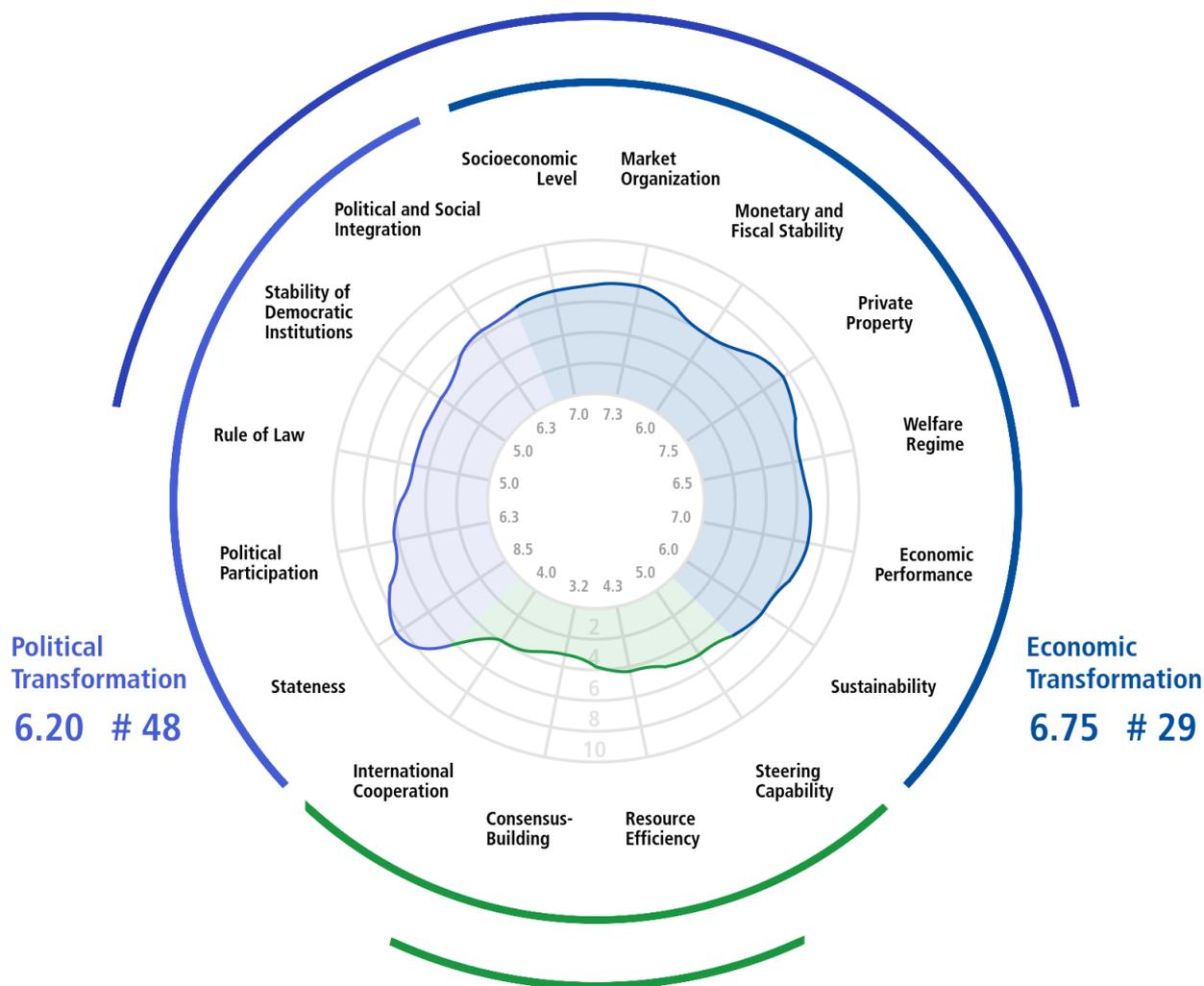


Hungary

Status Index

6.48 # 33

on 1-10 scale out of 137



Political Transformation
6.20 # 48

Economic Transformation
6.75 # 29

Governance Index

3.45 # 108

on 1-10 scale out of 137

This report is part of the **Bertelsmann Stiftung's Transformation Index (BTI) 2026**. It covers the period from February 1, 2023 to January 31, 2025. 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>.

Please cite as follows: Bertelsmann Stiftung, BTI 2026 Country Report – Hungary. Gütersloh: Bertelsmann Stiftung, 2026.

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Key Indicators

Population	M	9.6	HDI	0.870	GDP p.c., PPP \$	47636
Pop. growth ¹	% p.a.	-0.3	HDI rank of 193	46	Gini Index	30.6
Life expectancy	years	76.8	UN Education Index	0.841	Poverty ³	% 0.8
Urban population	%	73.2	Gender inequality ²	0.213	Aid per capita	\$ -

Sources (as of December 2025): The World Bank, World Development Indicators | UNDP, Human Development Report 2025. Footnotes: (1) Average annual growth rate. (2) Gender Inequality Index (GII). (3) Percentage of population living on less than \$3.65 a day at 2017 international prices.

Executive Summary

The 15 years since Prime Minister Viktor Orbán returned to power have been marked by continued autocratization and the entrenchment of an illiberal regime. Since 2024, however, the political landscape has shifted. Orbán and his Fidesz party are now facing serious competition from a fast-rising opposition party, TISZA. Initially a one-man project launched by Péter Magyar, a former Fidesz insider, TISZA has eclipsed the traditional democratic opposition and attracted a significant number of former Fidesz voters. Although the political playing field is still highly skewed and Hungary's institutional and political framework provides an overwhelming systemic advantage to Fidesz, the new opposition party performed strongly in the European and local elections in Budapest in June 2024. By November 2024, the party had overtaken Fidesz in most credible opinion polls. Though still far from being a coherent ideological party with established institutional infrastructure, TISZA has rapidly gained ground in the public discourse.

The party's rise was fueled by a series of political scandals in 2024 that led to the resignations of President Katalin Novák and Judit Varga, Fidesz's lead candidate in the European elections. Both stepped down following public outcry over the pardon of an individual convicted as an accomplice in a child abuse case. Varga, who served as minister of justice until July 2023, is also Magyar's former spouse; their separation has played out in a bitter public feud.

Hungary's economy is under severe strain. The state budget is under pressure due to the continued freeze of European Union funds. Efforts to pivot the economy eastward have failed to offset these losses. The resulting financial shortfall threatens the core of the Orbán regime, which has relied heavily on EU funds to sustain its patronage and corruption networks. The negative effects of corruption and oligarchization are stifling the Hungarian economy and society. Inflation, a decline in foreign investment, brain drain and other negative indicators point to a looming and severe economic crisis. The government's usual scapegoating tactics – blaming the liberal opposition, “Brussels” and alleged Western warmongering – appear to be losing their effectiveness.

On the international front, the Orbán government has continued its policy of “equal distance” by maintaining friendly relations with Russia and China despite its EU and NATO membership. Orbán’s meetings with authoritarian leaders and his endorsement of rigged elections in countries such as Georgia have further strained relations with Western partners. During Hungary’s 2024 term holding the rotating presidency of the Council of the European Union, tensions came to a head, with public clashes between Hungarian officials and EU institutions over foreign and security policy. The Hungarian presidency is widely seen as a failure, producing minimal legislative outcomes. Its only notable achievement was facilitating Austria’s withdrawal of opposition to Romania’s and Bulgaria’s accession to the Schengen area.

History and Characteristics of Transformation

From the late 1960s until 1989, Hungary featured one of the most liberal communist regimes, known as the merriest barrack of the East or Gulash-communism, whose political ties and financial indebtedness to the West began to grow in 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 into 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’s inclusion 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 foreign direct investment (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 compared to its main regional competitors. At the same time, the country’s fiscal stability and indebtedness worsened due to stalling reforms in many policy sectors, including social services and health care. As a result, Hungary’s growth rate remained below the regional average.

Post-accession fatigue, the poor governance performance of the left-liberal coalitions (2002 – 2010) and Fidesz’s ability to block reforms negatively affected Hungary’s economic development during the first decade of the new millennium. After its electoral defeat in 2002, Fidesz gradually transformed into a party of systemic opposition, initially questioning the democratic legitimacy of the left-liberal governments and eventually challenging the entire political system. The political polarization between the two factions became insurmountable, culminating in widespread street protests in October 2006 following a scandalous speech by then-Prime Minister Ferenc Gyurcsány. Hungary was severely impacted by the global financial and economic crisis of 2008 due to its excessive budget deficits, significant exposure to international financial markets, reliance on foreign investment and high levels of foreign currency-denominated loans. Fidesz effectively

tapped into the extensive popular dissatisfaction with the governing coalition and the functioning of Hungarian democracy, ultimately leading to the party's electoral victory and the attainment of a constitutional supermajority in the 2010 elections, heralding a new era in Hungarian politics.

Instead of pursuing long-needed structural reforms, the government of Prime Minister Viktor Orbán has prioritized the creation of a political system that reduces political competition, ensures a systemic advantage for the incumbent party and allocates a significant portion of public resources to political cronies through channels of corruption. By engaging in constitutional engineering, the governing party has neutralized checks and balances, enabling it to secure positions in key institutions such as the Constitutional Court, the National Bank, the Media Council and the Prosecutor General's Office with the help of its allies. As a result, the independence of the judiciary has gradually been curtailed. Additionally, through regulatory measures and mergers and acquisitions, the government has gained control over the public media and has successfully placed its cronies throughout Hungary's private media market. In order to impose its political agenda and divert public attention from its ongoing march toward autocracy, Fidesz has utilized a populist discourse, aiming to mobilize the public against fabricated enemies such as asylum-seekers and the LGBTQ+ community, while simultaneously attacking the independence of civil society. The process of autocratization has also impacted elections, with none of the general elections since 2014 meeting the standards established by the OSCE and thus being deemed "free but not fair." This regime, which mirrors those found in several other countries in the region and is often seen as a blueprint for broader authoritarian trends, now seems to be challenged to the core.

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

Hungary is highly centralized, with the central government holding the monopoly on internal and external use of force. The president is formally the head of the armed forces, but the prime minister issues orders through the minister of defense, as ruled by the Constitutional Court.

The vast majority of the Hungarian population accepts the nation-state as legitimate, and it is not challenged by any significant groups. The sense of national identity is strong. While Hungary has been a multiethnic state for much of its existence, the world wars, border changes and Communist-era assimilation have made it relatively homogeneous. Thirteen officially recognized nationalities can establish self-governing bodies at local, regional and national levels, based on collective autonomy. Nationalities are constitutionally recognized members of the Hungarian nation and enjoy a lower electoral threshold in parliamentary elections, though only the German minority benefited from it in recent elections. Other groups send “national advocates” to parliament as observers. Hungary maintains a special relationship with ethnic Hungarians abroad.

Within Hungarian society, especially on the political right, exclusion narratives target people of other races, sexual preferences, or religions as “not real Hungarians.” However, xenophobic and racist ideas do not lead to legal discrimination in acquiring Hungarian citizenship.

Question
Score

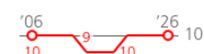
Monopoly on the
use of force

10



State identity

10



Hungary is officially a secular state, with relatively few citizens identifying as deeply religious or regularly attending services. Among the faithful, Christianity (Catholic, Calvinist) is dominant, while other religions play a marginal role. Government representatives sometimes invoke Christian values to justify their actions, but voter alignment is not based on a classical religious-secular divide. The Christian Democratic People's Party (KDNP) holds seats in parliament through an electoral coalition with Fidesz but commands little independent voter support.

