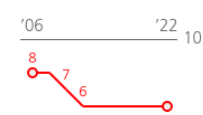
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Implementation

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mortality rates compared to the number of infected persons and the country's health system remained completely unprepared for the second wave of the pandemic in the fall of 2020.

The government has been fairly successful in establishing political control of once-independent institutions, implementing party-state capture and rent-seeking, and dominating politics by mobilizing against invented concepts of enemies. However, real policy challenges in complex policy fields, like public education reform or the containment of the COVID-19 virus resulted in poor performance, including the dysfunctional operation of the education and health care systems.

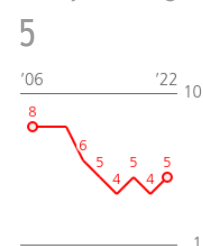
The government follows the logic of power politics and political PR, rarely giving priority to policy considerations. Hence, its readiness to engage in policy learning is extremely limited. Independent academic and policy institutions – domestic or international – are rarely seen as sources of useful expertise. In contrast, government-friendly media, including public media, often discredit independent expertise, providing space for partisan denunciations instead of argument-based factual debates. In addition, government policies mostly aim at creating financial and management structures in higher education, research and R&D that have a chilling effect on academic and policy research. Academic institutions and research initiatives perceived as critical of the regime or possessing the wrong ideology face mounting pressure. The regime has declared whole academic fields, like gender studies, undesirable.

The autonomy of cabinet ministers is strongly limited. Hardly any platform is available to influence decision-making by the prime minister, except for his very close circle of advisers. Innovative ideas and constructive criticism are rare phenomena. Regulatory impact assessments have a rather formal character, are confined mainly to environmental policymaking, and do not rely on regular consultations with stakeholders.

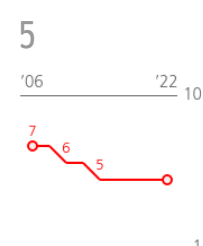
## 15 | Resource Efficiency

In 2018, Hungary spent 8.3% of its GDP on general public services, which was the second-highest share in the EU after Greece (Eurostat); however, the allocation of these public funds seems to be rather ineffective. The drastic reduction of the number of public employees in the state administration in 2016 – 2017 led to an increased burden on the remaining public employees as no reduction in bureaucratic tasks took place parallel to the personnel cuts. This led to public employee strikes in 2019 because of permanent overtimes and the frequent inability to take paid leave. In response, the government significantly increased public employees' basic salaries, but abolished the former promotion system and increased unpaid overtime. Thereby, the government further undermined the predictability of public employee careers, promoting the politicization of public service.

### Policy learning



### Efficient use of assets





Political appointments even to low-level leadership positions in the public administration are common, often resulting in the appointment of young, inexperienced people or political nominees without appropriate expertise in a given field.

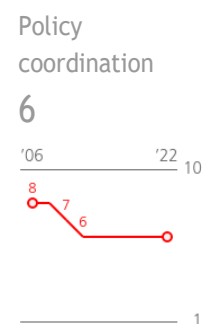
The Orbán government has avoided state budget deficits above 3% of GDP since 2012 and has gradually reduced the gross public debt. While state budgets are approved well in advance to make Hungarian fiscal policy more “predictable,” the governing majority often thwarts this objective by amending approved budget laws.

The budget deficit was 2% of Hungary’s GDP in 2019 and the Ministry of Finance predicted a deficit of 7 – 9% for 2020 because of the declining tax income and increased spending as a result of the COVID-19 pandemic. The debt-to-GDP ratio was 66.3% in 2019. It has decreased significantly from its 80.8% level in 2011 but remains above the 60% threshold of the Maastricht Criteria. In 2020, the debt-to-GDP ratio jumped to 81.2% due to the fiscal implications of the COVID-19 pandemic, which broke a 25-year record, exceeding the level during the 2008/2009 global economic crisis. The Fidesz government has generally pursued a conservative fiscal policy centered on budget discipline, but its pro-cyclical economic policy left it very limited leeway to act in a negative-growth environment. Budget transparency and predictability remained low during the entire period, primarily due to frequent amendments to the budget law.

The state is subordinated to a hierarchical power pyramid with Viktor Orbán, the prime minister and the leader of Fidesz, at the top. Orbán relies on a powerful Chancellery, the lack of internal democratic processes within Fidesz, and a well-established network of informal power to formulate policies, coordinate line ministries and monitor policy implementation. The political support of the Fidesz-KDNP parliamentary group is unconditional. The incumbent party and the parliamentary majority lack any meaningful political autonomy from Orbán.

