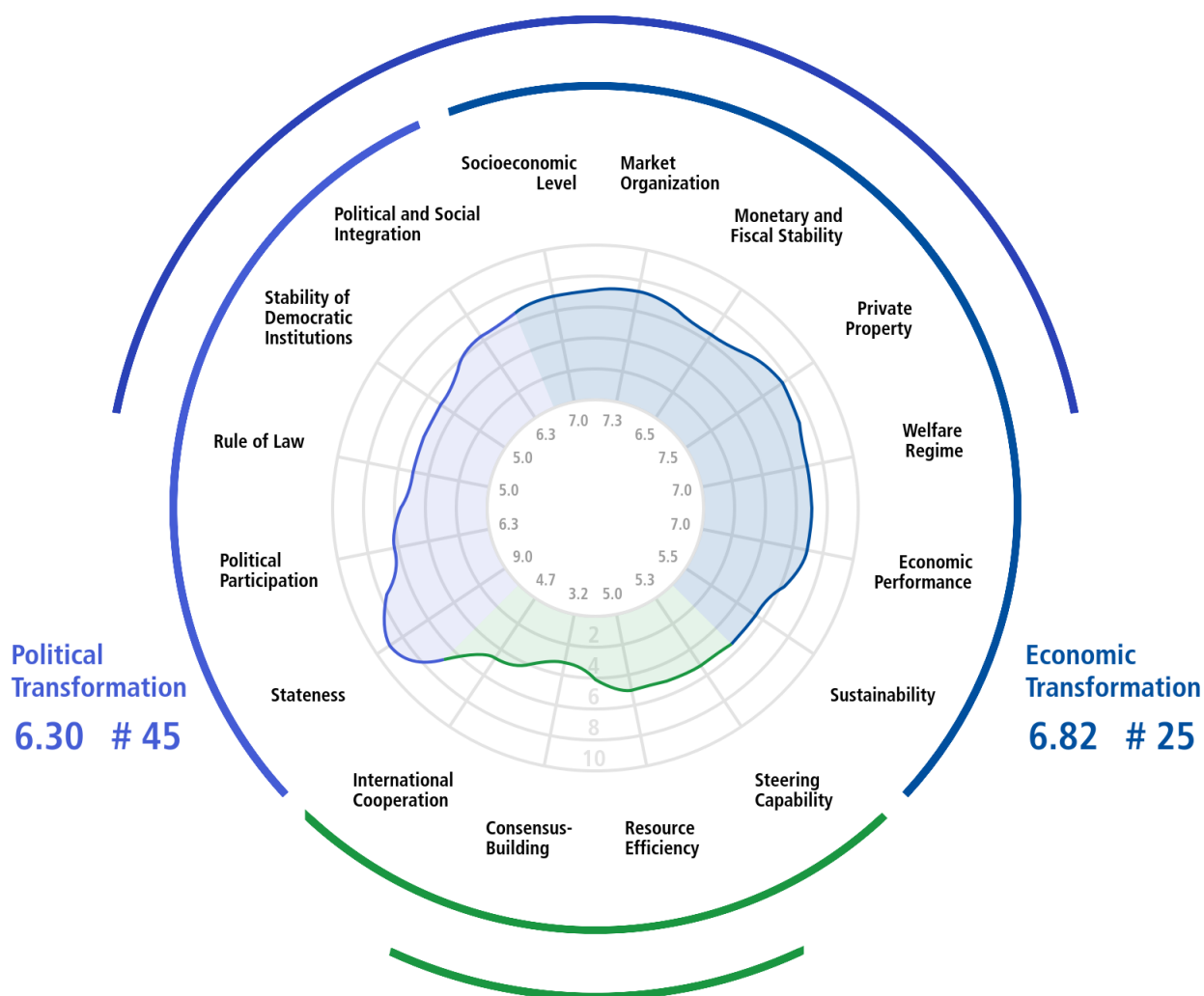


Hungary

Status Index

6.56 # 29

on 1-10 scale out of 137



Political Transformation
6.30 # 45

Economic Transformation
6.82 # 25

Governance Index

3.79 # 103

on 1-10 scale out of 137

This report is part of the Bertelsmann Stiftung's Transformation Index (BTI) 2024. It covers the period from February 1, 2021 to January 31, 2023. The BTI assesses the transformation toward democracy and a market economy as well as the quality of governance in 137 countries. More on the BTI at <https://www.bti-project.org>.

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Key Indicators

Population	M	9.7	HDI	0.846	GDP p.c., PPP \$	41907
Pop. growth ¹	% p.a.	-0.3	HDI rank of 189	46	Gini Index	29.7
Life expectancy	years	74.5	UN Education Index	0.826	Poverty ³	% 0.8
Urban population	%	72.6	Gender inequality ²	0.221	Aid per capita \$	-

Sources (as of December 2023): The World Bank, World Development Indicators | UNDP, Human Development Report 2021-22. 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 12 years since Prime Minister Viktor Orbán and his Fidesz party entered power have been marked by continuous autocratization and the establishment of an illiberal regime. Political competition still exists, but the political playing field is highly skewed. Hungary's institutional and political framework provides an overwhelming systemic advantage to Fidesz. The 2022 parliamentary vote, which again secured Prime Minister Orbán's party a two-thirds majority in the parliament, highlighted the effects of public media control and a tailor-made electoral law (gerrymandering) on the outcome of the elections. Ultimately, approximately one-third of the Hungarians eligible to vote secured the two-thirds majority for Fidesz. Key pillars of state capture by the incumbent party in Hungary include the elimination of institutional checks and balances, domination of the media landscape and the public discourse, the prevalence of informal power networks, and centralized political corruption.

Overall, the populist-authoritarian stance that Orbán has developed over the years is not supported by a consistent ideology. References to Christian values do not indicate a religious divide. Instead, the party system in Hungary is divided between a nationalist, conservative, rural and authoritarian wing and a liberal, urban, progressive and cosmopolitan wing. These factions are becoming increasingly polarized. This pattern is seen in many countries, including the United States, Poland, Türkiye and Brazil. However, in Hungary, the central decision-makers are ultimately less focused on ideology and more concerned with practical matters. They actively and continuously shape the discourse in their favor for pragmatic reasons.

Fidesz exploits a populist narrative based on an existential "us and them" dichotomy between "the people" and the constructed concept of "public enemies" to maintain and deepen the conflict lines in Hungarian society. Over the past few years, left-liberal elites, foreign investors, the European Union, migrants and asylum-seekers, civil society organizations, representatives of the free media, George Soros, and more recently the LGBTQ+ community have been systematically instrumentalized as "public enemies" in the domestic political discourse.

The main issue at hand is corruption, and the impact of state capture can be observed in all areas. During Orbán's time in power, a hierarchical structure of corruption has been established. The regime is often bolstered by economic connections within networks that revolve around a few oligarchs with close ties to Fidesz. The priority is to maintain control, as losing it would result in the collapse of these networks and have potential legal repercussions. In order to hold onto power, the regime has had to manipulate regulations and undermine oversight in various sectors, including the media, the judiciary and the electoral sector.

Most formal veto players, such as the president, the Constitutional Court and oversight institutions like the State Audit Office, the Competition Authority and the ombudsperson are politically aligned with Fidesz and – with few exceptions – do not function as checks and balances. It is largely international institutions that still constrain Orbán.

Hungary's economy is highly internationalized, and as an export nation, it relies on open markets and growing trade. The economy is integrated into the European Single Market and depends on European transfers and the support of the European Union in shaping trade relations in the region and globally. The EU's Article 7 procedure and withholding of EU funds present an existential threat to the rule of the Fidesz networks. Without these funds, the system of corruption is existentially threatened. The regime has responded to the demands of the European Union through institutional adaptation and reform. However, there is no political will to sustainably change the system. Dependencies and the consequences of the conflict with the EU, disruptions in export markets (sanctions against Russia), and the negative impact of corruption and political pressure on economic actors make the Hungarian economy vulnerable. Budget restraints, high inflation and the departure of foreign investors serve as strong warning signals.

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 beginning 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 the 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."

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 a highly centralized country, and the monopoly on the internal and external use of force rests with the central government. The president is formally the head of the armed forces, but, according to a ruling of the Constitutional Court, the right to issue orders lies with the prime minister through the minister of defense. The command of the police forces is vested in the Ministry of the Interior and is centralized and carried out through decentralized institutions of the central state in the 20 counties. Municipalities have certain powers to maintain public order, such as in the context of disaster management, but do not have command over the police.