Religious dogmas are sometimes instrumentalized in political discourse by Fidesz/KDNP, playing an increasing role in politics and constitutional matters. This messaging often adopts anti-modern, Islamophobic and anti-LGBTQ+ tones, framing debates around a polarized “us-vs-them” narrative that pits globalization against the “Christian Occident” and defines people of other faiths as outsiders. References to Christian values frequently appear in government communications.

The dominance of right-wing politics has led to several constitutional changes. Since 2013, Hungary's Fundamental Law has defined a family exclusively as a union between a man and a woman. Registered partnerships are available for same-sex couples, but since 2020, laws have been enacted to intimidate the LGBTQ+ community. In 2022, abortion regulation was modified to require women to listen to the fetus's heartbeat before obtaining an abortion, although Hungary's abortion law remains relatively liberal.

Church-owned schools and kindergartens play an increasing role in education, with 12% of all Hungarian educational institutions being church-owned in 2021/2022. The state and municipalities are obliged to hand over real estate to religious denominations if the properties were built and used for religious purposes. However, Protestant churches mostly refrained from accepting this offer.

In 2024, scandals involving church-affiliated organizations raised concerns about the role of religious institutions. The U.N. Special Rapporteur on freedom of religion or belief praised certain aspects of Hungary's framework, but criticized both the country's tiered church classification system that favors traditional churches and state-sponsored hate speech against Muslims. The Catholic Church summarized the Hungarian paradox as follows: “The loudest voice promoting Christian values on the European political scene today comes from a country where the statistics on Christian practice are not especially impressive.” (Catholic World Report 2023).

No interference of religious dogmas

7



1

Hungary's public administration is highly centralized, and all attempts to decentralize ceased when Fidesz took power in 2010. Instead, the predominant approach is "deconcentration," where municipal self-government is accompanied by institutions fully responsible to the Ministry of Interior, which the government uses to systematically curtail municipal autonomy. COVID-19 regulations further deepened this process, as the state strongly intervened in the regulatory competencies of regional and municipal self-government, affecting policies like health care, education and access to social services.

The shift toward deconcentration is officially intended to improve service delivery by bringing administration closer to the public. More significantly, however, it reflects the ruling party's broader effort to extend political control into nearly all areas of public life, a dynamic reminiscent of the socialist era. The state has politicized the allocation of resources, often reducing or withholding funding from cities and towns governed by the opposition. Budapest stands as the most prominent example. The ongoing suspension of EU funds by European institutions has further intensified these pressures, heightening the risk of political coercion against opposition-held jurisdictions.

The government has also reduced municipal revenues and taxation competencies, citing the needs arising from COVID-19, making these taxes available for redistribution by the central state. The lack of resources and pervasive high-level corruption have negatively impacted the proper functioning of basic administration. Despite the government's efforts, the judiciary has largely maintained its professional independence, safeguarded by broader guarantees exerted by the European Union. However, at the level of high courts, political influence remains despite formal changes.

The efficiency and quality of basic public services such as water, sanitation and electricity have declined due to unchanged service charges, low wages and increasing resignation rates. Challenges in health, education and social services are mounting, leading to political tensions. High resignation rates are primarily attributed to low wages and general criticism of government policies, including the politicization of education. Additionally, pull factors such as a brain drain, particularly in the health care system, contribute to this issue.

The erosion of support for Fidesz and Fidesz-backed candidates continued in the 2024 municipal elections. In Budapest, the newly formed TISZA party, led by former Fidesz member Péter Magyar, performed strongly, disrupting the established political order. Alongside Dávid Vitézy, who leads another new formation also rooted in a Fidesz split, a more multipolar political landscape has emerged, signifying a shift beyond the traditional divide between Fidesz and the democratic opposition. With public finances strained, it is likely that municipalities not governed by Fidesz will face disproportionate budget cuts, posing a threat to the cohesion of Hungary's territorial governance.

Basic
administration

7



1

2 | Political Participation

Hungary maintains a mixed system of proportional representation in which the majoritarian elements increasingly dominate. In theory, elections offer freedom, universal suffrage and access to both active and passive suffrage. However, Fidesz's interference has caused serious distortions, notably gerrymandering, allowing Fidesz candidates to dominate all districts except Budapest. Minor restrictions affect voter registration and the voting rights of Hungarians abroad. The election supervisory body is government-influenced and not always impartial. Despite this, verification and complaint procedures are less distorted than single-party dominance suggests. In the 2022 elections, over 20,000 civilian volunteers participated in vote-counting to ensure fairness. Indirectly, government control of public media and campaign restrictions create an uneven playing field (OSCE 2023). The ruling party has effectively captured the public sphere, blurring the line between party and state affairs.

Overall, Hungary's divergence from Western democratic standards is becoming increasingly pronounced, though it manifests more through indirect mechanisms than through formal institutional breakdown. The 2022 elections were widely regarded as free but not fair: Fidesz secured a two-thirds majority in parliament with just under 50% of the vote. During the 2024 European and municipal election campaigns, structural advantages for the governing party were evident. This suggests that election results are distorted and fail to fully reflect the population's will. With the 2026 parliamentary elections on the horizon, the government has undertaken gerrymandering measures, redrawing multiple districts in ways likely to disadvantage opposition parties. Budapest, a stronghold of the opposition, is particularly affected. Citing the need to adjust for population decline, the government reduced the number of mandates allocated to the capital by two.

The political system allows the parliamentary majority and government to operate efficiently, with no significant internal veto players. However, the European Union can influence the government to adopt legislation enhancing the rule of law through Article 7 and financial measures. Both the president and most Constitutional Court judges assume office with government majority support, limiting their political involvement. Regional and local self-governance bodies lack the resources to significantly intervene in central state affairs. Civil society organizations, employers' associations and trade unions have minimal influence on government decisions. A major criticism of the Orbán regime is the lack of consultation with affected groups. Generally, the privatization of power and state capture by Fidesz, oligarchs and Orbán's networks allow for swift, unchallenged decision-making, albeit at the expense of democratic responsiveness, quality and transparency.

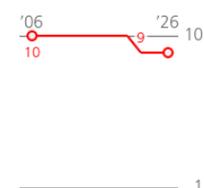
Free and fair elections

6



Effective power to govern

9



The constitution guarantees the freedoms of association and assembly, but challenges persist. Since 2016, civil society organizations (CSOs) have faced an increasingly hostile environment. In 2021, parliament adopted a new law on NGOs without consulting the civil society sector. The European Court of Justice declared the 2017 law on foreign-funded NGOs as violating EU law in a 2020 ruling. Under the new law, CSOs with an annual budget over €50,000 must undergo audits every two years by the State Audit Office (SAO), an institution with a dubious reputation, as they are considered “civic organizations engaged in activities that may influence public life.” The Hungarian Helsinki Committee (2022) lamented the lack of a procedure to challenge SAO decisions, leaving CSOs without recourse. Excluded from the CSO designation are political parties, trade unions, public and party foundations, sports organizations, religious communities and minority organizations.

Civil society is often demonized by government propaganda, with some NGOs frequently portrayed as public enemies. Smear campaigns, surveillance and other intimidation tactics against civil society representatives are common. Stigmatization decreased after the creation of the Anti-Corruption Task Force in 2022 and the government’s attempts to negotiate with the European Union on Article 7 issues. However, in 2024, the government established the Office for the Protection of Sovereignty, thereby initiating new biased institutional control over CSO activities with the potential to stifle organizations that function as watchdogs over government activity and performance.

The constitution formally guarantees freedom of expression, but the media landscape is unbalanced. Media pluralism is significantly distorted in favor of the ruling parties. Public ownership of media outlets and regulatory oversight are concentrated in institutions under Fidesz’s control. The party fully controls public media (MTVA), turning public broadcasters into propaganda channels. In 2018, most pro-government private outlets were consolidated under the Central European Press and Media Foundation (KESMA), overseeing more than 400 outlets. Opposition strongholds like Klubrádio were attacked, and licenses withdrawn. In print media, oligarchs close to Fidesz have taken over important outlets like the regional *Napló* newspapers. Alternative opinions can be published only in weekly print publications, some private TV channels (ATV) and online. The issue lies not only with the structure of the media landscape but also with censorship and penal codes.

In 2020, the Constitutional Court ruled that the “fake news paragraph” of the 2020 Authorization Act, passed during the COVID-19 pandemic, is compatible with the Fundamental Law. The provision enables legal action against “fake news” and “scaremongering.” Ironically, the government often uses this to spread misinformation and scaremongering related to the war in Ukraine, without intervention from the institutions tasked with enforcing the law.

Hungary ranked 67th out of 180 countries in the 2024 Press Freedom Index published by Reporters Without Borders. While direct attacks on journalism and media pluralism decreased after the 2022 elections – partly in response to EU pressure –

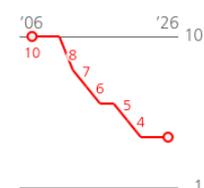
Association / assembly rights

6



Freedom of expression

4



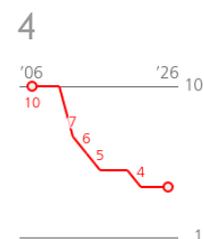
state-sponsored propaganda and disinformation intensified ahead of the 2024 European and municipal elections. This occurred despite the ongoing Article 7 procedure against Hungary, which includes concerns over press freedom. Unsurprisingly, the new Sovereignty Protection Office targets sources criticizing the government, not those spreading official propaganda.

The newly formed TISZA opposition under Péter Magyar has challenged Fidesz's media dominance. Leveraging social media and mobilizing supporters through guerrilla-style tactics, the party managed to secure limited access to government-controlled media platforms. Throughout 2024, Fidesz's previously unchallenged media ecosystem began to show signs of strain.

3 | Rule of Law

Formally, there is a relatively clear separation of powers with mutual checks and balances, but in reality, the balance is greatly distorted. The parliament, with its two-thirds Fidesz majority, largely fails to exert any serious oversight of government policymaking, and power is concentrated in the hands of Prime Minister Orbán. The opposition is unable to influence the modification of House rules or control parliamentary committees. The executive and legislative branches of government are nearly fused and are under the control of the prime minister. Furthermore, after introducing a state of emergency during the COVID-19 pandemic, later regularly extended due to the war in Ukraine, the government is able to govern with government decrees that bypass the parliament in many cases. Political nominations limit interventions by the Constitutional Court and the president of the Republic, rendering them only occasionally active veto players. The limited interventions of the courts create a situation where state power is formally subject to law, but there is a tendency for the higher courts not to rule against the will of the government. The president of Hungary, once a highly respected institution with formidable personalities, has been devalued from a veto player to a ceremonial figurehead. Recently, two presidents had to leave office due to scandals. State institutions like the State Audit Office, the Media Council, the Prosecutor General's Office and administrative units like the tax authority are politically aligned and used for political purposes. European structures such as the European Commission and the European Court of Justice serve as the most effective counterweights to the two-thirds majority held by the present government.

Separation of powers



Formally, the Hungarian legal system is institutionally differentiated, with procedures regulating the education and selection of judges. However, under Orbán's Fidesz party (since 2010), the system has faced high-level attacks. Meritocracy has been replaced by political reliability, and party affiliation has supplanted excellence. At lower levels, some resilience remains. The president of the National Office of the Judiciary wields excessive power, and the National Judicial Council's independence is not guaranteed. Dismissing judges outside normal procedures contravenes Western standards. A key criticism is the inability to appeal decisions on young judges' tenure, undermining judicial career security.