The Hungarian government mostly comprises super-ministries that oversee multiple complex and often-conflicting policy areas to ensure the primacy of “political governance” over policy considerations. The autonomy of individual ministers is minimal, with the notable exception of Minister of the Interior Sándor Pintér and Minister of Finance Mihály Varga. Line ministers and their subordinates rarely dare to make decisions independently because of the all-encompassing nature of power political goals, which results in the unpredictable and chaotic operation of the government.

Ministerial authority is shared on some issues, and the prime minister’s affection for encouraging competition among the members of his cabinet also creates confusion from time to time. Politically sensitive, conflicting sectors requiring negotiations, such as health care, environmental protection or education, are managed opaquely and poorly. As decision-making is concentrated in the hands of the prime minister, central offices directly subordinated to him (the Prime Minister’s Office, the Governance Office and the Cabinet Office) primarily oversee policy coordination.



While corruption is endemic in Hungary, its nature has undergone fundamental changes since 2010. While previously a negative side-effect of democratic politics, since Viktor Orbán entered power in 2010, highly centralized political corruption became the main modus operandi of Hungarian politics. Political corruption and informal power networks are key pillars of party-state capture. In this context, the government's commitment to transparency and combating corruption are but lip service.

Hungary has one of the highest shares of public procurement processes with single bidders in the EU. This situation was further exacerbated during the COVID-19 pandemic. According to data from the Corruption Research Center in Budapest, between January and April 2020, 27% of the net contract value awarded in public tenders was won by companies close to Fidesz, with 68% of those contracts awarded in tenders with a single bidder, a significant increase from 2019 (21% and 51%, respectively).

In January 2021, the European Commission asked Hungary to systematically reform its public procurement legislation and practices because they serve as vehicles for organized political corruption. In its report in 2019, the European Anti-Fraud Agency OLAF claimed that Hungary is the only EU member state in which national authorities detected fewer irregularities with regard to EU funds than OLAF did. The report also alleged that the share of EU funding affected by fraudulent irregularities is approximately ten times higher than the EU average (3.93% vs. 0.36%). The country is subject to the 4th round of the Group of States against Corruption (GRECO) non-compliance procedure after having disregarded 13 out of GRECO's 18 previous recommendations.

The national audit office (NAO) is formally responsible for auditing state spending. The independence of László Domokos, its chairman since 2010, is questionable as he has been a member of Fidesz since the party's foundation and has also served as a member of parliament. The NAO has repeatedly fined opposition parties in the run-up to the 2018 national elections and the 2019 elections to the European Parliament, threatening their financial ability to conduct meaningful elections campaigns. In contrast, Fidesz has not been subject to fines or warnings since 2010, despite claims by watchdogs that the incumbent party spent considerably more on campaigning than legally permitted and used state funds for party purposes.

Asset declarations by officeholders are not required by law to be in a machine-readable format. They are neither subject to stringent oversight nor linked to tax declarations.

The regulation of public information requests was also significantly restricted under the COVID-19-related "state of danger." For most of 2020, the normal 15-day reply deadline was prolonged to 90 days, if meeting the deadline would have hampered the pandemic response. Public authorities made frequent use of this regulation to withhold public information until it lost relevance in the news cycle.

Anti-corruption  
policy

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## 16 | Consensus-Building

The political discourse in Hungary is determined by the governing party's populist mobilization against constructed public enemies and by the opposition parties' "systemic opposition" to the structures and policy preferences of the Orbán regime. Consensus-building is unrealistic under the given political conditions.

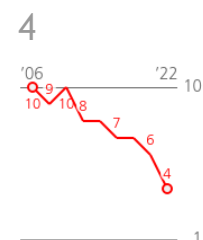
The governing party uses its constitutional supermajority to force through legislative proposals without proper deliberation, including laws that seriously compromise democratic institutions, infringe on human rights and serve the enrichment of its cronies. Opposition parties refuse to support most initiatives of the incumbents. They rejected the COVID-19-related Authorization Act in March 2020 as the proposed law granted extraordinary powers to the government with no sunset clause. Although the Authorization Act was passed with votes from the Fidesz Party, the government waged a defamation campaign against the opposition, accusing it of obstructing the pandemic response. Furthermore, Fidesz abused the Authorization Act to further cement its power and infringe upon LGBTQ+ rights, even though the act was repealed in June 2020.