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 tragedies of the world wars, the redrawing of the country's borders and the large-scale assimilation of minorities during the Communist era have made it a relatively homogeneous nation-state. 13 officially recognized "nationalities" (national or ethnic minorities) are entitled by law to establish self-governing bodies at the local, regional and national levels, based on the principle of collective autonomy. Nationalities are constitutionally recognized members of the Hungarian nation. Nationalities also enjoy a lower electoral threshold in parliamentary elections, but only the German minority was able to benefit from this in the 2018 and 2022 general elections. The other groups send "national advocates" to parliament as observers. Hungary maintains a special relationship as a kin state with ethnic Hungarians living abroad.

Within Hungarian society, especially on the right end of the political spectrum, some exclusion narratives exclude people of other races, sexual preferences or religious denominations as "not real Hungarians." However, xenophobic and racist ideas and discourses do not, in practice, lead to legal discrimination in the process of acquiring Hungarian citizenship.

Question
Score

Monopoly on the
use of force

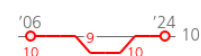
10



_____ 1

State identity

10



_____ 1

Hungary is officially a secular state; few people are very religious or regularly attend religious services. Among the faithful, Christianity (Catholic, Calvinist) is dominant, and other religions hardly play any role. Government representatives sometimes refer to Christian values to justify their actions, but voter alignment is not based on a classical religious-secular cleavage. The presence of the Christian Democratic People's Party (KDNP) in parliament is not contradictory to this statement. The party owes its place in parliament to an electoral coalition with Fidesz and has little true voter support. However, religious dogmas are frequently instrumentalized in the political discourse by Fidesz/KDNP and play an increasing role in politics and constitutional matters. This discourse is anti-modern, Islamophobic and anti-LGBTQ+. It constructs an “us-and-them” narrative that claims to uphold traditional Christian values and contrasts globalization with the “Christian Occident,” defining people of other faiths as outsiders. References to Christian values often appear in government communications. The dominance of right-wing politics has manifested in 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, the incumbent party has enacted several laws designed to intimidate the LGBTQ+ community. In 2022, abortion regulation was modified to align more closely with conservative ideologies. Women must now listen to the fetus's heartbeat before obtaining an abortion. Still, Hungary's abortion law is relatively liberal, reflecting the liberal stance of the Hungarian population on the issue. Church-owned schools and kindergartens play an increasing role in education. In 2021/2022, 12% of all Hungarian educational institutions were church-owned. According to Act LXXVIII of 2022, the state and municipalities are obliged to hand over real estate to representatives of denominations if the properties were built and used directly for religious or sacred purposes. However, Protestant churches in particular criticized this move and mostly refrained from accepting the offer.

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,” whereby municipal self-government is accompanied by institutions fully responsible to the central state (Ministry of Interior), which the government then 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. This affects policies like health care, education and access to social services. The general idea behind the shift from a decentralized to a deconcentrated model is twofold. Arguably, in some cases, it may enhance the efficiency of state services by bringing them closer to the population. However, more important is the political control over territorial matters that reflects the overall attempt of the ruling party to infiltrate almost all areas of public life, reminiscent of the socialist era. As state authorities and public services are subordinated to political considerations, the distribution of resources becomes

No interference of religious dogmas

8



1

Basic administration

8



1

political. The central state seizes control by politicizing the distribution of resources, cutting them short if a city or town is ruled by an opposition formation and/or mayor. This practice was accelerated after the 2019 municipal elections, which yielded significant gains for the opposition parties. The capital, Budapest, is the most prominent example in this regard. The withholding of EU funds imposed by European institutions exacerbates this struggle and increases the threat of blackmail for opposition-held entities.

The government has also reduced municipal revenues and taxation competencies, citing the needs arising from COVID-19. It has thereby made these taxes available for redistribution by the central state. The lack of resources and pervasive high-level corruption have had a negative impact on the proper functioning of basic administration. Despite the government's efforts, the judiciary as a whole has largely maintained its professional independence, which is now safeguarded by broader guarantees exerted by the EU. However, at the level of high courts, a discernible political influence remains despite formal changes. While 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. The 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.

2 | Political Participation

Since 1990, Hungarian electoral law has undergone significant changes, although it still maintains a mixed system of proportional representation with majoritarian elements (first past the post). The focus has increasingly shifted toward the majoritarian elements. In theory, Hungarian elections offer freedom, universal suffrage, and access to both active and passive suffrage. However, the ruling Fidesz party's direct and indirect interference has resulted in serious distortions. The most notable distortion is gerrymandering, allowing Fidesz candidates to dominate the electoral districts except in Budapest. Certain minor restrictions are placed on voter registration and the voting rights of Hungarians residing abroad. The election supervisory body is influenced by the government and cannot always be considered impartial. Nevertheless, there are established verification and complaint procedures that are less distorted than the dominance of a single party would suggest. In the 2022 elections, over 20,000 civilian volunteers participated in vote-counting efforts to ensure fair elections. Indirectly, the government's control of public media and restrictions on campaigning create an uneven playing field (OSCE 2023). The ruling party has effectively captured the public sphere, blurring the line between party and state affairs.

Free and fair elections

6



1

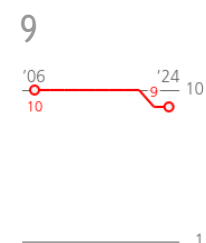
Overall, the deviation from Western democratic standards is becoming increasingly significant, albeit more indirectly than formally. Consequently, elections in 2022 were deemed free but not fair, as Fidesz, despite securing a two-thirds majority, received just under 50% of the votes cast. This outcome suggests that the election results are distorted and fail to fully reflect the will of the population.

The political system enables the elected parliamentary majority and the government to operate highly efficiently, with no significant formal or informal internal veto players. However, the European Union can exert influence on the government to adopt new legislation that enhances the rule of law through the Article 7 procedure and redistributive financial measures. Both the president and the majority of judges on the Constitutional Court assume office with the support of the government majority, and their involvement in the political process is limited. Regional and local self-governance bodies lack the material and legal resources to intervene significantly in central state affairs. At the societal level, civil society organizations, employers' associations and trade unions have minimal influence on government decision-making. In fact, a major criticism of the Orbán regime is the lack of consultation with groups that are affected by new legislation. In general, the privatization of power and state capture through Fidesz, oligarchs and the informal networks surrounding Orbán allow for swift and unchallenged decision-making, albeit at the expense of democratic responsiveness, quality and transparency.

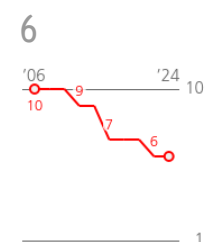
The freedoms of association and assembly are guaranteed by the Hungarian Fundamental Law (as the constitution is called), but challenges exist in this regard. Since 2016, civil society organizations (CSOs) have been operating in an increasingly hostile environment. In 2021, parliament adopted a new law on NGOs without consulting the civil society sector. The European Court of Justice declared the 2017 law, which dealt with foreign-funded NGOs, as being in violation of EU law in a 2020 ruling. Under the new law, CSOs with an annual budget exceeding HUF 20 million (approximately €50,000) must undergo audits every two years by the State Audit Office (SAO), an institution with a dubious reputation, as they are considered to be "civic organizations engaged in activities that may influence public life." As the Hungarian Helsinki Committee (2022) recently lamented, there is no procedure for challenging the SAO's decisions, leaving CSOs without any recourse. Excluded from the CSO designation are political parties, trade unions, public and party foundations, sports organizations, religious communities, and minority organizations.

Civil society organizations and critical civic activism are often demonized by government propaganda, and some NGOs are frequently portrayed as public enemies. Smear campaigns, surveillance and other acts of intimidation against civil society representatives are common. However, restrictions on the freedom of assembly imposed during the COVID-19 pandemic were lifted in 2021. The stigmatization has been less frequent since the creation of the Anti-Corruption Task Force in 2022 and the government's associated attempts to negotiate with the European Union on Article 7 issues.

Effective power to govern



Association / assembly rights



The Hungarian Fundamental Law formally guarantees freedom of expression, but the media landscape does not reflect a democratic balance. Media pluralism is significantly distorted in favor of the ruling parties. Public ownership of media outlets and regulatory oversight are concentrated in institutions that are thoroughly under Fidesz's command. The party controls the public media (MTVA) entirely and has turned public broadcasters into propaganda channels. In 2018, most of Hungary's pro-government private outlets were consolidated under the control of the Central European Press and Media Foundation (KESMA), which oversees more than 400 outlets. At the same time, strongholds of the opposition, like Klubrádio, were attacked, and licenses were withdrawn. In print media, there has been a tendency to take over important outlets like the *Napló* newspapers (regional) and other daily papers via oligarchs close to Fidesz. Alternative opinions can be published only in weekly print publications, some private TV channels (ATV) and online. The problem lies not only with the structure of the Hungarian media landscape but also with censorship and penal codes.