Hungary initiated reforms in response to the Article 7 procedure and the Rule of Law Conditionality Mechanism launched by European institutions. While some measures were adopted, they fell short of meaningfully restoring the rule of law. As the steps taken were insufficient to trigger the release of EU cohesion funds, the government reverted to policies that further weakened judicial independence. A June 2024 omnibus act allowed the Minister of Justice access to a wide range of court decisions and information, enabling political influence, a move strongly criticized by the Helsinki Committee. In December 2024, the European Commission stated that Hungary had not sufficiently addressed rule of law violations and upheld the freeze on cohesion funds. The Hungarian government's attempt to deceive the European Union through superficial reforms failed.

The Orbán regime's state capture has blurred the lines between state and party activities. The Prosecution Service is highly centralized, with the prosecutor general, a former Fidesz member, re-elected in 2019 for nine years. In December 2024, parliament modified constitutional rules governing the selection of the prosecutor general, removing the requirement for prior prosecutorial experience. The Prosecution Service has long been criticized for refusing to pursue cases involving political figures, often relying on protracted procedures or issuing lenient rulings.

Abuse of power remains a central feature of the regime. Its primary function is to secure and maintain political control. Rules to prosecute corrupt officeholders are themselves corrupt. Even in cases where proceedings are initiated, the Prosecution Service frequently withdraws or closes investigations when senior officials are implicated. Legally binding court decisions often fall short of public expectations. The system does not prevent high-level corruption, with numerous politicians and administrators involved in corrupt activities in sectors like real estate and construction.

Fraud in public procurement and the misuse of European Union funds remain widespread, with rates exceeding the EU average. Oversight institutions, such as the State Audit Office, have failed to implement basic safeguards or signal the need for corrective action. Combating corruption and holding politicians accountable would require confronting the regime itself. Government pledges to reform anti-corruption mechanisms have proven largely symbolic. The Integrity Authority and Anti-Corruption Task Force, established in November 2022, have yet to deliver measurable results.

Independent judiciary

6



Prosecution of office abuse

4



Civil rights in Hungary are legally codified and protected, at least formally. However, institutional changes have undermined this in recent years. For example, the Ombudsman has become increasingly uncritical over time. The Global Alliance for National Human Rights Institutions (GANHRI) suspended the accreditation of the Hungarian Ombudsman already in 2019. The office is now listed under “B” status, making the country a second-rank member. Equality before the law is often undermined by legislation favoring individuals or organizations close to the government. Civil rights protection suffers due to weak and corrupt state institutions in the judiciary and a government-encouraged public discourse identifying scapegoats. The government continues to rely on us-versus-them narratives to deflect attention from policy shortcomings, frequently targeting vulnerable groups such as migrants, the LGBTQ+ community, George Soros and “Brussels.” LGBTQ+ civil liberties have come under increasing pressure. In 2025, authorities banned the Budapest Pride parade, and in 2022, the government sought to curtail LGBTQ+ expression through a so-called child protection referendum, which ultimately failed due to insufficient voter turnout.

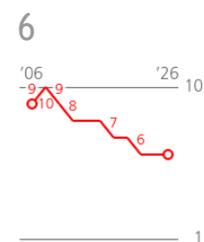
According to the Helsinki Committee, the National Sovereignty Protection Act that entered into force at the end of 2023 not only undermines the work of NGOs and freedom of expression but also reflects a fundamental disregard for EU law and undermines the protection of domestic human rights.

4 | Stability of Democratic Institutions

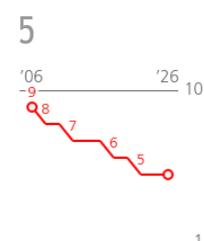
Hungary’s institutional system is structured as a democratic parliamentary democracy with a horizontal separation of powers, checks and balances, and a “deconcentrated” vertical administrative system. This system is based on the territorial structures of counties and municipalities, which have limited authority to manage their own affairs. Since Fidesz’s rise to power in 2010, there has been a noticeable authoritarian shift and erosion of democratic principles. Parliament’s role has gradually diminished. Although the president of the Republic, the State Audit Office, the Public Prosecutor’s Office and the Hungarian Competition Authority remain formally independent, their work is significantly influenced by the ruling party. Municipalities are financially vulnerable and reliant on the government. The government leveraged the ongoing state of emergency due to COVID-19 and the war in Ukraine to extend its power to govern by decree, bypassing parliamentary oversight.

Political power has increasingly concentrated in the prime minister’s hands. Legislation, including electoral and media laws, has been tailored to consolidate this power. The ruling party has co-opted state institutions for partisan objectives, exploiting illiberal, xenophobic and nationalist narratives. The political leadership has forged closer ties with authoritarian countries like Russia and China, to the

Civil rights



Performance of democratic institutions



detriment of international institutions such as the European Union and NATO, and liberal Western allies. This shift has weakened state institutions, resulting in escalating conflicts within the vertical administration system. Consequently, the administration operates with some efficiency but is heavily influenced by party biases.

During the Orbán era, Hungary's democratic institutions have steadily lost credibility and legitimacy, largely due to the dominance of the ruling Fidesz party and its pervasive influence across all levels of society – particularly in areas with strong opposition support. There are no significant internal veto players, but the political apathy that had paralyzed civil society in recent years appears to be waning. Instances of resistance from societal actors – such as teachers and the LGBTQ+ community – are becoming more visible. With the rise of a new opposition, space is emerging for these groups to connect and organize. Polarization remains extremely high, and much of the opposition does not view the government's grip on power as legitimate. Public discourse is heavily distorted by state capture, limiting access to pluralistic debate.

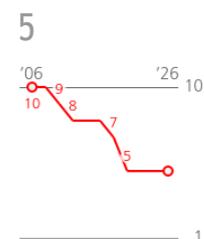
In such an environment, actors not directly associated with the government have seen their influence diminish, eroding public confidence in state institutions. The government has also lost technical expertise, as its centralized and hierarchical decision-making structure excludes independent voices from the core executive and line ministries. This marginalization has weakened the role of key stakeholders – such as employers' associations, trade unions, professional bodies (including those representing teachers and journalists), and NGOs – who now lack meaningful participation in policymaking or consultation processes.

The government's exploitation of the pandemic-related state of emergency for non-pandemic political purposes and the further concentration of executive power have significantly deepened polarization and undermined the legitimacy of democratic institutions in Hungary. Although the context of extraordinary measures has shifted from COVID-19 to the war in Ukraine, the issue of securitization persists.

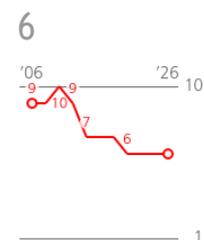
5 | Political and Social Integration

The Hungarian party system is undergoing dramatic changes. Previously marked by deep polarization, it has featured Fidesz and its satellite party KDNP on one side, and a mosaic of opposition parties on the other. These opposition parties, despite their vast ideological range, have tried, unsuccessfully, to win elections through a joint platform, unified solely by the desire to remove Fidesz from power. While both camps maintain societal roots, voter volatility is notably higher on the opposition side. Fragmentation continues to increase within the opposition but has not yet affected the governing bloc. Fidesz and KDNP remain firmly entrenched in rural areas and draw strong support from less educated, older and predominantly male voters, many of whom hold authoritarian, anti-globalist and nationalist views. The

Commitment to democratic institutions



Party system



opposition is strongest in urban centers, particularly Budapest, and among younger, more educated and more female demographics. Its ideological composition spans the political spectrum – from leftist to liberal, and even to nationalist and conservative elements.

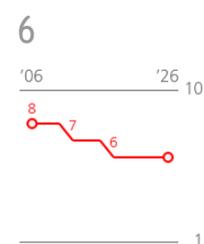
In 2024, former Fidesz insider Péter Magyar revived the long-dormant TISZA party, originally founded in 2021. Within weeks, TISZA emerged as the second-strongest political force and surpassed Fidesz in public opinion polls by November 2024, disrupting the opposition landscape. Presenting itself as a moderate centrist party aligned with the European People’s Party, TISZA has developed into a catch-all formation, drawing support from across the social spectrum. It has deeper rural reach than most opposition parties and is particularly popular among young voters.

Hungarian political parties are organizationally institutionalized and funded through multiple channels, with the structure overwhelmingly favoring the governing parties. The opposition and many civil society organizations are largely excluded from the policymaking process. As a result, actors on this side of the political spectrum have limited capacity to articulate or aggregate societal interests.

Clientelism remains a defining feature of the political landscape, particularly in the run-up to elections. Public resources are selectively distributed to targeted groups – such as pensioners, large families and favored entrepreneurs – in efforts to secure electoral support. A small group of oligarchs closely aligned with the government wields substantial economic power, but they do not challenge political supremacy. Instead, they operate in service of the state, reinforcing political dominance rather than contesting it. In some cases, senior government officials themselves are perceived as oligarchs, further blurring the line between political and economic power. One such figure, Antal Rogán, minister in the Government Office, was sanctioned by the United States in early 2025 for alleged corruption under the Magnitsky Act.

Interest groups in Hungary encompass a diverse range of specific social concerns. However, certain vulnerable social groups, such as the Roma and LGBTQ+ communities, are under-represented in social discourse. The representation of workers’ interests is generally weak and fragmented. This fragmentation exists on two levels: There is a division between trade unions that either support or do not support the government, as well as fragmentation along economic and professional lines. Nationally organized associations are only loosely structured. Since losing voter support, Hungary’s Socialist party (MSZP) no longer has a natural governing partner. Employers’ interests, on the other hand, are more effectively organized and prioritized by the government. Over the past few years, there have been changes in terms of the influence of large foreign companies, which have long been a pillar of the Hungarian economy. A divide seems to be emerging between foreign-owned companies and those owned by oligarchs, as the latter have sought to acquire businesses from the former. Some foreign companies have become the target of

Interest groups



government scrutiny, experiencing pressure resulting from the government's efforts to nationalize sectors of the economy in order to assert control. Since 2010, social dialogue has diminished significantly in importance, and referendums have failed to meet expectations due to Fidesz and the government's dominance in defining questions and shaping the discourse. Institutions like the so-called national consultations simply mimic social deliberation. The primary platform for social dialogue, the National Economic and Social Council (NGTT), holds only a consultative role, and the government does not take part in its proceedings. Civil society has been significantly weakened through various measures. Recent demonstrations have demonstrated a lack of widespread support from society for interest groups such as teachers, students and health care workers. Overall, societal interests are organized in a pluralistic manner, with international connections, but wield little influence in the policymaking process.

A 2024 Pew Research Center survey indicated that nearly half of Hungarians (49%) are satisfied with democracy, while the other half (51%) were dissatisfied. A 2023 study by the European Network of Political Foundations (ENoP) showed that 55% of Hungarians found democracy preferable to all other forms of government, while only 19% found autocracy (sometimes) preferable to democracy or believed that democracy was a bad form of government. Support for democracy is significantly higher in Poland (67%).

According to Eurobarometer data (Winter 2024), the share of Hungarians expressing trust in their political institutions (parliament and government) remained low but stable at around 40% during the period under review. In the Ipsos Global Trustworthiness Index 2024, Hungary ranked among the highest in political mistrust, with 70% of respondents expressing distrust in politicians.