If it were to win an election, the opposition would seek to dismantle the one-party constitutional system and state capture and renationalize the public wealth that has been channeled to Fidesz cronies. While in 2020, the six parties of the united democratic opposition were able to establish a common anti-Orbán platform, they lack a coherent strategy to challenge the regime.

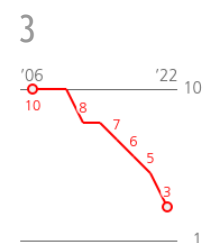
While the major political actors generally agree on the market economy as the desired economic system, there is significant controversy over the scope of the state and political intervention in the economy, the desirable model of economic development, and the norms that should guide the behavior of economic actors.

Hungary's incumbent Fidesz Party, which holds a constitutional two-thirds majority, is not committed to liberal democracy. Since Prime Minister Orbán announced the project of an "illiberal democracy" in 2014, Hungary has in fact suffered from autocratization. While elections remain the main source of legitimacy for the regime, the substance of politics and policy formulation is increasingly authoritarian. Furthermore, autocratization impacts not only the liberal component of democracy, but also its core electoral one. Hungary held its last elections that were in full compliance with OSCE standards of democratic elections more than a decade ago, in 2010. Since then, independent institutions have been captured and the checks and balances on executive power eliminated, with the notable exception of the ordinary judiciary that has mostly preserved its independence. Without constitutional power, reformers face significant difficulties overcoming anti-democratic veto actors without serious breaches to the rule of law.

Consensus on goals



Anti-democratic actors



The formerly radical-right party, Jobbik, has become significantly more moderate since 2014. In the past, Jobbik revived historical symbols once used by Hungarian fascist groups and repeatedly instigated anti-Roma and anti-Semitic conflicts. In recent years, Jobbik has changed its profile under new leadership and has been accepted by other opposition parties as a partner in the alliance against Fidesz.

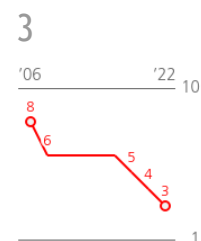
Dividing Hungarian society and mobilization against invented public enemies are the key strategies pursued by the Orbán regime to maintain electoral support and democratic legitimacy. While support of or opposition to the regime became the main conflict line in 2020, identity politics also plays a crucial role in the formation and maintenance of discursive political communities, leading to a polarization of society between a nativist-sovereignist political tribe with increasing authoritarian characteristics and the mostly pro-European left, liberal, green opposition. This opposition marks the positions of all parties in the political landscape. Jobbik, which belonged ideologically to the conservative tribe, is now part of the systemic opposition to the Orbán regime. Between the two extremes, approximately 40% of the electorate remains undecided, unrepresented and politically homeless. The polarization and systemic cleavages result in a deep crisis of representation and deliberation in Hungarian democracy.

While anti-migration discourse dominated the political agenda in 2015 – 2016 and anti-civil society mobilization dominated in 2017 – 2018, most recently the government appears to follow the Polish playbook in its instrumentalization of LGBTQ+ people as enemies. Furthermore, the court ruling in the segregated education case of Gyöngyöspata in early 2020 and political reactions to it clearly demonstrate that anti-Roma mobilization and attacks on the judiciary are part of the government's communication toolkit that can be employed opportunistically.

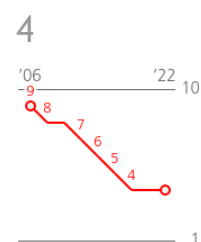
A number of civil society actors exist in Hungary. The legal framework for advocacy, interest representation and social consultation is also mostly regulated. However, social participation in any stage of the policy cycle has been severely restricted since 2010. Fidesz relies on populist mobilization and claims to be the sole representative of the Hungarian people and their interests. Thus, the legitimacy of civil society participation at any stage of the policy cycle is seriously questioned, and often straight out rejected by the government.

The logic of the populist dichotomy divides civil society into useful and hostile segments. Apolitical and loyal CSOs, as well as the growing number of government-organized non-government organizations (GONGOs), belong to the former category, while independent CSOs and particularly the watchdogs operating in politically sensitive fields to the latter one. The redistribution of public funding dedicated to civil society support is opaque and politically biased, depriving independent and critical NGOs of an important income source.