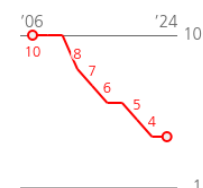
A 2020 decision of the Constitutional Court declared the "fake news paragraph" of the 2020 Authorization Act (passed during the COVID-19 pandemic) to be compatible with the Fundamental Law. This allows action against "fake news" and "scaremongering" and has led to self-censorship among journalists. The Hungarian government has used Pegasus spyware to surveil critical journalists. Self-censorship on political issues by public entities is common.

In the Press Freedom Index of Reporters without Borders (2023), Hungary ranks 72th out of 180 (2023), up 7 places, less so because of improvements in Hungary but because of downturns in other countries. While attacks on journalism and media pluralism were discontinued after the 2022 elections to better comply with EU rules, state propaganda and disinformation continue despite the ongoing Art. 7 EU procedure that includes issues surrounding the freedom of the press.

The European Union media freedom act proposed by the European Commission in 2022, if adopted by the Council and the European Parliament, will confront the Hungarian media system frontally and create new tensions between Brussels and Budapest if the Hungarian government shows unwillingness to go beyond the reform attempts already announced.

Freedom of expression

4

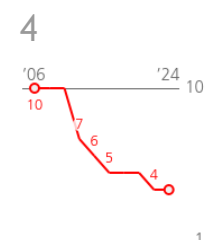


3 | Rule of Law

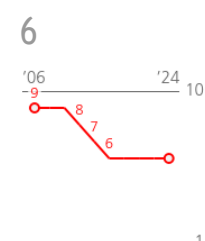
Formally, there is a relatively clear separation of powers with mutual checks and balances, but in reality, the balance is greatly distorted. The parliament, with its two-thirds Fidesz majority, largely fails to exert any serious oversight of government policymaking, and power is concentrated in the 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 such as Göncz, Mádl, and Sólyom, has been devalued from a veto player to a ceremonial figurehead. 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.

Formally, the Hungarian legal system is institutionally differentiated, and procedures regulate the education and selection of judges, as well as the practice of jurisprudence in the country. However, during the rule of Prime Minister Orbán's Fidesz party (since 2010), the legal system has come under attack at the highest level. Meritocracy has been replaced by a focus on political reliability in selection processes, and the standard of excellence has been replaced by party affiliation. At lower levels, the system still exhibits some resilience. The president of the National Office of the Judiciary wields excessive power, and the independence of the National Judicial Council is not guaranteed. Dismissing judges outside the normal procedure goes against Western standards. One criticism is the lack of ability to appeal decisions made by court presidents on the tenure of young judges, which undermines the security of judicial careers. Currently, Hungary is undergoing a reform to address these issues in response to the Article 7 procedure initiated by European institutions. Adoption of the reform proposals would be a significant step forward in restoring the rule of law in Hungary. However, as the Hungarian Helsinki Committee (2023) points out, further reforms are necessary to firmly establish the rule of law in Hungary.

Separation of powers



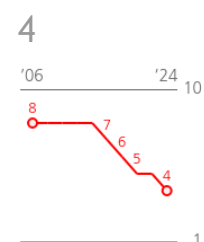
Independent judiciary



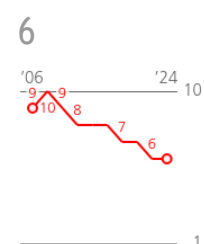
The state capture effected by the Orbán regime has led to the blurring of state and party activities. The Prosecution Service is highly centralized, and the prosecutor general, a former prominent Fidesz member, was elected for a nine-year term and re-elected in 2019 for another nine years. The Prosecution Service frequently refuses to pursue a case when politicians are involved. Procedures are lengthy, and ultimately, the judgments are lenient. In this context, misuse of power is one of the pillars on which the regime is built. Despite some ideological narratives, the regime's core objective is to remain in power, and corruption serves this purpose. Given this context, the rules in place to prosecute officeholders engaged in corruption are themselves corrupt. Despite some recent cases, the Prosecution Service typically refuses, withdraws or closes procedures when high-ranking decision-makers are involved. Even when court judgments become legally binding, they do not reflect the heightened societal expectations. The system fails to prevent high-level corruption, and in various sectors such as real estate and construction, numerous high-ranking politicians and local administrators are involved in corrupt activities. The same is true for public procurement and the use of European funds, where fraudulent behavior surpasses the European average and institutions like the State Audit Office fail to implement even basic measures that might indicate a need for action. Combating corruption in Hungary and holding politicians and high-level civil servants accountable would require challenging the regime, and all government promises to reform the system are mere lip service. The judicial system is not capable of acting independently.

Civil rights in Hungary are legally codified and protected, at least formally. However, institutional adjustments in recent years have tended to undermine this protection. One example is the ombudsperson, who has become increasingly uncritical over time. As a result, the Global Alliance for National Human Rights Institutions (GANHRI) suspended the accreditation of the Hungarian Ombudsman in 2019. The office is now listed under "B" status. Equality before the law is often undermined by tailored legislation that favors individuals or organizations close to the government. In practice, the protection of civil rights suffers from the weakness and corruption of state institutions in the judiciary and from a public discourse – encouraged by the government – based on the identification of scapegoats. The government uses us-and-them narratives to distract from policy failures and demonize vulnerable groups, with targets including migrants, George Soros, Brussels and the LGBTQ+ community. In this environment, the civil liberties of people with different sexual orientations are being challenged, and the government tried to restrict their right to free speech in 2022 with a so-called child protection referendum that failed due to insufficient participation. Migrants, too, face a hostile climate in the country. In the 2023 Freedom House Index, Hungary's civil society rating dropped from 4.25 to 4.00. Additionally, women are under-represented in Hungary, and the arts sector is dominated by the government and used to promote nationalist and so-called Christian values.

Prosecution of office abuse



Civil rights

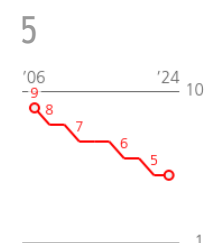


4 | Stability of Democratic Institutions

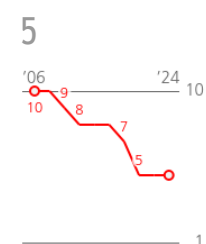
The institutional system in Hungary is structured as a democratic parliamentary democracy with a horizontal separation of powers, checks and balances, and a “deconcentrated” vertical administrative system based on the territorial structures of counties and municipalities, which have limited authority to handle their own affairs. However, since the 2010 rise to power of the incumbent government (Fidesz, led by Prime Minister Orbán), there has been a noticeable authoritarian shift and erosion of Hungary’s democratic principles. Authoritarian structures have infiltrated various sectors of the state and society, including state institutions, the media system, the judiciary, and the culture and science sectors. Parliament’s role has gradually diminished over time. Though state institutions like the President of the Republic, the State Audit Office, the Public Prosecutor’s Office and the Hungarian Competition Authority are 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 referenced the war in Ukraine to extend its power to govern by decree, bypassing parliamentary oversight. Political power has become increasingly concentrated in the hands of the prime minister. Legislation, including the electoral law and media law, has been tailored to consolidate and serve this purpose. The ruling party has co-opted state institutions for partisan objectives, solidifying its hold on power. Consequently, Hungary’s national discourse has been tainted by illiberal, xenophobic and nationalist narratives. The political leadership has forged closer ties with authoritarian countries and leaders, such as Russia and China, to the detriment of international institutions like the European Union and NATO, as well as allies like Germany and the United States. This political shift has coincided with a broader weakening of state institutions, resulting in counter-productive and escalating levels of conflict, particularly within the vertical system of administration. As a consequence, the administration operates with some level of efficiency but is heavily influenced by party biases.

Democratic institutions in Hungary have lost credibility and legitimacy during the Orbán years due to the dominance of the ruling Fidesz party and their attempt to influence all layers of society, especially where support for the opposition is common. While there are no internal influential veto players, and a certain apathy appears to be developing, resistance from societal actors occasionally arises, such as from groups like teachers or the LGBTQ+ community. The level of polarization in Hungary is exceedingly high, and the opposition does not view the government’s hold on power as legitimate in terms of pluralistic policy formation. The balance of public discourse is distorted as a result of state capture. In such an environment, actors not directly associated with the government lose influence, leading to a decline in commitment to state institutions. This applies to employers’ associations, trade unions, professional associations (such as those for teachers and journalists) and

Performance of democratic institutions



Commitment to democratic institutions



NGOs, all of whom lack either an effective voice in the political process or consultation opportunities. Some (former) politicians have chosen to continue their political paths outside of state institutions, relinquishing their parliamentary seats to instead communicate with the public through social media.