A survey conducted for Daniel Freund (MEP) in April 2024 showed that trust in regional and local administrative units was much higher than in the government and parliament. This may reflect a change in the balance between the government and opposition parties since the last two municipal elections. Hungarians increasingly see corruption as one of the most urgent problems.

Social capital developed rapidly after democratization in 1989/90, both with the support of Hungarian governments (until 2010) and European and global networks. However, it has not developed to the extent seen in many other Western democracies. In the SolAbility social capital index of 2024, Hungary ranks 61st out of 191, surrounded not by the European forerunners, but mostly Central Asian and Southeast Asian countries. According to data from the Hungarian Statistical Office (KSH 2024), the number of nonprofit organizations dropped slightly during the COVID-19 pandemic but subsequently recovered and stabilized since 2021 at around 133,000.

Approval of democracy

7



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Social capital

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In Hungary, as in other post-socialist countries, levels of trust in the family are traditionally high, while there is simultaneously substantial mistrust toward other people in general. Fully 99.8% of Hungarians state that they never donate to those in need outside of their own families, and 64% have never volunteered to offer social services free of charge (data from ENoP 2022).

The dominance of Fidesz in the political system has led to the appointment of central party representatives at the local level. These figures – often members of parliament or mayors – function as bottlenecks in local decision-making, with the result resembling a sort of neo-feudal system. Consequently, social capital may increasingly form vertically around these gatekeepers in place of horizontal social capital structuration, aligning more with a Mezzogiorno model than with a Scandinavian one.

II. Economic Transformation

6 | Level of Socioeconomic Development

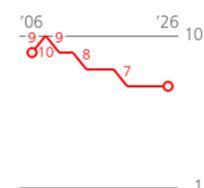
In many areas, Hungary ranks among the least developed Eastern European EU member states, with Romania and Bulgaria narrowing the gap. According to the Human Development Index (HDI), Hungary scored 0.851 in 2022 – a very high rating by global standards, yet the lowest among the Visegrád Four. The country's ranking and score have remained relatively stable over the past decade. The share of Hungarians experiencing severe income deprivation declined from 23.4% in 2010 to 8.3% in 2020, according to data from the Hungarian Central Statistical Office (KSH). However, relative poverty has remained largely unchanged – affecting 14.1% of the population in 2010 and 14.7% in 2023 – regardless of employment status. Since 2022, the number of pensioners living in relative poverty has risen sharply, from 14.7% to 24.2%.

Inflation is another new problem, with Hungary experiencing a very high inflation rate, peaking at 25.7% in December 2023, and dropping since then to 4.7% in December 2024. The record-high price increases eroded savings and reduced real wages, contributing to rising poverty and new social pressures. With only modest wage growth in the public sector, the risk of deepening poverty remains. On a purchasing power parity basis, falling incomes are leaving more citizens unable to meet basic needs such as food, transportation and cultural participation. The Gini index (2021 data) of social inequality places Hungary roughly in the middle range among Central and Eastern European countries. More equal societies such as Czechia and Slovenia score significantly better, while Romania and Bulgaria rank lower.

Question
Score

Socioeconomic
barriers

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Vulnerable groups, including segments of the Roma population and persons with disabilities, continue to face limited opportunities for upward mobility. Gender inequality also remains a persistent issue. Women's labor force participation is low compared to regional peers, and Hungary ranks near the bottom among these countries on gender equity. While the Gender Inequality Index declined slightly, it remained high at 0.230 in 2022.

Economic indicators		2021	2022	2023	2024
GDP	\$ M	183282.7	177536.7	214022.6	222904.7
GDP growth	%	7.2	4.3	-0.8	0.5
Inflation (CPI)	%	5.1	14.6	17.1	3.7
Unemployment	%	4.0	3.6	4.1	4.4
Foreign direct investment	% of GDP	18.3	-1.1	-33.1	-15.7
Export growth	%	8.3	10.7	1.7	-3.0
Import growth	%	7.4	10.7	-3.4	-4.0
Current account balance	\$ M	-7106.4	-14699.5	751.1	5051.5
Public debt	% of GDP	76.2	73.9	73.0	73.5
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-
Net lending/borrowing	% of GDP	-7.3	-6.0	-	-
Tax revenue	% of GDP	21.3	23.4	-	-
Government consumption	% of GDP	20.8	20.6	19.9	-
Public education spending	% of GDP	4.7	3.8	-	-
Public health spending	% of GDP	5.3	4.8	-	-
R&D expenditure	% of GDP	1.6	1.4	-	-
Military expenditure	% of GDP	1.3	1.8	2.1	-

Sources (as of December 2025): 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

Hungary is integrated into the European Single Market and the OECD. This means that there are hardly any formal barriers to market entry and exit. The freedom to make and withdraw investments is guaranteed, and the principle of nondiscrimination applies. International arbitration and the jurisdiction of the European Court of Justice provide strong safeguards for these rules.

Beyond the formalities, the Hungarian economy is currently in turmoil. The freezing of EU funds has produced challenges for the country's budget and poses an existential threat to the corrupt pyramid of oligarchs. Foreign investors – the backbone of the Hungarian economy – face strong pressure to sell to Hungarian companies linked to those oligarchs. If they refuse, they are likely to face extraordinary tax authority scrutiny and audit measures.

The government continues to draft regulations that favor Hungarian firms over international competitors, including preferential treatment for companies tied to entrepreneurs with close links to the central government. Sector-specific taxes have been imposed on telecommunications, banking and insurance, paralleling earlier measures targeting foreign-owned media outlets. Some government-linked companies benefit from funds distributed via social programs that issue vouchers for these companies instead of cash.

In 2023, a European Parliament fact-finding mission reported secret police intimidation of foreign-owned companies. Orbán's entourage has exerted pressure to control "strategic" industries, relaxing regulatory standards after government-linked takeovers or removing foreign companies, citing inflation or the war in Ukraine as pretexts.

The comprehensive competition laws generally comply with EU regulations. The Hungarian Competition Authority (GVH) enforces competition policies and has developed a good reputation over the years. It is well integrated into the network of competition authorities. In the area of competition policy, a system of public consultation was recently introduced, which is appreciated by market actors – unlike in many other sectors.

The competition law underwent significant amendments in early 2023 and again in 2024, primarily to address technical issues and align with European Union regulations. One notable change was the revision of the fining regime, raising the maximum penalty from 10% to 13% of the global turnover of an entire corporate group. The weakest area in competition law enforcement remains the oversight of abuses of dominant market positions, which is an especially critical issue in an economy characterized by strong oligarchic structures. Cases involving abuse of dominance accounted for only 5% of investigations conducted by the competition authority.

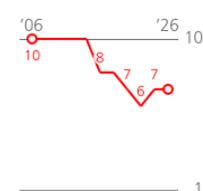
Market organization

5



Competition policy

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Recently, the GVH has accelerated its actions and increased the number of cases investigated. However, it is not entirely free from political influence. Apart from the regulatory work of the competition authority, the capture of state institutions and businesses by the incumbent government may negatively interfere with competition policy doctrines when interests clash, particularly in sectors like construction. Notably, regulatory exceptions for mergers based on political considerations, justified by declaring them to be of national strategic importance, have become more common. Such cases arise predominantly in vulnerable and strategic sectors such as the media and banking.

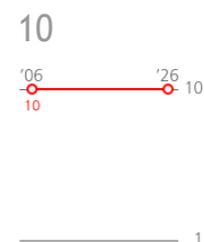
The public procurement regime is weak and heavily criticized in EU rule of law discussions. Single bidders and predetermined results are common despite increasing EU pressure. The competition authority is now focusing on the impact of artificial intelligence on market practices, while the GVH has implemented AI-based algorithms in its administrative system.

Foreign trade has been liberalized with both the European Union and third countries, and Hungary fully complies with EU trade regulations, though it pushes back on the European Union's sanctions regime against Russia. The central administration recognizes the vital role of foreign trade in the economy. Hungary's Eximbank offers extensive guarantees and insurance to support Hungarian exports, with these programs having been expanded during the COVID-19 crisis. Following a re-industrialization policy, the government has provided investment support, tax cuts and other incentives through strategic partnerships to attract large multinational export-oriented companies and new FDI.

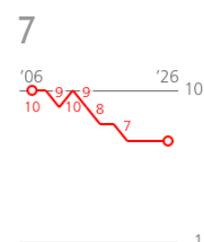
The war in Ukraine has created new challenges. Hungary's longstanding trade surplus shifted to a deficit in 2022 and 2023 but recovered in 2024. Reluctant to join Western sanctions against Russia, the government has sought to maintain trade links with Russia and improve relations with China. These efforts appear to be motivated more by political considerations than by underlying economic fundamentals. Exports to Russia and China remain limited, with Asia accounting for less than 5% of total Hungarian exports and the country running a substantial trade deficit with both partners.

The Hungarian banking system has relatively stable foundations but is currently undergoing a phase of consolidation and mergers. The banking system is generally aligned with international standards. However, the government declines to participate in EU-enhanced cooperation formats that require high standards of stability for financial institutions, such as the Banking Union. The National Bank of Hungary (MNB) is responsible for supervising Hungarian banks and other financial institutions. According to its November 2020 financial stability report, most banks maintain adequate liquidity buffers to meet regulatory requirements, even during periods of severe liquidity stress. The bank capital to asset ratio was at 8.9% in 2022.

Liberalization of foreign trade



Banking system



The war in Ukraine, high inflation rates and a real estate market under stress have all introduced new difficulties. In the 2021 European stress test exercise by the European Banking Authority (EBA) – a regional player – was the only Hungarian participant. OTP's performance worsened slightly compared to the previous test but was still above thresholds of concern. In its 2022 report, the National Bank noted a slight deterioration in the banking sector's portfolio quality. In 2022, the non-performing loans rate was at 3.8%, which is relatively high among the countries of the region. Interest rates in Hungary remain consistently above those in the euro area.

The central bank asserts that the banking system is generally healthy, but it also recognizes that various risks threaten the profitability of the sector. Of particular concern is the Hungarian government's overall control of the economy, both through direct state ownership and the indirect role of politically connected actors. One example is the consolidation of several smaller banks in December 2020, led by a Fidesz-affiliated entrepreneur who received a government-granted exemption from competition rules. The resulting institution became Hungary's second-largest bank, with significant ownership held by the state and individuals linked to the ruling party.

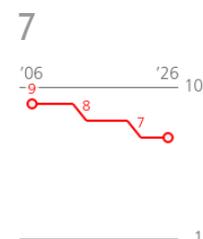
8 | Monetary and fiscal stability

Since 2008, the forint has been free-floating. Over this period, the inflation target was generally set at 3%, with a tolerance band ranging between 2% and 4%. However, after the COVID-19 pandemic put pressure on the regulatory practices of the Hungarian National Bank (MNB), interest rates were reduced to a historic low, accelerating inflation. In 2022, inflation reached 14.5% (49.7% in the food sector), prompting the government to intervene abruptly and in an ad hoc manner. As a result, Hungary experienced the highest inflation rate in the European Union, with prices increasing by over 17% in 2023. In 2024, inflation fell below 5% but remains elevated relative to eurozone levels.

To address the issue of high inflation, the government introduced a series of measures, including sector-specific interest rate freezes and price caps, particularly on fuel and food products. Hungary is not yet in the ERM II mechanism. While political commitment to eurozone accession has been repeatedly voiced, no concrete steps have been taken toward joining. The forint has experienced significant exchange rate volatility in recent years, fluctuating between 370 and 430 HUF per euro.