Cleavage /  
conflict  
management



Civil society  
participation



Since 2017, Hungarian civil society legislation (especially the “lex NGO” and the “lex Stop Soros”) follows the blueprint of Russian and Israeli foreign agent laws and is extremely hostile to civil society. The government offers participation in policy formulation to interest organizations – primarily to economic chambers and employee organizations, but those structures are selective, nontransparent, and exclude a large segment of civil society. The influence of professional organizations is also very weak, demonstrated by the sidelining of health care and medical organizations in the shaping of the pandemic response during the 2020 COVID-19-related health crisis.

Critical NGOs are continually targeted by political attacks and smear campaigns and face legal, administrative and financial barriers that limit their operations and threaten their existence.

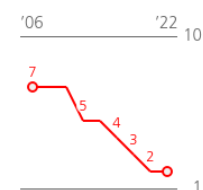
Inventing enemies and amplifying victimhood are the backbones of the government’s discursive politics. The politics of remembrance and conscious instrumentalization of the historic traumas of the 20th century play a crucial role in this political strategy, hindering reconciliation processes. The government has no intention of healing the wounds inflicted by history. Instead, it manipulates memories of historical injustices as a weapon against political opponents.

The government denies Hungary’s responsibility in crimes against humanity that were committed in World War II after the country’s occupation by Nazi Germany and thus responsibility for the Hungarian victims of the Shoah and Porrajmos, the Jewish and Roma Holocausts, respectively. Furthermore, the official narrative relativizes or denies the anti-Semitic nature of the Horthy regime, which is often used as a historical reference point with values shared by Orbán’s regime and its System of National Cooperation. Despite the declaration in the Fundamental Law that Hungary lost its self-determination on March 19, 1944, the incumbent party’s relation to the national-socialist Arrow Cross Party is ambiguous. Although the Arrow Cross regime was responsible for the execution of 60,000 – 70,000 Hungarian citizens with Jewish ancestry, the governing party and its local branches fiercely protect a World War II memorial in the 12th district of Budapest. The monument showcases Hungarian historical national symbols also widely used by the Arrow Cross movement at the location where one of the most serious acts of atrocity against Budapest’s Jewish inhabitants took place

Structural constraints and political manipulation undermine reconciliation with the communist past. Although anti-communism is crucial to the political self-identification of Fidesz, many ministers and high-ranking officials held important positions before 1990 or were members of the Socialist Workers Party. Data on communist-era secret agents is not public, which constitutes one of the main barriers to reconciliation and makes several officeholders susceptible to blackmail. Former communists are divided into two groups – those supporting Fidesz are patriots who allegedly opposed the communist system, even if they were major

Reconciliation

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beneficiaries of it, while all others are bad communists. Even young politicians active in parties founded around 2010 (the green LMP or the liberal-centrist Momentum) are accused of having communist political heritage and being representatives of the post-communist elite.

## 17 | International Cooperation

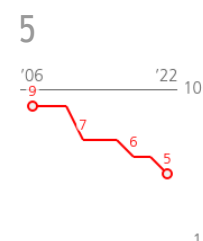
Hungary is one of the largest recipients of EU funds on a per capita basis. In the period of 2014 – 2020, €22 billion in cohesion transfers were allocated to Hungary, which accounts for more than 3.8% of Hungary's gross national income. Financial allocations as part of the European agricultural policy amounted to an additional €4.2 billion. Hungary's absorption rate is one of the highest in the EU. The exact impact of the cohesion transfers on economic growth is hard to estimate but even without considering multiplicative effects, Hungary may not have experienced economic growth in some years without EU transfers.

The government's main strategy regarding EU financial transfers is to maintain a stable economic environment by generating extra demand in key economic sectors (primarily construction), to develop basic infrastructure and enrich cronies close to Fidesz. EU cohesion transfers are particularly impacted by strategic corruption. In its 2019 report, OLAF claimed that only in Hungary did national authorities detect fewer irregularities regarding EU funds than OLAF did. According to the report, the share of EU funding affected by fraudulent irregularities is ten times above the EU average (3.93% vs. 0.36%).

The two pillars of the incumbent government's long-term development strategy are rent-seeking and maintaining low labor costs in manufacturing. This does not offer an escape from the middle-income trap or any prospect of an innovation-based economy. In its rent-seeking strategy, the government is open to alternative finance flows from Russia and China. While these loans offer no strategic alternative to EU funds, they provide some leeway for the government against EU institutions and extra resources for cronies because of their high corruption exposure.