The exploitation of the pandemic-related state of emergency by the government for non-pandemic political purposes and the further concentration of executive power have contributed significantly both to a deepening polarization and to the declining legitimacy of democratic institutions in Hungary. The context of the extraordinary measures may have changed (the war in Ukraine instead of COVID-19), but the problem of securitization remains.

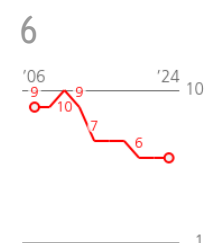
5 | Political and Social Integration

The Hungarian party system is highly polarized. One pole consists of the governing party Fidesz and its satellite KDNP. The other pole is a mosaic of more or less united opposition parties with a vast ideological range. The unifying element of this umbrella formation is solely the desire to remove Fidesz from power. All those parties – on both poles – are rooted in society, but voter volatility on the opposition side is higher. An increasing fragmentation is evident but, as of yet, without affecting the government side. The government parties are rooted strongly in rural areas and have a higher appeal among less educated, male and older voters. Ideologically, those voters have more authoritarian, anti-globalist and nationalist convictions.

The opposition side is deeply rooted in the urban milieu, especially in the capital Budapest. It skews younger, more female and more highly educated. Concerning values in the opposition camp, there is a broad range, from leftist to liberal and even to nationalist and conservative convictions. The parties are organizationally institutionalized and financed via several channels, but with advantages for the government side. The opposition side is mostly excluded from policy formation, as are many civil society organizations. As a result, the ability of entities on this side of the political spectrum to articulate and aggregate interests is limited.

One side effect here is that Hungary shows considerable clientelism, especially before elections, whereby resources are distributed to some social groups in order to win their vote. Pensioners are one example, as are large families and certain entrepreneurs. Some oligarchs close to the government have considerable economic influence, but without challenging the primacy of politics over business. They serve the government, not the other way around.

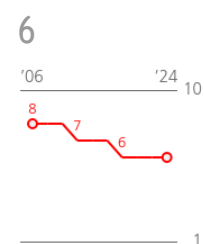
Party system



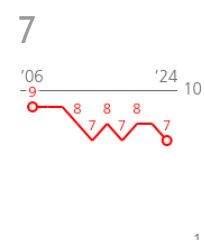
Interest groups in Hungary encompass a diverse range of specific social concerns. However, certain vulnerable social groups, such as the Roma and LGBTQ+ communities, are under-represented in social discourse. The representation of workers' interests is generally weak and fragmented. This fragmentation 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, the MSZP (the Socialist Party) 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 recently become the target of 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 referenda 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 recent survey (ENoP 2022) indicates that a majority of Hungarians (55%) agree with the statement that democracy is preferable to all other forms of government. 23% gave no answer, and only 10% prefer autocracy (sometimes) over democracy. Still, support for democracy is significantly higher in Poland (67%). According to Eurobarometer data (Standard Eurobarometer 98, Winter 2022 to 2023), the share of Hungarians expressing trust in their political institutions recently dropped from 48% to 39% (government) and from 44% to 38% (parliament) compared to the previous Eurobarometer (97), but it is still above the European average. The share of respondents expressing trust in regional and local administrative units is much higher (65%). On the local level, this may reflect a change in the balance between the government and opposition parties since the last municipal elections. Since summer 2022, the share of people expressing satisfaction with the state of democracy in the country has dropped significantly from 57% (approximately the European average) to 46%. Trust in the justice system is completely split between the government and the opposition camp, with high levels of trust on the government side. The same holds

Interest groups



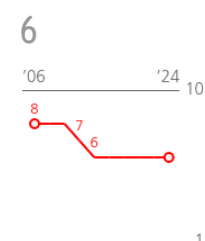
Approval of democracy



true for satisfaction with Hungarian democracy. This reflects the high level of polarization within Hungarian society. The rule of law seems to be slightly less important to Hungarians than to fellow Europeans. In relation to the European average, it appears that the undermining of political institutions in Hungary has had little or no effect on Hungarians, at least those in the government camp.

Social capital developed rapidly after democratization in 1989/90, both with the support of Hungarian governments between 1990 and 2010 and through integration with bilateral, European and global networks. However, it has not developed to the extent seen in many other Western democracies. According to data from the Hungarian Statistical Office (KSH 2023), the number of non-profit organizations dropped slightly during the COVID-19 pandemic but subsequently recovered and stabilized at around 132,000. 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 for 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.

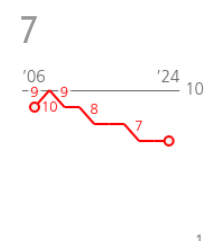
Social capital



II. Economic Transformation

6 | Level of Socioeconomic Development

In many areas, Hungary ranks last among the more developed northeastern European EU members, with Romania and Bulgaria closing in. As of 2021, Hungary ranked 46th in the world in terms of HDI, and its rank and score have remained relatively stable over the past decade. Hungary ranks last within the Visegrád group on this measure, showing little progress. However, the Hungarian Statistical Office (KSH) reports a decrease in the number of Hungarians suffering from severe income deprivation, from 23.4% in 2010 to 8.3% in 2020. For people living in relative poverty, there was minimal improvement between 2010 (14.1%) and 2021 (12.2%), regardless of whether they were pensioners, unemployed or in the low-income sector. Record-high inflation rates during this period also eroded savings and the purchasing power of wages, leading to an increase in poverty and the emergence of new societal challenges. The Gini index of social inequality paints a similar picture: Hungary

Question
ScoreSocioeconomic
barriers

continues to be one of the most highly unequal countries in Eastern Europe. The reasons for this stagnation are diverse, but many stem from government preferences and cultural issues. Since assuming power in 2010, the Orbán governments have favored the elite and the upper-middle class over lower income strata and big business over the interests of culture, education and health care. Consequently, these latter sectors are experiencing a brain drain. While this intellectual hemorrhaging may temporarily solidify the regime's illiberal stance, it will have devastating effects on Hungarian society over the long term. Vulnerable groups, such as certain Roma communities and individuals with disabilities, have limited prospects for upward mobility. Inflation is another new problem, with Hungary experiencing a very high inflation rate (25% in December 2022). With only limited wage increases seen in the public sector, the threat of increased poverty remains. Declining incomes on a purchasing power parity (PPP) basis are leaving more and more citizens unable to meet basic needs such as food, culture and transportation

Economic indicators		2019	2020	2021	2022
GDP	\$ M	164020.5	157227.1	182275.4	178788.6
GDP growth	%	4.9	-4.5	7.2	4.6
Inflation (CPI)	%	3.3	3.3	5.1	14.6
Unemployment	%	3.4	4.3	4.1	3.4
Foreign direct investment	% of GDP	60.0	106.6	16.4	-7.8
Export growth	%	5.4	-6.1	8.8	11.8
Import growth	%	8.2	-3.9	7.7	11.1
Current account balance	\$ M	-1230.4	-1617.1	-6960.6	-14291.8
Public debt	% of GDP	65.3	79.3	76.6	73.3
External debt	\$ M	-	-	-	-
Total debt service	\$ M	-	-	-	-

Economic indicators		2019	2020	2021	2022
Net lending/borrowing	% of GDP	-1.9	-7.6	-7.3	-
Tax revenue	% of GDP	22.4	22.9	21.5	-
Government consumption	% of GDP	20.1	21.3	20.8	20.2
Public education spending	% of GDP	4.2	4.2	5.0	-
Public health spending	% of GDP	4.3	5.2	-	-
R&D expenditure	% of GDP	1.5	1.6	-	-
Military expenditure	% of GDP	1.3	1.8	1.7	1.5

Sources (as of December 2023): 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

As an EU and OECD member, Hungary is integrated into the European Single Market and the OECD regime. This means that there are hardly any formal barriers to 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.

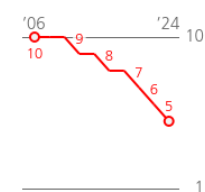
Beyond the formalities, the Hungarian economy is currently in turmoil. The withdrawal of European funds has produced challenges for the country's budget and poses an existential threat to the corrupt pyramid of oligarchs. To evade EU funds, the oligarchs once again come into play. Foreign investors – 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.

During the review period, some regulations intentionally favored Hungarian companies. For example, sector-specific taxes on telecommunications, banks and insurance have been implemented. These instruments resemble well-established measures taken against foreign-owned media companies.

In 2023, a fact-finding mission of the European Parliament noted instances of secret police intimidation targeting foreign-owned companies. Pressure from Orbán's entourage to control "strategic" industries has also been observed, along with the relaxation of regulatory standards for these industries after government-linked takeovers or the removal of foreign companies using inflation or the war in Ukraine as a pretext.