The central bank is set up as an independent institution, but there are signs of government interference. Several recently applied measures, such as an interest rate cap and a cap on large commercial bank deposits, were introduced by government decree in November 2022. The European Central Bank criticized this as an infringement of the EU treaty. However, György Matolcsy, the governor of the MNB, has shown some independence by publicly criticizing the government's economic policies. Matolcsy was replaced with Fidesz Finance Minister Mihály Varga at the end of 2024.

Monetary stability



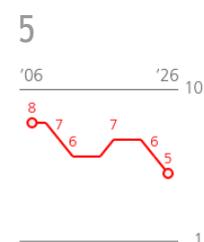
Hungarian fiscal policies have been erratic. The budget deficit has significantly increased since 2015. In January 2023, S&P downgraded Hungary's bond rating to BBB- and kept it there, while the rating by Fitch remains stable at BBB. The COVID-induced current account deficits were mitigated by a surplus in 2023. Total public debt, which stood at 73.5% of GDP in 2023, remains stable but still falls considerably short of the Maastricht criteria required for joining the eurozone. Government consumption levels have remained steady at around 20% of GDP for years. The reserves, which shrank during the economic crisis a decade ago, have since stabilized. However, with the reduction in incoming EU funds in 2022, this period of stabilization ended, requiring the government to seek alternative funding for projects. An immediate recalibration of fiscal policies was implemented in order to control the budget deficit. Simultaneously, the central bank (MNB) brought a halt to interest rate increases as a means of encouraging economic growth, resulting in a contradictory stance and high inflation. Concerns have been raised over the budgetary process, as parliament typically adopts the budget law early in the year, while subsequent revisions are introduced by government decree under the state of emergency framework. These adjustments are often ad hoc responses to emerging fiscal challenges. Contributing to the fiscal strain in 2024 was the final loss of over €1 billion in EU funds, effective January 1, 2025, due to ongoing disputes with Brussels over rule of law issues. This loss necessitated cuts in investments and social spending, further challenging the country's economic stability.

9 | Private Property

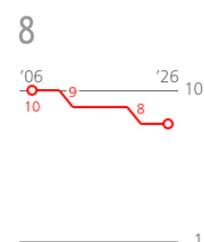
Property rights and regulations covering ownership are constitutionally well-defined and enforced in Hungary, although political motivations for infringements on property rights are increasingly prevalent, especially in the real estate and business sectors. Pressure on property owners becomes visible when their interests conflict with those of oligarchs or the government.

While intellectual property rights seem to be well-protected, respect for physical property rights has sharply declined. The Land Registry Act of 2021 (effective from 2023) serves as a background for this trend, as it is expected to change the functioning of the market considerably. The ostensible aim of the act is to digitalize the process, but it lacks the inclusion of appropriate rights to appeal the future automated registration procedure, which may be detrimental to nonprofessionals purchasing property and could be exploited by professionals who are connected to government networks. Particularly in the highly touristic area of Lake Balaton, these networks are placing increasing pressure on property owners. Nevertheless, the act does include several improvements in terms of application processing speed and the distribution of work among relevant authorities. In the international property rights index Hungary's score decreased by 0.12 points to an overall score of 5302 (2024), placing the country at rank 27 out of 125. This significant reduction is closely tied to broader legal and political concerns, with judicial independence cited as the primary issue.

Fiscal stability



Property rights



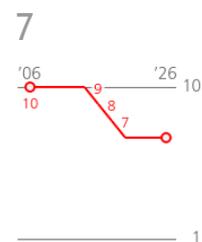
Private enterprise enjoys adequate legal safeguards, and the government regards private companies as the primary engines of most economic sectors. They are protected by relatively strong property rights regulations and indirectly through Hungary's membership in the European Union, which ensures oversight of single market affairs by the European Court of Justice. In the past, privatization processes were strongly associated with corruption, but after the systemic changes following communism, general privatization has come to a standstill. Recently, nationalization has been more prevalent than privatization. In sectors deemed "strategically important" (media, banking, energy, retail and telecommunications, the Budapest airport) or in areas related to the ruling party's interests (mainly construction and food processing), the state significantly interferes with private companies through legislation or harassment by tax authorities and various law enforcement agencies.

The rapid changes made to tax regulations in 2022 have forced many micro and small enterprises to cease operations or restructure their activities. Private companies face challenges in competing with state-owned or oligarch-dominated companies. Hungary's public procurement procedure is highly susceptible to corruption, and in November 2022, the European Commission demanded significant changes in order to address "systemic irregularities," a demand that the government did not meet. Key areas of concern included a lack of cooperation with the European Union's European Anti-Fraud Office (OLAF), insufficient anti-corruption measures and the prevalence of single-bidder tenders. In response to this criticism, the government amended several regulations in the fall of 2022, with little practical effect.

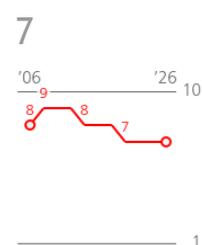
10 | Welfare Regime

According to the Hungarian Statistical Office (KSH), social protection spending accounted for 16.6% of Hungary's GDP in 2023, down from 21.2% ten years earlier. Even spending on the government's widely publicized family benefits fell from 2.0% of GDP in 2011 to 1.1% in 2023. Welfare policies have not been a high priority under the Orbán governments, which have focused instead on creating an investor-friendly, low-tax environment. Redistribution often aligns with a populist approach, redirecting resources away from the welfare system. The concept of a work-based, or "workfare," society emphasizes public work programs over traditional unemployment schemes. KSH data show that the employment rate rose from its lowest point of 57.7% in January 2013 to 74.9% in December 2024, while the unemployment rate fell from 11.5% to 4.3% over the same period. Unspoken but evident in this context is the targeting of ethnic minorities – specifically the Roma – who continue to face persistent poverty. Hungarian statistics also mask a relatively high level of hidden unemployment due to public work programs. The notion of a workfare society is further undermined by insufficient efforts to address gender-related issues, such as narrowing the gender pay gap and boosting female labor force participation, as these goals run counter to the traditional values promoted by the government.

Private enterprise



Social safety nets



Under Fidesz's rule, the private pillar of the pension system was abolished. Today, Hungary's pension system is a mandatory, uniform, pay-as-you-go public scheme supplemented by a minimum pension of less than €70 per month. Pensions have fluctuated; in 2023, they accounted for 57.3% of average income, slightly higher than during the coronavirus pandemic. The health care system has also faced severe criticism. During the COVID-19 pandemic, the government was forced to allocate more resources to the sector, raising total health care spending from 6.3% of GDP in 2019 to 6.7% in 2022. The number of hospital beds and pharmacies has remained stable, but citizens still cover nearly one-third of total health care costs, which is about twice the EU average.

The government provides support to families with children through tax deductions, real estate purchase assistance and other subsidies. However, other social benefits and services remain modest and difficult to access. Unemployment benefits are among the shortest in Europe, capped at just 90 days, leaving the social safety net highly fragile.

Overall, the growing instability of the central budget poses considerable challenges to the Hungarian welfare system.

Vulnerable groups in Hungary remain in a difficult position, and doubts persist about the government's commitment to improving their situation. While individuals formally enjoy equal opportunities to participate in society, discrimination based on gender, ethnicity, and sexual orientation continues. Although equal opportunity legislation aligned with EU standards is intended to protect vulnerable groups from discrimination, the government has increasingly undermined its enforcement. In January 2021, the National Assembly dissolved the Equal Opportunity Authority (EBH) and transferred its responsibilities to the Ombudsperson for Fundamental Rights. Established in 2003 under Hungary's first comprehensive equal opportunity act, the EBH had served as an independent and professional oversight body. Its dissolution risks significantly weakening the enforcement of anti-discrimination laws.

School segregation and structural discrimination against the Roma remain pervasive. Outside this group, equal access to education is generally ensured, except when financial constraints arise. Tuition fees and other costs can pose significant barriers for low-income families. Positive discrimination measures include support for large families, such as free textbooks, tuition waivers and meal subsidies.

In contrast to most other Eastern European EU countries, Hungary has made little progress on gender equality. Gender disparities are evident across society and politics. According to European Commission data, Hungary's gender pay gap stood at 17.2% in 2022, showing minimal improvement in recent years. The gap between male and female employment rates widened under the Orbán governments and has only recently narrowed slightly, likely due to pandemic-related effects. The disparity

Equal opportunity

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is more pronounced in the private sector than in the public sector, where pay differentials are smaller. Government intervention to address inequality in private businesses remains unlikely without significant pressure from women's rights organizations.

Women continue to be underrepresented in politics. Only 15.2% of parliamentary seats are held by women, and as of January 2025, there are no female ministers in government. Katalin Novák, elected in 2022 as Hungary's first female president, resigned amid a political scandal. Gender inequality in Hungary is rooted largely in cultural and societal norms. Traditional values remain deeply ingrained, and government policies actively promote conservative, family-centered ideals.

Serious concerns also persist regarding the rights and equal opportunities of LGBTQ+ individuals. In 2021, the government enacted legislation widely condemned as discriminatory, including provisions allowing the defamation and reporting of same-sex couples to authorities.

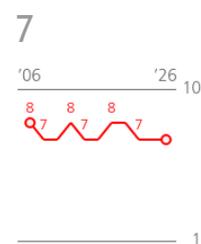
11 | Economic Performance

Hungary's GDP per capita stood at \$45,942 (PPP) in 2023, which is close to the regional average for East-Central and Southeast Europe. Over the past decade, Hungary's GDP has grown steadily but with increasing volatility, marked by a sharp contraction during the COVID-19 pandemic followed by a rapid recovery. Since 2021, however, the economy has again entered decline, with a recession recorded in 2023 (-0.4%) and only modest growth in 2024. Alongside the downturn, record inflation of 17.1% in 2023 placed heavy pressure on household incomes. Inflation fell sharply in 2024 but remained more than twice the eurozone average.

Unemployment stayed relatively low at 4.1% in 2023 but showed signs of rising, with figures distorted by hidden unemployment and the widespread use of public work programs. Foreign direct investment levels in Hungary have traditionally been high by global standards but have fluctuated considerably in recent years and dropped sharply in 2023. Growing legal uncertainty has further clouded the outlook for future investment.

Hungary's current account has been in deficit since 2019 but returned to surplus in 2024. Concerns about fiscal stability remain acute, particularly if European funds are curtailed. This uncertainty also affects public debt, which stood at 73.3% of GDP in 2022, up from 65.3% in 2019 but down from the pandemic peak of 79.3% in 2020.

Output strength



12 | Sustainability

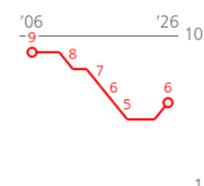
Sustainability is enshrined in Hungary's constitution, yet environmental protection remains a low priority for the government. The country has neither a dedicated environment ministry nor a chief environmental authority. Responsibilities for environmental policy are spread across several ministries and agencies, creating a fragmented institutional framework. The minister of state for environmental affairs and the circular economy within the Ministry of Technology and Industry usually represents Hungary in the EU Council, although the Ministry of Agriculture is also involved, often resulting in overlapping mandates and conflicting interests.