The EU funds' exposure to corruption was one of the main triggers behind the EU's rule of law conditionality legislation. Furthermore, to avoid systemic abuse of the funds from the Next Generation EU coronavirus recovery package, the European Commission asked Hungary in January 2021 to systematically reform its public procurement legislation and practices, as these serve as vehicles for organized political corruption.

Effective use of support



Hungary pursues a multi-vectoral foreign policy strategy. Aside from being a member of NATO and the EU, Viktor Orbán's government pursues short-term pragmatic benefits from close cooperation with their competitors like Russia and China. From the perspective of its European and transatlantic partners, this behavior is that of a malicious disruptor or free-ride strategy, as Hungary benefits both from membership in EU and NATO and from the conscious weakening of the organizations.

Obstructing the EU's common foreign and security policy evolved into business as usual for Hungarian diplomacy. In February 2019, the government blocked a joint statement of the EU and the Arab League for ideological reasons, hampering even potential cooperation against illegal migration, one of the key foreign policy priorities of Budapest. In the same month, the country blocked the framework agreement between the EU and Switzerland, again due to a reference to migration. In October 2020, Hungary was the only EU member state that refused to support a common position on WTO leadership vote and later accused the European Commission and fellow member states of blackmail.

In the same spirit, Budapest stymied NATO-Ukraine relations throughout 2019. In October 2020, two high-ranking Hungarian politicians were banned from entering Ukraine due to alleged intervention in Ukrainian municipal elections. Although Budapest blames Ukraine's minority policy and the situation of the Hungarian minority in Transcarpathia, Budapest's cordial relations with Moscow may play a crucial role here. Concerning Russia, in 2019, the Hungarian government approved new headquarters in Budapest for the International Investment Bank (IIB), a Russia-controlled financial institution that served as the investment bank for the Council for Mutual Economic Assistance (COMECON) until 1991. Nikolay Kosov, the bank's chair and a former intelligence officer, was granted diplomatic immunity. Hungary's transatlantic allies widely shared a concern that the IIB is a cover for Russian human intelligence operations in EU and NATO countries.

In reaction to Hungary's ongoing autocratization and attacks by the Hungarian government against European Commission President Jean-Claude Juncker, the European People's Party (EPP) suspended Fidesz's membership in March 2019. Fidesz members of the European Parliament remained members of the EPP in the European Parliament. In an attempt to ditch the planned rule of law conditionality regulation that threatened member states with the suspension of EU funds in case of significant rule of law deficiencies, Hungary and Poland blocked the EU's multiannual financial framework and coronavirus recovery package. The move threatened the timely entry into force of the Multiannual Financial Framework (MFF) and the disbursement of the coronavirus recovery fund. In December 2020, the European Council yielded to extortion and postponed the implementation of the rule of law conditionality regulation.

### Credibility



Regarding compliance with international conventions and court rulings, as of early 2021, the Hungarian government still refused to implement the CJEU's judgments in the "lex NGO" and "lex CEU" cases and to pay compensation to former inmates for substandard prison conditions in compliance with a ruling by the European Court of Human Rights (ECtHR). At the discursive level, the government repeatedly instrumentalized in public a potential withdrawal from the European Convention on Human Rights (ECHR) and the Istanbul Convention against violence against women.

Paradoxically, while Hungary acts against the collective interests of the EU and NATO, its relations with neighboring countries are in many respects better than they were before 2010 (with the notable exception of Ukraine).

The perceived influence of the Visegrad Cooperation (V4) has increased significantly since the 2015 refugee crisis because of V4's opposition to the EU's compulsory relocation quota mechanisms. Although Hungary was the only V4 country that experienced an influx of asylum-seekers in 2015, Budapest successfully managed to promote its political agenda and reforge the V4 as an anti-migration group. Although the positions of the V4 countries were far from homogeneous, with Czechia and Slovakia in particular distancing themselves repeatedly from the Hungarian and Polish positions, Hungary's perceived leading role on the refugee question enhanced Budapest's influence in the EU.