Market organization

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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, primarily focused on technical issues. The weakest point in competition law enforcement appears to be efforts to curb abuse of dominant market positions. Such activity accounts for only 5% of total cases. Recently, the office 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 within vulnerable and strategic sectors such as the media and banking. Government problem-solving is inconsistent and politicized, with clientelist decisions apparent in areas in which the government seeks to enhance its influence over market actors. State subsidies were extensively utilized during the COVID-19 pandemic, both to compensate for the lack of EU funds and to attract foreign direct investment (FDIs). The public procurement regime in place is weak, with single bidders and predetermined results common despite increasing pressure from the EU.

According to the Economic Complexity Index, Hungary ranked 14th globally in 2021. Foreign trade is liberalized both with the European Union and third countries, and Hungary fully complies with EU regulations on trade. The central administration understands the vital role foreign trade plays in the economy. Hungary's Eximbank provides extensive guarantees and insurance to support Hungarian companies' exports. These programs were further extended during the COVID-19 crisis. Following the implementation of a re-industrialization policy, the government has also provided necessary investment support, tax cuts and other incentives through strategic partnerships to large multinational export-oriented companies, with the partial aim of attracting new FDI.

The Russian-Ukrainian war has created new challenges in this area. The traditional trade surplus of Hungary turned into a deficit in 2022 but started to recover in 2023. Reluctant to join the sanctions regime of the West against Russia, the government has sought to maintain trade links with Russia and improve trade relations with China. This may have more to do with the illiberal political doctrine than with economic rationality. Only 1.5% of Hungarian exports go to Russia, while 2.18% go to Ukraine. Exports to China are also minimal, accounting for 1.9% of the total.

Competition policy

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Liberalization of foreign trade

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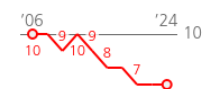
The Hungarian banking system has relatively stable foundations but is currently undergoing a phase of consolidation and mergers. The banking system is generally aligned with international standards. However, the government declines to participate in EU-enhanced cooperation formats that require high standards 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 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, OTP – 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. Although the government introduced a facultative payment moratorium on personal loans to mitigate the risk of skyrocketing personal bankruptcies and their social impact during the COVID-19 pandemic, the MNB concluded that the ratio of loans at risk could increase significantly because of the economic downturn. In June 2020, approximately 60% of household loan customers were living with a possible repayment moratorium, but the share of non-performing loans was only 3.6% in the fourth quarter of 2020. In November 2021, the moratorium was narrowed. Two percent of corporate loans and 6% of household loan recipients were participating in the new program.

The central bank asserts that the banking system is generally healthy, but it also recognizes that the profitability of the sector is threatened by various risks. Of particular concern is the Hungarian government’s overall control of the economy, whether through direct nationalization or due to the indirect influence exerted by oligarchs. An illustration of this is the consolidation of multiple smaller banks in December 2020, facilitated by a Fidesz-affiliated entrepreneur who received an exemption from competition regulations courtesy of the government. This merger created the second-largest bank in Hungary, with substantial ownership by the state and individuals associated with Fidesz.

Banking system

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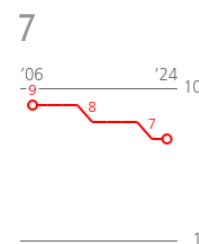
8 | Monetary and fiscal stability

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, leading to an acceleration of 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 EU, with prices increasing by approximately 25% (year-on-year in January 2023). To address this issue, the government implemented various measures, including an interest-rate freeze in certain economic sectors and the introduction of price caps, particularly for fuel and the food sector. However, the International Monetary Fund (IMF) raised concerns about the consistency, appropriateness and effectiveness of the programs implemented by the central bank. Initially, interest rates surged from 3% to 13%, putting substantial pressure on markets such as real estate and construction. To ensure economic growth, the MNB halted the rate increase at this level.

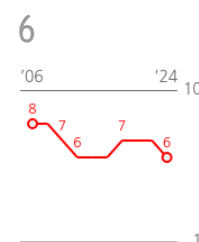
Hungary is not yet in the ERM II mechanism. Although the political will to join the eurozone has been frequently expressed, no visible steps have been taken in this direction. The forint's exchange rate with the euro was volatile during the last year, oscillating between 370 and 430 HUF/EUR. The central 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 (Art. 130 TFEU). However, György Matolcsy, the governor of the MNB, has shown some independence by publicly criticizing the government's economic policies.

Hungarian fiscal policies under the present government have tended to be erratic. The budget deficit has significantly increased since 2015. In January 2023, S&P downgraded Hungary's bond rating to BBB-, while the rating by Fitch remains stable at BBB. In 2021, the current account deficit reached over \$7 billion. Total public debt, which stood at 76.8% of GDP in 2021, 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. It is disconcerting that the parliament passes the budget law quite early in the year, but the government subsequently introduces changes using its decree powers under the state of emergency.

Monetary stability



Fiscal stability

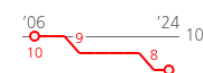


9 | Private Property

Property rights and regulations covering ownership are generally well-defined (Art. XIII of the Fundamental Law) 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 touristed 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.

Property rights

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Private enterprise enjoys adequate legal safeguards, and the government regards private companies as the primary engines of most economic sectors. They are protected by strong property rights regulations and indirectly through Hungary's membership in the EU, 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) 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 in tax regulation 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." Key areas of concern included a lack of cooperation with the EU's OLAF anti-corruption body, 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, but it remains uncertain whether they will be effective.

Private enterprise

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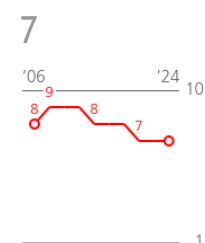
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10 | Welfare Regime

According to the Hungarian Statistical Office (KSH), Hungary spent 17.4% of its GDP on social protection in 2021, a decrease from 21.2% a decade prior. Even spending on widely publicized family benefits decreased from 2.0% of GDP in 2011 to 1.3% in 2021. Welfare policies have not held a high priority under the Orbán governments, which have focused on creating an investor-friendly environment with a low-tax system. Often, redistribution policies align with a populist approach, resulting in resources being redirected away from the welfare system. The concept of a “labor-based society” places emphasis on public work programs rather than traditional unemployment schemes. KSH data reveals that the employment rate rose from its lowest point of 57.7% in January 2013 to 74.5% in January 2023, and during the same period, the unemployment rate decreased from 11.5% to 3.9%. Unspoken but evident in this context is the targeting of ethnic minorities (specifically the Roma), who face persistent poverty. The Hungarian statistics include a relatively significant amount of hidden unemployment due to the public work programs. However, the idea of a labor-based society is somewhat contradicted by inadequate measures addressing gender-related concerns, such as combating the gender pay gap and increasing female labor force participation, as these efforts challenge the traditional values promoted by the government.

During Fidesz’s rule, the private pillar of the pension system in Hungary was abolished. Today, the system is a uniform and mandatory defined pay-as-you-go public system that is accompanied by a minimum pension (under €100 per month). Pensions have been steadily declining; in 2021, they accounted for 49.4% of average income, down from 64.7% a decade ago. The Hungarian health care system has faced severe criticism. During the COVID-19 pandemic, the government was compelled to allocate resources to the system, resulting in total health care spending increasing from 6.3% of GDP in 2019 to 7.25% in 2020. This figure is significantly lower than the EU average of 10.9%. The number of active physicians experienced a significant decline at the onset of the pandemic and has been recovering slowly. The number of hospital beds and pharmacies has remained stable. However, citizens bear almost one-third of total health care expenditure, which is twice the EU average. The government provides support to families with children through tax deductions, real estate purchases and other subsidies, while other social subsidies and services are relatively modest and challenging to access. The duration of unemployment benefits is among the shortest in Europe, capped at just 90 days, which leaves the social safety nets highly vulnerable.

Social safety nets



Vulnerable groups in Hungary find themselves in a challenging position, and there are doubts about the government's commitment to improving their situation. While individuals generally have equal opportunities to participate in society, there is still some discrimination based on gender, ethnicity and sexual orientation. Although equal opportunity legislation, which is in line with EU laws, aims to protect vulnerable groups from discrimination, the government has increasingly impeded its implementation. In January 2021, the National Assembly dissolved the Equal Opportunity Authority (EBH) and transferred its responsibilities to Hungary's Ombudsperson for Fundamental Rights. Since its establishment in 2003 under Hungary's first comprehensive equal opportunity act, the EBH had served as an independent and professional oversight agency. The dissolution of the EBH could severely hinder the enforcement of non-discrimination laws.

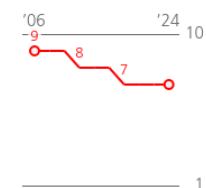
Concerning the Roma, school segregation and structural discrimination remain endemic. Outside of this group, equal access to education is guaranteed as long as financial issues are not involved. Higher education fees may pose a problem for low-income families. As for positive discrimination, there is some support for large families, including free textbooks, tuition waivers and meal subsidies.