Environmental considerations are frequently sidelined when they clash with business objectives. Hungary's reliance on Russian energy sources – oil, gas and nuclear power – continues to receive strong political backing, often at the expense of renewables such as solar and wind. According to the International Energy Agency, the share of renewables in Hungary's electricity generation rose from 8% to 15% during the Orbán administration. Since 2019, Hungary has cut its dependence on Russian oil and gas from nearly 50% to 12.9% in 2022. Meanwhile, Hungarian oil company MOL has sought to restore the disrupted oil supply via Ukraine. The Paks nuclear power plant, which provides nearly half of the country's electricity, is being modernized and expanded using Russian technology and contractors. The project is strongly supported by business groups close to the government, while regulatory barriers have slowed the growth of renewable energy, particularly solar power.

Under a 2020 law and the National Clean Development Strategy updated in 2024, Hungary aims to cut carbon-fuel-based emissions by 50% by 2030 and reach carbon neutrality by 2050. Yet as of 2022, renewables made up only 15.1% of the country's gross final energy consumption – well below both the previous 21% and the updated 30% target for 2030. Hungary's figures remain significantly lower than the EU average of 23.1%. Between 2023 and 2024, the share of solar energy in the national energy mix declined slightly, while wind energy showed a modest increase. CO₂ emissions per capita have remained relatively stable in recent years, with the Orbán government making little progress in reducing overall emissions. According to the Hungarian Statistical Office, environmental taxes as a share of total tax revenue fell from 10.26% in 2010 to 7.27% in 2022. The government's passive stance stands in stark contrast to the Hungarian public's strong awareness of environmental challenges, as reflected in Eurostat data.

Environmental
policy

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Hungary's literacy rate is very high, and the education system generally provides basic education for the entire population. However, education remains one of the most contentious issues in public debate. Ongoing teachers' protests and strikes reflect deep dissatisfaction with the current state of the system. Persistent challenges include low teacher salaries and the growing politicization of curricula and educational objectives. Instruction is guided by a nationalistic and conservative agenda, emphasizing factual knowledge and traditional teaching methods over skills development and adaptability.

Public spending on education is low by OECD standards and continues to decline. In 2023, it fell to 2.3% of GDP, down from 5.7% two decades earlier. Hungary ranks 37th globally in the latest UNDP education index, with a score of 0.83, a figure that has remained stable over the past five years. PISA assessments show a gradual decline in student performance, and the COVID-19 pandemic further strained the education system. The government has tightened its control over universities, with Fidesz-appointed boards consolidating oversight after universities were transferred to a foundation model under the Fundamental Law. Under this structure, universities are managed by nonprofit foundations governed by boards of trustees composed exclusively of individuals close to Fidesz. As a result, university autonomy has been severely curtailed. Due to this governance model, the European Union has frozen Horizon Europe and Erasmus+ funding for 21 Hungarian universities.

According to World Bank and KSH data, research and development (R&D) spending rose from 1.1% of GDP a decade ago to 1.6% in 2021 before falling to 1.39% in 2023. The share of employees engaged in R&D also increased from 0.87% in 2011 to 1.10% in 2023. However, R&D investment as a share of total investment has steadily declined since peaking in the early years of the Orbán administration, while the number of firms engaged in R&D has remained largely unchanged.

Hungary's National Recovery and Resilience Plan under the EU Recovery and Resilience Facility allocates 3.2% of its funding to the creation of national research and development laboratories. Although Hungary's R&D tax incentives fall on the lower end of the OECD range, they remain close to the regional average (OECD 2023).

Education policy / R&D

6



Governance

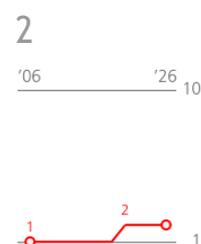
I. Level of Difficulty

The structural constraints on governance in Hungary are relatively minimal, as the country has a well-developed core infrastructure. The country's territory is not contested internally or externally, nor is it subject to frequent natural disasters. The ethnic composition of the population is relatively homogeneous. As a member of many international institutions, such as NATO and the European Union, the country's external security and socioeconomic development is generally assured. Structural constraints in Hungary include demographic pressures linked to an aging and shrinking population. The average age rose from 36 in 1980 to 43.2 in 2024, while the aging index reached 143.2 in 2024. Over the same period, the population declined from 10.7 million to 9.6 million. A persistently low fertility rate and continued emigration of skilled workers have further strained the labor market. Parts of central Hungary face growing risks of water scarcity and desertification due to rising global temperatures.

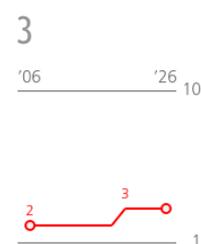
Hungarian society is marked by statist attitudes. A substantial share of the population favors paternalistic state care over social activism or civic engagement, a disposition shaped by the country's long authoritarian tradition and history of foreign domination. While identification with the Hungarian nation remains widespread, it often aligns with nationalist sentiment and tends to be exclusionary. After 1989, Hungary underwent a period of rapid democratization and saw the expansion of civil society. Today, more than 130,000 nonprofit organizations are registered, and their number has continued to grow since the early 2000s. Notably, the sector remained largely unaffected by the COVID-19 pandemic.

Interpersonal trust in Hungary is generally low. Where trust exists, it is typically "thin" rather than "thick," and is based on relatively superficial or recently established social ties (Lazányi et al., 2017). Professional networks, epistemic communities and other horizontal forms of social capital continue to struggle to develop and consolidate. Public participation is often discouraged by the government, while the political opposition increasingly views civil society as one of the few remaining arenas where dissent and protest can still be expressed with relative freedom. At the same time, nonpolitical NGOs – such as fishing clubs, recreational sports associations and hiking groups – continue to enjoy broad participation.

Structural
constraints



Civil society
traditions



Religious or ethnic cleavages and conflict are absent in Hungary, but levels of political polarization are high and increasing. The antagonism between government and opposition supporters is superimposed on traditional cleavages (state vs. church, labor vs. capital), but also includes center-periphery and urban-rural cleavages.

The narratives used in political discourse are confrontational. Political hate speech is common, and agitation against “public enemies” (George Soros, migrants, “Brussels”) has become an integral part of the government’s political communication.

Incidents of violence remain rare, and levels of police violence have not exceeded those observed under previous administrations. Mass demonstrations have been infrequent, as public protests in Hungary tend to arise primarily in response to issues that affect individuals directly – such as education sector reforms that impact teachers. However, recent developments indicate a rise in political mobilization. In 2024, a scandal over the presidential pardon of an alleged accomplice in a pedophilia case sparked widespread protests across the political spectrum. The incident prompted a reorganization of the opposition and strengthened its capacity for coordinated action.

Conflict intensity

4

'06 '26 10



II. Governance Performance

14 | Steering Capability

The government’s strategic priorities are driven more by political considerations than by policy goals. These priorities are diffuse and not clearly outlined in any publicly available document. Government narratives tend to be broad and often center on a perceived backlash against conservative or Christian values. The administration’s overriding goal appears to be maintaining power to avoid prosecution for corruption, and its actions should be understood in this context. This central aim is supported by a range of domestic and international sub-goals.

Internationally, resisting pressure from the European Union remains one of the government’s key strategic objectives. Hungary has shown institutional resilience in policy areas that require unanimity in the EU Council, frequently leveraging its veto power. Another core objective is to diversify international partnerships and reduce dependence on the West through its so-called “Eastern Policy,” which seeks closer ties with authoritarian regimes. Efforts to strengthen relations with China, maintain cooperation with Russia, and expand engagement with Türkiye, Serbia and other authoritarian states in the broader region have met with partial success, though at the expense of weakening Hungary’s Western alliances. The government’s negative

Question

Score

Prioritization

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priorities are articulated most clearly: avoiding involvement in the war in Ukraine to preserve relations with Russia and restricting immigration, particularly from Muslim-majority countries.

Domestically, the ruling party, which is composed largely of office-seekers, prioritizes political control over long-term policy planning. The core executive, concentrated in the Prime Minister's Office and the Cabinet Office, exerts direct control over line ministries, often sidelining sector-specific expertise. This highly centralized system ensures that policy formulation and implementation align closely with top-level political interests. Similarly, regional and territorial affairs are managed through centralized institutions, enabling immediate enforcement of central government priorities.

The government operates without a formalized program. Policy planning is largely reactive and driven by compliance with EU regulatory and funding frameworks. While regulatory impact assessments are formally conducted, the frequent use of fast-track legislative procedures limits opportunities for stakeholder consultation. Hungary's membership in international organizations such as the European Union imposes partial constraints on policymaking, requiring some alignment with international commitments in areas including climate policy, sustainability, energy and trade. Even so, tensions persist: Hungary both shapes and is shaped by its international environment. It has blocked decisions on migration, NATO enlargement and sanctions against Russia, but has occasionally compromised when politically expedient or when losing international support – as illustrated by its eventual ratification of Sweden's NATO accession following Türkiye's lead.

The Hungarian government struggles to implement its stated priorities due to inconsistency and growing incompatibility with the broader political environment of the European Union, as well as mounting resistance from Western partners to its illiberal policies.

Economic policies designed to sustain growth and generate wealth for those close to the government face increasing headwinds. Hungary continues to lag behind most of its regional peers in economic and social development. Some foreign direct investment has been overshadowed by government intervention, and inflation peaked at 4.8% in 2024 – among the highest rates in the European Union. The health care system remains of low quality, while the education sector continues to experience teacher strikes and poor PISA results. As a result, a significant brain drain persists, particularly in these fields.

Despite these challenges, the difficulties in implementing strategic goals do not originate within the domestic administrative structure. Resistance within the government apparatus is minimal, with no visible divisions between ministries and the core executive or in the vertical implementation of policies at regional and municipal levels – except for ongoing tensions between the central government and

Implementation

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'06 '26 10



1

the opposition-led capital, Budapest. The central obstacle lies instead in the government's defiance of the European Union's normative framework and the growing resistance of Western partners to Hungary's illiberal trajectory.

The government prioritizes power politics and public relations over policy considerations, showing limited willingness to engage in policy learning. Independent academic and policy institutions, both domestic and international, are seldom seen as valuable sources of expertise. Cabinet ministers have limited autonomy and few opportunities to influence the prime minister's decisions, which are largely made by a small group of advisers. Innovative ideas and constructive criticism are rare.

Regulatory impact assessments (RIAs) are mostly formal, focusing on environmental policymaking and lacking regular stakeholder consultations, with some exceptions. Good practices are shared through international cooperation, particularly via the Council of the European Union's working groups, European Commission-assisted implementation processes, and participation in international programs by institutions like the World Bank or OECD. However, the inclusion of best practices and policy learning varies greatly and lacks a structured approach.

In 2021, Hungary was ranked in the lowest third among EU countries for the quality of RIAs. Ex-post evaluations of primary laws lack rigor, and stakeholders are rarely consulted early in policy formulation. According to the latest OECD analysis, Hungary ranks last in this regard. Notably, Hungary is the only EU country with sunset clauses for all ex-post evaluations of primary EU laws and regulations, requiring completion within a specific timeframe.

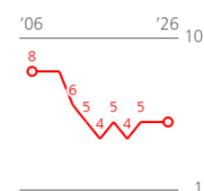
15 | Resource Efficiency

Hungary's budget remains poorly balanced. The deficit reached 4.9% of GDP in 2024, while public debt stood at roughly 80% of GDP – around 20 percentage points above the Maastricht threshold for euro adoption but close to the EU average. Budgetary slippage has been a recurring issue. Since spring 2018, Hungary has been subject to a significant deviation procedure by the European Union, which remains in effect in 2025. The partial suspension of EU funds has further destabilized fiscal management, with the 2024 budget reportedly nearing collapse. In 2023, compliance with fiscal rules averaged just 38%, the lowest among EU member states outside the eurozone.