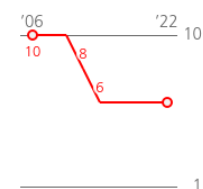
Along with intensifying V4 cooperation, bilateral relations with Slovakia are constructive, resolving former clashes on minority issues and Hungary's dual citizenship legislation. Nevertheless, the scope of potential cooperation between the two countries is limited at the EU level. Slovakia, a member of the Eurozone and thus of the core of Europe, has a constructive and responsible approach to European integration, in stark contrast to Hungary's disruptive, free-ride strategy.

In parallel to increasing regional influence, the Orbán regime has forged pragmatic alliances with likeminded illiberal actors, especially in Serbia and Slovenia. Budapest fully supports Serbia's EU accession, and the two countries share a pragmatic pro-Russian and pro-Chinese foreign policy. The Belgrade-Budapest railway line being a key project of China's Belt and Road initiative, the partnership also holds significant financial interest. Media outlets owned by Hungarian investors close to Fidesz played a crucial role in the 2018 electoral success of the Slovenian National Party; Slovenian Prime Minister Janez Jansa has evolved into another illiberal disruptor in European politics.

Relations with Romania and Austria are tense. Bucharest regards Hungary's kin-state minority policy as interference in Romania's domestic affairs and Hungary's rapprochement to Russia as a national security concern. Orbán has long seen Austrian Chancellor Sebastian Kurz as a potential ally in a European coalition of anti-migration parties, but Kurz distanced himself from Orbán after Fidesz became sidelined in the European People's Party.

Regional  
cooperation

6



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## Strategic Outlook

Hungary's democratic performance has severely deteriorated during the past decade under the government of Viktor Orbán and his Fidesz Party. Although reducing political competition and entrenching the power of incumbent elite groups have been Orbán's main priorities, he still may face significant challenges due to various international and domestic factors in the short and medium term.

In foreign policy, the new Biden administration assigns high priority to democracy on its political agenda and sees autocratization, corruption and close ties to authoritarian powers like Russia and China, as key threats to transatlantic security. Since Hungary scores high in all these fields, Budapest may come under significant pressure from Washington. Although the United States does not hold significant bilateral leverage over Hungary, it may have a significant influence over the EU agenda, where conflicts with Hungary – the suspension of Fidesz from the EPP, the Article 7 procedure, non-compliance with CJEU rulings, rule of law conditionality for distribution of EU financial transfers – are piling up.

Following a sudden breakthrough at the 2019 municipal elections, six opposition parties joined forces in August 2020 to form a common anti-Orbán block. Based on survey data, the united opposition has a fair chance to beat Fidesz in the 2022 general elections. The opposition wishes to dismantle the one-party constitutional system and the state capture created by Fidesz and renationalize the public wealth that has been channeled to Fidesz's cronies via political corruption. Nevertheless, it lacks a coherent strategy and is unlikely to obtain the necessary constitutional supermajority to allow for dismantling the regime in compliance with the rule of law.

In the run-up to the 2022 general elections, Fidesz will likely intensify its divisive discourse to mobilize its electoral base and discourage undecided voters from casting their ballots for the opposition. Considering the experiences of past elections, high-level of irregularities can be expected in 2022, with a definite impact on the outcome. With an eye on the current speed and level of autocratization in Hungary, the 2022 elections may offer the last chance for a democratic change in power in the short to medium term.

While Hungary's budget deficit and indebtedness reached historical peaks due to the COVID-19 pandemic, surpassing even the figures from the 2008 – 2009 economic crisis, attempts to restore fiscal stability are rather unlikely before the second quarter of 2022, due to prospective election-year spending. Nevertheless, the lack of structural problems in the economy and the generous external funding provided by the Next Generation EU coronavirus recovery package make a fast return of economic growth rather likely.

In this context, the united opposition should invest considerable resources into making a detailed plan for the regime's intended constitutional dismantling and in negotiating this with key international partners in good time. Unless the opposition were to achieve a constitutional supermajority, international recognition may be key to re-establishing a pluralist democracy in Hungary. A newly founded government of the former opposition block should also make effective use of EU-related competences that could be game changers, even without a constitutional supermajority, like accession to the European Public Prosecutor's Office (EPPO).

International partners should be aware of the high risk of significant irregularities in the 2022 elections. To avoid a potential fallout, they must invest resources in proper election observation, including the delegation of an ordinary – and not limited – OSCE election observation mission. Furthermore, international partners may closely cooperate from day one with Hungary's new democratic government to support the prosecution of political corruption-related crimes committed under the Orbán regime and to foster a fresh start for democratic transition in Hungary.