In contrast to most other Eastern European EU countries, Hungary is not making progress in the area of gender equality and currently ranks behind countries such as Russia and Bulgaria. Gender inequality is evident at multiple levels of society and politics. According to KSH data, the gender pay gap in Hungary is 16.2% (2021), with little recent movement. The gap between male and female employment rates actually widened under the Orbán governments, and only recently has it slightly narrowed (possibly due to the pandemic). However, it remains significantly higher than in the pre-Orbán years. This problem is more pronounced in the private sector than in the public sector, where the gap is considerably smaller. Government action to address the issue in private businesses is unlikely, unless substantial pressure is exerted by women's rights advocacy groups. The number of female members of parliament is low, and there is only one female minister in the government (as of June 2023). On the positive side, Katalin Novák was elected as the first female president in 2022. The main reason for gender inequality is cultural – Hungarian society remains traditional in many respects, and the government promotes traditional, family-oriented values.

There are serious concerns about the rights and equal opportunities of LGBTQ+ people. The government established a discriminatory “anti-LGBT” law that included a paragraph allowing defamation and reporting of same-sex couples to the government.

Equal opportunity

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11 | Economic Performance

Over the last decade, Hungary's GDP has grown continuously, but it entered a volatile phase with a sharp pandemic-induced decline, followed by a quick recovery. Since 2021, the economy has again been in decline, with recession likely in 2023. In addition to the economic downturn, a record inflation rate of around 25% (January 2023, year-on-year) has put immense pressure on employees' incomes. The unemployment numbers are low but distorted by hidden unemployment, as a high number of workers are employed in public work programs. FDI levels in Hungary are traditionally very high, even by global standards, but have been on a rollercoaster over the last few years. Growing legal uncertainty has cast a cloud over future prospects in this respect. The current account balance has been negative since 2019. This raises concerns about future budgetary stability, especially if European funds are cut. This, in turn, affects public debt, which was at 73.3% of GDP in 2022. Overall, total public debt improved from 77.2% of GDP in 2013 to 65.3% in 2019, but the COVID-19 crisis catapulted this ratio to 79.3% in 2020. Since then, there has been a decline.

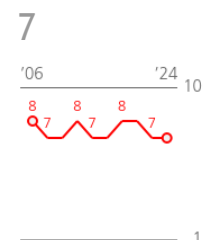
Hungary is integrated into the European Single Market, and the Hungarian economy's degree of dependence on Europe is relatively high, which makes the country's prospects reliant on its relations with the EU. This includes the need for unrestricted access to European funds. However, this access has been undermined by Hungary's failure to comply with the EU's rule of law agenda.

12 | Sustainability

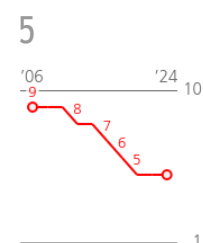
Sustainability is enshrined in Hungary's Fundamental Law, but environmental concerns are not a top priority for the government. Hungary does not have an environment ministry or a chief environmental protection authority. Instead, tasks related to environmental matters are divided among various ministries and authorities, resulting in a fragmented institutional background. The minister of state for environmental affairs and the circular economy from the Ministry of Technology and Industry typically represents Hungary in the Council of the European Union. However, the Ministry of Agriculture may also become involved, potentially leading to conflicting interests.

Environmental concerns are often set aside if they conflict with business interests. The country's reliance on Russian energy resources – including oil, gas and nuclear power – is politically supported at the expense of renewable energy sources like solar and wind power. According to data from the International Energy Agency, the share of renewables in Hungary's electricity increased from 8% to 16% during the Orbán administration. However, Hungary ranks third-lowest in renewable energy adoption

Output strength



Environmental policy



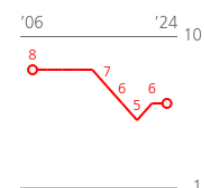
among the 31 member states of the International Energy Agency (IEA), which is comprised mostly of wealthy nations. As of 2021, Hungary still relies heavily on Russia for fossil fuels, with a reliance rate of 35.5%. The Paks nuclear power plant, which is responsible for nearly 50% of Hungary's electricity consumption, is being modernized and expanded with the help of Russian technology and contractors. Business circles close to the government are invested in protecting this project, which hampers the development of renewable energy sources such as solar power, as regulatory measures are in place to slow down its growth. In line with a 2020 law and the National Clean Development Strategy, Hungary aims to reduce carbon-fuel-based emissions by 40% by 2030 and achieve carbon neutrality by 2050. However, as of 2020, renewables accounted for only 13.9% of Hungary's energy mix, which falls significantly short of the 21% target for 2030. Compared to countries like Austria, Hungary's ambitions in combating climate change are relatively modest, and the country is still far from reaching its goals. Additionally, over the past decade, CO2 emissions per capita in Hungary have even increased, stabilizing only during the COVID-19 pandemic. This can be clearly attributed to the Orbán government, as emissions were declining before Orbán assumed office. Although environmentally related tax revenues decreased slightly from 2.75% in 2011 to 2.27% in 2021, they still remain close to the regional average.

The Hungarian literacy rate is very high – basically, the educational system provides for the education of all layers of society. Still, education is a very controversial issue in the Hungarian public debate. Ongoing teachers' demonstrations and strikes indicate a high level of dissatisfaction with the current state of affairs. General problems include teachers' salary levels, but also the ideologization of course materials and teaching goals, where a nationalistic, conservative agenda is being pushed. Curricula are focused on factual knowledge and traditional methods rather than skills and adaptability.

Total public expenditure on education is low by OECD standards, but World Bank statistics suggest stability at 4.8% of GDP in 2020. In combined world education rankings, Hungary ranks 37th, and Hungary's score in the most recent UNDP education index was 0.826 points, a level that has been reasonably stable over the years. PISA reports have documented a decline in pupils' performance over the years, and the COVID-19 pandemic put additional burdens on the system. The government has increased its direct control over universities, with Fidesz appointees' oversight of the higher education system cemented after a transfer of universities to a foundation model in the Fundamental Law. Under the new structure, Hungarian universities are overseen by a non-profit foundation and governed by a board of trustees, always consisting of members close to Fidesz. Universities' self-governing autonomy has therefore been sharply reduced. Due to conflict over this issue, the European Union froze Horizon Europe and Erasmus+ funds for 21 Hungarian universities.

Education policy /
R&D

6



1

According to World Bank and KSH data, research and development (R&D) expenditure has grown over the past decade, rising from 1.1% of GDP to 1.6%. The percentage of employees involved in R&D has also increased, climbing from 0.87% in 2011 to 1.14% in 2021.

R&D investment as a percentage of overall investment has continuously declined since reaching a peak during the early years of the Orbán administration. Conversely, the number of companies involved in R&D has remained steady.

Hungary's national recovery and resilience plan within the EU Recovery and Resilience Facility sets aside 3.2% of its funding for the establishment of national research and development laboratories.

Although Hungary's R&D tax support falls within the lower OECD range, it remains close to the regional average (OECD 2023).

Governance

I. Level of Difficulty

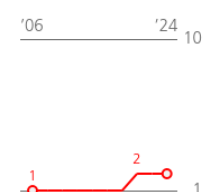
The structural constraints on governance in Hungary are relatively minimal, as the country has a well-developed core infrastructure. The country's territory is not contested internally or externally, nor is it subject to frequent natural disasters. The ethnic composition of the population is relatively homogeneous. As a member of many international institutions, such as NATO and the EU, the country's external security and socioeconomic development – including rapid coordinated responses to pandemics – is generally assured. There are some structural constraints due to an aging population (average age in 1980 was 36, rising to 43 in 2022) and a shrinking population (falling from 10.7 million to 9.9 million between 1980 and 2023), a low fertility rate, and a strong brain drain, which negatively affects the labor market. With increasing global warming, parts of central Hungary may become subject to water shortages and desertification.

Hungarian society is characterized by statist attitudes. A significant portion of the population favors paternalistic state care over social activism and civic engagement – an attitude influenced by the country's lengthy authoritarian tradition and history of foreign occupation. While identification with the concept of a Hungarian nation is prevalent, it often aligns with nationalist sentiments and tends to be exclusive. Following 1989, Hungary embarked on a process of dynamic democratization and witnessed the growth of civil society. Currently, over 130,000 non-profit organizations are registered, and their numbers have continued to rise since the beginning of the new millennium. Notably, they were largely unaffected by the COVID-19 pandemic.