According to Eurostat, government expenditure on general public services accounted for about 8.2% of Hungary's GDP in 2022, placing the country among the European Union's highest spenders alongside Italy and Finland. However, Hungarian spending is heavily concentrated in general services, diverging from the more balanced expenditure patterns observed in most other member states.

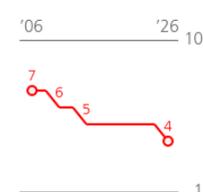
Policy learning

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Efficient use of assets

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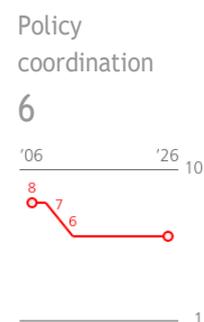
Hungary also performs poorly in international assessments of budget transparency. In the 2023 International Budget Partnership survey, the country scored 6 out of 100 for public participation, 33 for budget oversight – ranking between Senegal and Cameroon – and 22 for overall transparency. Hungary continues to lag behind both EU and OECD peers in this area. The state of the audit system remains a key concern. The State Audit Office lacks independence; its leadership is politically affiliated, and the institution consistently delivers low-quality oversight. It frequently avoids comprehensive investigations into government spending and handles cases selectively, often penalizing opposition parties for alleged violations during election campaigns.

Personnel selection in the public administration is driven more by political loyalty and party affiliation than by merit. The number of central-level officials has increased, and while hiring procedures are formally competitive, the administration remains highly politicized rather than bureaucratic in the Weberian sense.

Policy coordination in Hungary is highly hierarchical, with Prime Minister Viktor Orbán at its center. Orbán exercises control through a powerful chancellery, the absence of internal democratic processes within Fidesz, and an extensive network of informal power. This system allows him to shape policy, coordinate ministries, and oversee implementation. The Fidesz-KDNP parliamentary group provides unconditional political backing, and the party itself operates with little autonomy from the prime minister.

The government is composed largely of “super-ministries” responsible for multiple, often overlapping or conflicting policy areas. This structure reinforces the dominance of political governance over substantive policy considerations. Individual ministers have limited independence, with the main exceptions being the ministers of interior and finance. Line ministers and their subordinates seldom make decisions autonomously, as overarching political objectives take precedence, resulting in excessive centralization and bottlenecks in decision-making.

Ministerial authority is sometimes shared, and Orbán’s practice of encouraging competition among cabinet members frequently generates confusion. Politically sensitive sectors such as health care, environmental protection and education are managed in a fragmented and opaque manner, often requiring ad hoc negotiation.



Political corruption is pervasive in Hungary, and while Hungarians are aware of it, they do not strongly condemn it. The emergence of the new opposition party TISZA in 2024 has begun to shift the national discourse on anti-corruption.

Since 2010, the nature of corruption has evolved significantly. Previously regarded as a byproduct of democratic politics, corruption has become increasingly centralized under Prime Minister Viktor Orbán, characterized by oligarchic networks and elements of state capture. Political corruption and informal power networks are key pillars of the Orbán regime. The Prosecution Service has shown limited willingness to pursue high-level corruption cases, contributing to a scarcity of prosecutions and lengthy legal proceedings.

Hungary has one of the European Union's highest shares of public procurement processes involving single bidders, a trend exacerbated during the COVID-19 pandemic. In January 2021, the European Commission asked Hungary to reform its public procurement legislation and practices, citing systemic concerns linked to political corruption. The European Anti-Fraud Agency (OLAF) reported in 2019 that Hungary was the only EU member state where national authorities detected fewer irregularities in the use of EU funds than OLAF itself.

The national administration is not effectively addressing fraud involving European funds, with a significant mismatch between pending cases and decisions taken. Hungary is under a 4th round of the Group of States against Corruption (GRECO) noncompliance procedure after disregarding 13 out of 18 previous recommendations. The fifth evaluation round showed no material improvement, with high-level corruption, limited transparency and weak legal enforcement remaining key concerns. The State Audit Office does not function as an independent watchdog and has been involved in suppressing opposition parties.

There is little public financing of political parties in Hungary, which gives Fidesz a significant advantage due to its extensive access to both public and private media networks. Until 2022, asset declaration rules were incomplete, excluding family members and lacking transparency or automatic review, leaving the system vulnerable to manipulation.

In response to the European Commission's rule-of-law conditionality mechanism, which was triggered in April 2022 and resulted in the suspension of €6.3 billion in cohesion funds, Hungary introduced new asset declaration rules aligned with EU standards and established the Integrity Authority and the Anti-Corruption Task Force in November 2022. These institutions were created partly in response to the European Commission's recommendations, though they have yet to yield measurable results.

While political corruption has continued to rise, instances of petty corruption, particularly in law enforcement and health care, appear to be declining. Effective anti-corruption efforts depend on credible institutions and enforceable regulations.

Anti-corruption
policy

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Although some regulatory progress has occurred under European pressure, implementation has faced persistent obstruction from within the system. The Integrity Authority was intended to operate independently, but its actual autonomy remains uncertain.

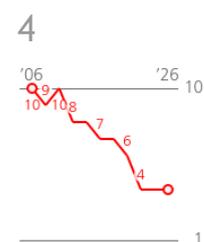
In January 2025, Hungarian police raided the offices of the Integrity Authority. The Chief Prosecutor announced that its head, Ferenc Bíró, was under investigation for alleged corruption and abuse of power. Authorities also searched Bíró's home and seized documents. At the same time, Cabinet Minister Antal Rogán – an influential figure closely associated with Prime Minister Orbán – was sanctioned by the U.S. Treasury, which identified him as a central actor in Hungary's corruption network. These developments have deepened concerns that recent reforms may be largely symbolic rather than substantive.

16 | Consensus-Building

There is no broad consensus on the nature of democracy in Hungary. The current government has pursued an illiberal model marked by an authoritarian turn, while opposition parties advocate for a liberal, cosmopolitan and inclusive form of democracy. The government promotes a nationalist and exclusionary agenda. These opposing visions remain deeply divided, sharing little common ground beyond the fact that a large majority of Hungarians wish to remain aligned with the West. The opposition seeks to bring Hungary closer to European democratic standards, whereas the governing parties aim to reshape the European Union into a more intergovernmental structure focused on economic cooperation without an explicit commitment to liberal values. Civil society organizations overwhelmingly support the opposition, while the government draws its strength from business networks and public institutions shaped by state influence. The opposition has gained visibility in public life, and with the emergence of the TISZA party as a major challenger to Fidesz, the government appears to be losing control over the broader political narrative.

In economic policy, there is broad agreement that a return to communist-style market intervention is neither feasible nor desirable. The opposition supports a liberal, free-market economy with a social dimension, modeled after Western European systems. This approach is backed by major international actors and small and medium-sized enterprises not aligned with Fidesz. By contrast, the government has pursued an increasingly nationalized economic strategy, pressuring foreign companies to sell their holdings and redistributing assets to oligarchs and party-affiliated networks. It has encouraged Russian investment in the energy sector, particularly in the Paks II nuclear power plant, and promoted Chinese investment through the Belt and Road Initiative. The opposition remains strongly critical of these projects. While economic divisions are less pronounced than political ones, they continue to reflect significant ideological and strategic differences.

Consensus on goals



Hungary faces challenges from an anti-democratic government rather than anti-democratic actors. The democratic opposition has limited means to control the government's behavior. The government's supermajority in parliament, along with public and private institutions aligned with the ruling party, supports Fidesz's monopoly on power. Improvements would require an electoral defeat of Fidesz or internal divisions within the party, leading to a more diverse discussion on central government policies. Internal divisions have begun to surface within Fidesz, while the opposition has gained momentum through recent successes in local and European elections and an enhanced ability to mobilize politically.

Hungarian society is structured along territorial cleavages, most notably the urban-rural and center-periphery divisions separating Budapest from the provinces. Other divides, such as the national versus cosmopolitan orientation, also play a role, while traditional cleavages – such as church versus state or labor versus capital – have limited influence as organizing principles. Political discourse has grown increasingly centrifugal. Senior government figures make little effort to prevent these divisions from deepening. On the contrary, the Orbán government has repeatedly sought to intensify social conflict, using government-controlled media to sustain a permanent sense of confrontation against perceived or invented enemies as a means of preserving electoral support and legitimacy.

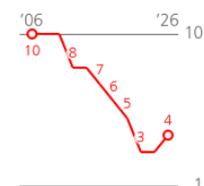
Over time, support for or opposition to the regime has become the dominant political fault line. Identity politics also play a crucial role in shaping and sustaining political communities, fueling polarization between a nativist bloc with increasingly authoritarian tendencies and a largely pro-European opposition composed of left, liberal, and green forces. The recently established TISZA party, a centrist catch-all formation, positions itself equidistant from both camps and has achieved notable success across diverse segments of society.

Civil society organizations (CSOs) and critical civic activists are frequently demonized in government propaganda, with some NGOs routinely portrayed as public enemies. Smear campaigns, surveillance and other forms of intimidation against civil society representatives are widespread. While the policy agenda remains fluid and inconsistent, it is largely controlled by the government and a core group within Fidesz. One of the most persistent criticisms of Hungarian policymaking is its lack of transparency and predictability: new legal provisions are often disclosed only upon publication in the official journal and take effect almost immediately. Deliberative processes are rare, monitoring mechanisms are weak and public consultations are largely symbolic, thus serving as tools of political mobilization rather than genuine instruments of inclusive policymaking.

The number of civil society actors in Hungary remains significant and relatively stable over time, and a formal legal framework for advocacy and interest representation exists. However, opportunities for public participation in policymaking have been sharply curtailed since 2010, reinforced by COVID-19

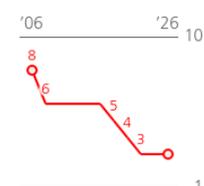
Anti-democratic actors

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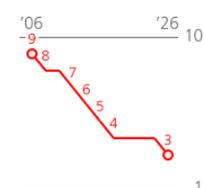
Cleavage / conflict management

3



Public consultation

3



measures, foreign-agent legislation, and the sovereignty protection law, all of which have further constrained watchdog organizations. Fidesz relies heavily on populist mobilization and claims exclusive representation of the Hungarian people and their interests. As a result, the legitimacy of civil society participation in the policy process is consistently undermined and often outright rejected by the government.

The populist logic dividing society into “us versus them” also extends to civil society, separating it into “useful” and “hostile” segments. Apolitical or loyal CSOs, along with an expanding number of government-organized NGOs (GONGOs), belong to the former, while independent organizations – especially watchdog groups active in politically sensitive areas – are treated as adversaries. The allocation of public funding for civil society has been opaque and politically biased, depriving critical NGOs of key financial resources. Since 2017, Hungarian civil society legislation has closely mirrored Russia’s foreign-agent laws, creating a hostile environment for independent organizations.

At the European level, Hungary is rarely active in the early stages of lawmaking but tends to align during the final phases of negotiation. Stakeholders affected by new measures are seldom informed during the drafting process and often learn of new regulations only upon their official publication.

The politics of remembrance and the instrumentalization of historic traumas play a crucial role in Hungary, particularly in connection with the Treaty of Trianon (1920) and its enduring impact on Hungarian statehood and territorial loss. The government invokes Trianon to deflect responsibility for crimes against humanity committed during World War II after Nazi Germany’s occupation of Hungary. This denial extends to the Hungarian victims of the Shoah and Porrajmos. The official narrative also downplays or denies the anti-Semitic character of the Horthy regime, which the Orbán government frequently references, suggesting an ideological affinity between the two. Despite the persistence of anti-Semitism in Hungarian society, especially among right-wing voters, the Orbán government does not actively exploit it. Instead, Orbán maintains close relations with Israel – particularly with Prime Minister Benjamin Netanyahu – and with Jewish representatives in Hungary, such as the government-aligned Jewish Orthodox Community (EMIH).

Coming to terms with the country’s socialist past also remains a challenge. The political transition from 1987 to 1990 was based on a negotiated pact between moderate opposition forces and the reformist wing of the ruling Socialist Party. Efforts to confront the injustices and crimes of the communist regime were limited, allowing the Socialist Party to regain power as early as 1994. Once a staunchly anti-communist movement, Fidesz’s current alignment with Russia appears paradoxical to many observers. Nonetheless, anti-communism – and the practice of branding opponents as communists – remains a staple of the governing party’s smear campaigns against adversaries of all kinds, whether domestic or foreign, leftist, right-wing, liberal, or EU-based. The broad post-1989 consensus rejecting Soviet-era rule

Reconciliation

2



has eroded under the government's ambiguous stance on the Russia-Ukraine war. Hungary's pro-Russian orientation has produced several controversial statements by senior officials, including remarks that appear to downplay or relativize the significance of the 1956 uprising.

17 | International Cooperation

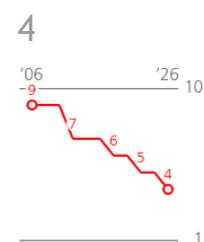
The incumbent government's long-term development strategy rests on two pillars: rent-seeking and the preservation of low labor costs in the manufacturing sector. While benefiting from access to the European Single Market, Hungary also seeks to cultivate ties with non-democratic states to balance its external dependencies.

Hungary is almost fully integrated into the institutional setting of the West, holding memberships in NATO, the European Union, the OECD and other groups. Yet it often acts more as an adversary than an ally. Lacking a coherent economic development strategy, the government focuses heavily on securing external funds. Hungary is among the European Union's largest per capita recipients of financial support. Between 2014 and 2020, it received €22 billion in cohesion transfers – equivalent to more than 3.8% of its gross national income – and an additional €4.2 billion under the Common Agricultural Policy. Hungary's absorption rate for EU funds ranks among the highest in the Union. Although these funds are vital for economic growth, their allocation has been marred by widespread corruption. Ongoing disputes with the European Union over corruption and rule-of-law deficiencies have resulted in the suspension of more than €20 billion in funding, straining Hungary's relationship with the bloc. Despite disagreements with certain EU policy developments, Hungary must comply with decisions under a majority rule regime or block them if unanimity is required, which is often the case.

Within the European Union, Hungary remains a reluctant partner. Although it has formally declared an intention to join the eurozone, efforts to do so have been tepid. Adopting the euro would deprive the government of an important instrument for managing trade imbalances. Successive Orbán administrations have repeatedly cut social spending while maintaining a consistent alignment with employers' interests. Foreign direct investment remains crucial to the economy, yet tensions with Western investors – some of whom are pressured to sell to politically connected oligarchic networks – have grown. Facing resistance, the government may need to seek alternatives or scale back these practices. Consequently, Hungary remains receptive to financial flows from Russia and China. While Chinese loans are far smaller than EU funds, they offer limited insulation from EU pressure and provide an additional, often opaque, source of financing.

Hungary's effort to straddle both the "Western" and "Eastern" spheres is becoming increasingly difficult, particularly amid the war in Ukraine and intensifying geopolitical competition between the West and China. In this volatile environment,

Effective use of support



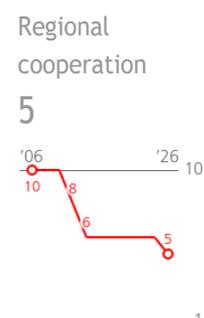
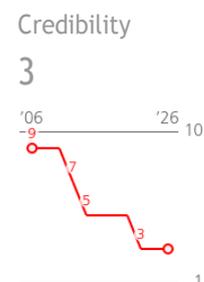
Hungary may soon be forced to make a more definitive strategic choice. Against this backdrop, Hungary's presidency of the Council of the European Union in the second half of 2024 was widely regarded as underwhelming, yielding few notable results beyond facilitating Romania's and Bulgaria's accession to the Schengen area.

Hungary's credibility in the international arena has deteriorated significantly since the outbreak of the war in Ukraine. The country has increasingly presented itself as an unreliable partner within NATO and the European Union. Budapest blocked Sweden's accession to NATO in retaliation for Sweden's support of Article 7 and the European Union's rule-of-law procedures against Hungary. It has also obstructed EU measures against Russia in several policy areas, particularly with regard to sanctions.

Hungary's international reputation has become associated with erratic behavior, limited reliability and a perception of self-interested free riding – using its veto power in international organizations to extract concessions. Relations with the European Union and several of Hungary's closest neighbors have reached their lowest point in years, while the government has pursued closer ties with less democratic states such as China, Türkiye and Azerbaijan. Under its “Opening to the East” strategy, Hungary seeks to deepen economic and political cooperation with the Organization of Turkic States and attract additional foreign investment from China. However, this balancing act between Western alliances and Eastern partnerships appears increasingly unsustainable. Amid growing geopolitical polarization – especially as the West adopts a firmer stance toward Russia and China – Hungary may soon be forced to make a more definitive strategic choice.

Beyond its position on the war in Ukraine, Hungary has drawn international criticism for a range of other actions. The country's refusal to join the European Public Prosecutor's Office has limited transparency and helped preserve a corrupt system, even though participation is seen as essential to combating corruption. Hungary has also been faulted for failing to comply with international conventions on migration. In addition, the government's continued pressure on international investors risks undermining confidence in Hungary as an attractive destination for foreign capital. Although Prime Minister Orbán has cultivated close ties with former U.S. President Donald Trump, new U.S. tariffs are expected to affect Hungary in line with other EU member states.

Hungary's relations with many of its neighbors are tense. The reasons for the problems are partly long-term and partly due to policies and the present government's ideology. Policy toward Hungarian minorities in Slovakia, Romania and Ukraine has led to long-term conflicts with these countries. While relations with Slovakia are relatively quiet and on top-level improved since the Fico-government was inaugurated, relations with Romania sometimes turn tense over Hungary's provision of benefits to ethnic Hungarians in neighboring countries. Relations with Ukraine are very tense. Budapest has used the status of Hungarian minorities as a pretext for unfriendly moves to support Russian political positions.



Hungarian-Ukrainian relations have reached an all-time low since Russia invaded the country. Hungary's oppositional stance toward Western military aid for Kyiv is perceived as an unfriendly act by Ukraine. This issue has also had a negative impact on relations with Poland and Czechia which strongly support Ukraine.

Hungary's relationship with Austria has become increasingly shaped by domestic political developments. As Prime Minister Orbán advances his illiberal agenda, Vienna has grown more cautious, viewing Budapest as a less reliable partner. Hungary's political and economic engagement with its southern neighbors has similarly followed an authoritarian trajectory. Relations with Serbia have strengthened, reflecting ideological alignment with Belgrade's illiberal government. Hungarian support for the leadership of Republika Srpska in Bosnia and Herzegovina has also been positively received in Serbia. In Slovenia, Hungarian-linked capital has supported media outlets such as the government-aligned Nova24TV and affiliated web portals, which previously backed the political career of Janez Janša. Former North Macedonian Prime Minister Nikola Gruevski, who is subject to legal proceedings in his home country, currently resides in Budapest.

Tensions between Hungary and the European Union remain elevated. Hungary's presidency of the Council of the European Union in the second half of 2024 did little to ease these frictions and was largely seen in Brussels as an obstacle rather than an opportunity. However, Hungary's successful mediation of Bulgaria and Romania's accession to the Schengen Zone was positively received by both Bucharest and Sofia.

Strategic Outlook

Hungary's democratic performance has deteriorated significantly over the past 14 years under the government of Viktor Orbán and his Fidesz party. Orbán's main priorities have been reducing political competition and entrenching the power of incumbent elite groups, but the regime faces significant challenges in the short and medium term due to various international and domestic factors.

In foreign policy, the war in Ukraine has presented challenges to Orbán's policy of seesawing between the systemic rivals of the East (Russia, China) and the country's traditional allies in the West (EU, NATO). The West has imposed sanctions on Russia and is striving to reduce its dependency on China. As a result, Budapest can no longer compensate for cuts in EU transfers with Russian and Chinese investment. The war has also created a rift between Hungary and Poland, which is strongly pro-Ukraine, whereas Orbán has strong ties to Putin. Following the electoral victory of left-wing populist Robert Fico, Slovakia is, to some extent, filling the regional role previously held by Poland before the return of Prime Minister Tusk.

At the same time, Hungary's conflicts with the European Union continue to increase, both in number and in terms of divergence from shared norms. The government's rhetoric and policymaking increasingly resemble those of a consolidated autocracy. Hungary's presidency of the Council of the European Union in the second half of 2024 was widely perceived as a low point in terms of both policy output and political climate.

Domestically, Orbán's hold on power has come under growing pressure. The emergence of Péter Magyar as a leading opposition figure, following a series of high-profile scandals within the governing camp, has significantly altered the political landscape. Even under the current institutional framework – widely criticized for its limited democratic safeguards – Orbán's continued hold on power after the 2026 parliamentary elections is no longer assured. In response, Orbán may seek to further anchor the country in the autocratic camp. However, the population is likely to resist this, as political attitudes remain broadly pro-Western and pro-European, despite the regime's scapegoating and smear campaigns against democratic actors.

Several scenarios are possible in this situation, and political violence is not ruled out. In the end, Hungary must return to Western values and fully integrate into the Western camp. This would include joining the eurozone and the European Public Prosecutor's Office and opening up the country to modernization. Sweeping reforms are needed in education, health care and the environmental sector. Given the country's geographic location, industrial structure, tourism assets and other positive factors, Hungary could become a leading country in the region economically. However, this will require clear policy priorities and a renewed commitment to good governance.

At present, goal-setting remains weak and reform momentum is lacking. Political objectives appear narrowly focused on preserving the current government, while institutional performance remains suboptimal and public resources are concentrated in the hands of political officeholders.

Overall, the stability of Orbán's regime appears increasingly uncertain ahead of the 2026 parliamentary elections. As the government enters a potential survival phase, several scenarios are conceivable, ranging from a peaceful transfer of power to electoral manipulation, internal restructuring within Fidesz or even heightened political unrest like that seen in Georgia.

To present a credible alternative, the newly formed opposition must go beyond mere electoral alliances of convenience. However, it remains uncertain whether elections offer a real possibility for change given that the oversight institutions are filled with party loyalists and the economy is controlled by Fidesz-linked oligarchs. Even in the event of an opposition victory, the entrenched influence of Orbán's allies across political, economic and media institutions may limit the potential for systemic reform. A change in government on the horizon could potentially trigger a cold civil war and result in enduring political tensions. Creating a stable and inclusive environment will be key to addressing longstanding political, economic and social grievances.