Hungary is generally a country with low levels of trust in the population, and what trust exists is thin rather than thick – meaning that it is based on relatively superficial and recently developed relationships (Lazányi et al., 2017). Professional networks, epistemic communities and horizontal social capital struggle to develop and deepen. The Hungarian government tends to discourage public engagement, but the opposition sees civil society as the only space where dissent and protest can be articulated more or less freely. Meanwhile, non-political NGOs such as fishing clubs, recreational sports associations and hiking groups continue to mobilize large numbers of people.

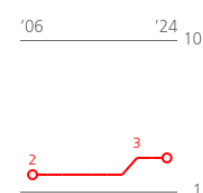
Structural constraints

2



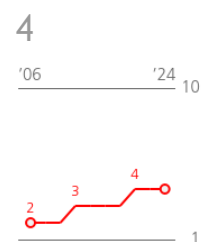
Civil society traditions

3



Religious or ethnic confrontation and related social cleavages 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. Interest accommodation is not institutionalized and exists only on paper. 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. However, there are few incidents of violence, and police violence does not exceed the amount seen during the terms of other governments. Mass demonstrations, especially those featuring cooperation between affected and non-affected layers of society, do not take place. Hungarians mostly take to the streets if they are personally and directly affected by government decisions (e.g., teachers).

Conflict intensity



II. Governance Performance

14 | Steering Capability

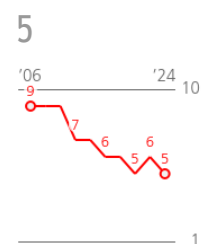
The ruling party is composed mainly of office-seekers, and its desire to remain in power explains government actions better than policy goals. The core executive, with its strong political center around the prime minister, the Prime Minister’s Office (PMO) and the Cabinet Office, ensures control over line ministries and the impotence of particular or sectoral interests. In this strongly top-down structure, policy goals are set by the center rather than trickling up to the cabinet level from sectoral experts. The same is true for the formulation of territorial interests, where concentrated institutions ensure that top-level government priorities are administered directly and immediately.

The government has not adopted a government program, and strategic planning is sporadic and primarily focused on EU requirements. Regulatory impact assessments are formal, and fast-track legislation does not allow for comprehensive and inclusive social consultation. The only remaining constraint is the limitations imposed on policymaking by membership in international organizations such as the European Union. Hungary has to comply at least partially with internationally set goals in areas such as climate change mitigation, sustainability, energy and trade policies. Nevertheless, there is considerable friction in some of these areas, and the pressure works both ways, with the international environment influencing Hungary’s policy priorities and Hungary influencing (often blocking) international organizations’ ability to develop or modify policies. For instance, Hungary has blocked decisions in policy areas including migration, NATO enlargement and sanctions against Russia.

Question

Score

Prioritization



Overall, the government's strategic priorities are more political than policy-based. The strategic priorities set and implemented are diffuse and are not clearly articulated in any publicly available document. The narratives promoted by the government are very general and often revolve around a perceived or constructed backlash against conservative or Christian values. The main priority of the Hungarian government is to remain in power in order to avoid prosecution for corruption, and the government's actions must be seen in this light. This overarching goal is served by a number of external and domestic sub-goals. Internationally, resistance to European pressure is one of the most important factors. Resilience is strong where the unanimity rule applies due to Hungary's veto power in the EU Council. Part of this resilience is the aim to diversify dependencies, balance the European Union by establishing an "Eastern Policy" and strengthen ties with authoritarian regimes. Efforts to open up to China, maintain ties with Russia, and expand contacts with Türkiye, Serbia and other authoritarian regimes in the wider region have been partially successful at the expense of weakening ties with the West. The government has announced negative priorities most clearly: to avoid getting involved in the war in Ukraine in order to maintain good relations with Russia, and to limit the number of migrants coming into the country (here targeting Muslims, not refugees from Ukraine).

Domestically, economic policies aimed at sustaining growth and generating wealth for the circles close to the government are increasingly running into headwinds. Hungary is lagging behind its neighbors in terms of economic and social development. Some foreign direct investment is overshadowed by government actions, and the inflation rate remains high. The health care system is of low quality, and the education system faces challenges such as teacher strikes and low PISA scores. Consequently, there is a serious problem with brain drain, as well-educated people in these sectors leave the country.

But even against this background, the problems affecting the implementation of strategic goals do not lie with the domestic administrative structure. There is little resistance, and no rifts are visible in the system of government, whether between ministries and the core executive or in the vertical implementation of policies via counties and cities, except in the case of the conflict between the central government and the opposition-led capital city of Budapest. Instead, the challenge lies in the incompatibility of the meta-goals with Western values and the growing resistance of Hungary's Western partners to the government's illiberal policies. If European funding is cut, this may have an impact on the country's future financial stability.

Implementation

6

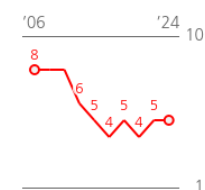


1

The government prioritizes power politics and political public relations over policy considerations, resulting in limited willingness to engage in policy learning. Independent academic and policy institutions, whether domestic or international, are seldom viewed as sources of valuable expertise. Cabinet ministers have limited autonomy, with very few opportunities to influence the prime minister's decision-making outside of a small group of advisers. Innovative ideas and constructive criticism are rare. Regulatory impact assessments tend to be formal in nature, focusing mainly on environmental policymaking and lacking regular stakeholder consultations, although there are a few exceptions. Good practices are disseminated through international cooperation, particularly via the Council of the EU's working groups, European Commission-assisted implementation processes, and participation in international programs offered by institutions such as the World Bank or the OECD. However, the inclusion of best practices and policy learning varies greatly across policies and lacks a structured and institutionalized approach. In terms of the quality of regulatory impact assessments (RIA), Hungary was ranked in the lowest third among EU countries in 2021. Ex-post evaluation of primary laws also lacks rigor, and stakeholders are rarely consulted during the early stages of policy formulation. According to the latest OECD analysis, Hungary ranks last in the group in this regard. Notably, Hungary stands out as the only EU country that has sunset clauses for all ex-post evaluations of primary EU laws and regulations, requiring them to be completed within a specific timeframe.

Policy learning

5

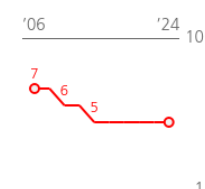


15 | Resource Efficiency

The Hungarian budget is poorly balanced. Public debt is around 80% of GDP – about 20% higher than the Maastricht criteria for introducing the euro – but approximately on par with the EU average. Budgetary deviations have been a problem in the past, and Budapest was subject to a significant deviation procedure by the European Union in the spring of 2018. With the cutoff of some EU funds, Hungary's fiscal behavior is likely to become more erratic. The average level of compliance with fiscal rules from 1988 to 2021 stands at 38%, the lowest among non-eurozone EU countries, and this has slightly worsened (Larch et al. 2023). According to Eurostat data, government expenditure on general public services in 2021 accounted for around 8% of Hungarian GDP. With these figures, Hungary falls into the highest group among EU countries, alongside Italy, Finland and Greece. However, the distribution of these funds reveals differences in comparison to all other countries, with the majority of Hungary's expenditures allocated to general services. In contrast, other countries have a more balanced structure of public expenditure.

Efficient use of assets

5



In the 2021 budget transparency index, Hungary ranked 67th out of 120 countries, scoring well below the OECD average. One significant concern is the state of the country's audit system. The State Audit Office does not operate as an independent institution free from government influence. Its leadership is affiliated with a political

party, and it consistently provides low-quality services. The office frequently refuses to conduct thorough investigations into government spending and handles cases selectively. Moreover, it has played a detrimental role in regulating and penalizing opposition parties, supposedly due to alleged regulatory violations and irregularities during the election campaign.

The selection of administrative personnel is not based on meritocracy but rather on party affiliations and political loyalty, while the number of public officials at the central level has recently experienced an increase. Hiring procedures may only be formally competitive. The administration is not bureaucratic in a Weberian sense but is rather highly politicized.

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

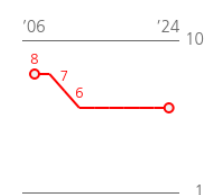
The Hungarian government mainly comprises super-ministries that oversee multiple complex and often-conflicting policy areas in order to ensure the primacy of “political governance” over policy considerations. Individual ministers have little autonomy, with the notable exception of the minister of the interior and the minister of finance. Line ministers and their subordinates rarely dare to make decisions independently because of the all-encompassing nature of power-political goals, which results in an overcentralization of the governmental structure. Thus, bottlenecks occur in the decision-making process.

Ministerial authority is shared on some issues, and the prime minister’s fondness for fostering competition among members of his cabinet also leads to confusion. Politically sensitive and conflicting sectors, including health care, environmental protection and education, are poorly and opaquely managed, necessitating negotiations.

Corruption lies at the heart of Hungary’s shift toward authoritarianism in the past 12 years. Political corruption is pervasive, and although Hungarians are well aware of it – in contrast to the populations in neighboring countries – they do not truly condemn it. This explains why all attempts by opposition parties to prioritize the fight against corruption as a prominent narrative during election campaigns have failed. The nature of corruption has undergone significant changes since 2010. Previously, it was viewed as a negative byproduct of democratic politics. However, since Viktor Orbán assumed power in 2010, highly centralized political corruption has become the primary modus operandi of Hungarian politics. Political corruption and informal

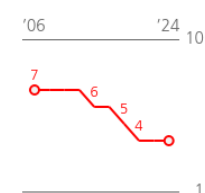
Policy coordination

6



Anti-corruption policy

4



power networks are key pillars of party-state capture. The Prosecution Service is reluctant to pursue grand corruption cases, resulting in a limited number of high-profile cases and prolonged procedures.

Hungary has one of the EU's highest shares of public procurement processes with single bidders. This situation was further exacerbated during the COVID-19 pandemic. In January 2021, the European Commission asked Hungary to systematically reform its public procurement legislation and practices because they serve as vehicles for organized political corruption. In its 2019 report, the European Anti-Fraud Agency (OLAF) claimed that Hungary was the only EU member state in which national authorities detected fewer irregularities regarding the use of EU funds than did OLAF itself. The report also alleged that the share of EU funding affected by fraudulent irregularities was approximately 10 times higher than the EU average (3.93% vs. 0.36%). The country is subject to a 4th round of the Group of States against Corruption (GRECO) non-compliance procedure after having disregarded 13 out of GRECO's 18 previous recommendations. The State Audit Office does not truly function as a watchdog and has been involved in the suppression of opposition parties.

There is little public financing of political parties, which gives Fidesz a significant advantage due to its nearly unlimited access to both the public and private media networks. While asset declaration regulations are in place, they were previously insufficiently comprehensive – as they excluded family members – and lacked transparency, as well as automatic review by relevant authorities. The system additionally contained legal loopholes, making it vulnerable to manipulation. It was not until 2022 that Hungary implemented asset declaration rules aligned with European standards and established a new Integrity Authority and Anti-Corruption Task Force. These measures were partially in response to the European Commission's recommendations, although they have yet to produce tangible effects. Despite a concerning increase in political corruption, instances of petty corruption, particularly within law enforcement and the health care sector, appear to be decreasing. Ultimately, combating corruption requires both trustworthy agents and enforceable regulations. While there has been some progress on the regulatory front due to European pressure, there continues to be significant obstruction from those involved in implementing these measures.

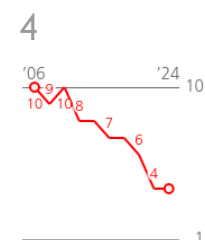
16 | Consensus-Building

There is no consensus on democracy in Hungary. While the parties supporting the present government initiated an illiberal “democracy” and an authoritarian turn, opposition parties call for the reestablishment of democracy in a liberal, cosmopolitan and non-discriminatory environment. The government side instead promotes an illiberal, nationalistic and discriminatory agenda. These two sides are deeply divided, with little common ground beyond acknowledging that a significant majority of the population wants to remain in the Western camp. However, while the opposition aims to align Hungary with European standards, the governing parties seek to reshape the European Union into a more intergovernmental model focused on economic development without endorsing a specific set of values. The opposition enjoys support from an overwhelming majority of civil society organizations, while the government side is backed by economic networks (oligarchs) and societal institutions influenced by the public. The opposition is increasingly dominant in terms of public presence, but the government controls the overall discourse.

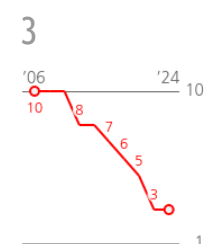
Regarding the economy, there is at least a consensus that communist-style intervention in markets is impossible as a fundamental management principle. The opposition’s stance leans toward a liberal free market economy, with some social framing, inspired by Western European states. This model receives support from major international players, as well as small and medium-sized enterprises (SMEs) not aligned with Fidesz circles. On the other hand, the government is increasingly attempting to nationalize the economy, taking action against selected foreign companies and pressuring them to sell their businesses, while distributing assets and resources to oligarchs and networks close to the party. The government is receptive to Russian investment in the energy sector, and specifically in the Paks II nuclear power plant, as well as Chinese investment through the Belt and Road Initiative. In contrast, the opposition is highly critical of these initiatives. Although the differences between the two sides are not as drastic as in the political realm, they remain conspicuous.

The Hungarian government is not challenged by anti-democratic actors; rather, Hungary is challenged by an anti-democratic government. The democratic opposition has limited means by which to control the government’s behavior. The government’s supermajority in parliament, as well as public and private institutions aligned with the ruling party, support the rule by the incumbent Fidesz and its monopoly on power. Improvements in this regard would require an electoral defeat of Fidesz or at least divisions within the party organization, leading to a more diverse discussion on central-government policies.

Consensus on goals



Anti-democratic actors

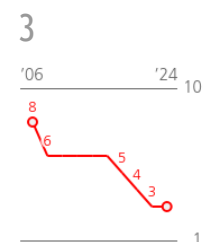


Hungarian society is organized along territorial cleavages such as the urban-rural and center-periphery (Budapest vs. provinces) divisions. Other cleavages, such as national-cosmopolitan, also play a role, but traditional cleavages like church vs. state or labor vs. capital do not play a strong role as structuring elements. The political dialogue is becoming more and more centrifugal. Top government figures do not seek to prevent cleavage-based conflicts from escalating. On the contrary, the Orbán regime has persistently sought to escalate conflicts with the assistance of the government-controlled media, pursuing a permanent mode of conflict against invented enemies, as a means of maintaining electoral support and democratic legitimacy. While support or opposition to the regime has become the main conflict line over the years, identity politics also play a crucial role in the formation and maintenance of discursive political communities, leading to a polarization of society between a nativist political group with increasing authoritarian characteristics and the mostly pro-European left, liberal and green opposition. This opposition defines the positions of all parties in the political landscape. Jobbik, which belonged ideologically to the conservative wing, is now part of the systemic opposition to the Orbán regime. Between these two extremes, approximately 40% of the electorate remains undecided, unrepresented and politically homeless. The polarization and systemic cleavages have resulted in a deep crisis of representation and deliberation in Hungarian democracy.

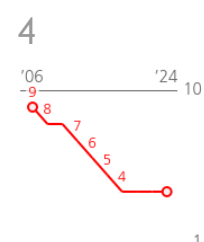
Civil society organizations and critical civic activism campaigns are often demonized in government propaganda, and some NGOs are frequently portrayed as public enemies. Smear campaigns, surveillance and other acts of intimidation against civil society representatives are widespread. However, restrictions on freedom of assembly imposed during the COVID-19 pandemic were lifted in 2021.

Generally, agenda-setting is fluid, erratic, and almost entirely dominated by the government and an inner Fidesz circle. One of the most frequent criticisms of Hungarian policymaking is that actors are given notice of new legal provisions only when they are published in the official journal, with the new regulations applying to them almost overnight. Deliberation is an exception, and monitoring is weak. Instruments such as public consultations are biased and serve primarily as a tool for societal mobilization in the government's interests. A significant number of civil society actors are active in Hungary, and this number has been relatively stable over time. There is a legal framework for advocacy and interest representation. However, social participation at any stage of the policy cycle has been severely restricted since 2010. Fidesz relies on populist mobilization and claims to be the sole representative of the Hungarian people and their interests. Thus, the legitimacy of civil society participation at any stage of the policy cycle is seriously questioned and is often outright rejected by the government. The logic of the populist dichotomy divides civil society into useful and hostile segments. Apolitical and loyal CSOs, as well as the growing number of government-organized non-government organizations (GONGOs), belong to the former category, while independent CSOs and particularly

Cleavage /
conflict
management



Public
consultation



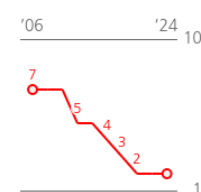
the watchdog groups operating in politically sensitive fields belong to the latter. The redistribution of public funding dedicated to civil society support has been opaque and politically biased, depriving independent and critical NGOs of an important income source. Since 2017, Hungarian civil society legislation has followed the blueprint established by Russian foreign agent laws and has thus been extremely hostile to civil society. Regarding European legislation, Hungary is never an active participant in the early phases of lawmaking but does tend to catch up during the final stages. During negotiations, parties likely to be affected are rarely informed about the draft measures by the government. In fact, they often find out about new rules that apply to them only at the time of their publication.

The politics of remembrance and the conscious instrumentalization of the historic traumas of the 20th century play a crucial role in Hungary, particularly regarding the effects of the Treaty of Trianon (1920) on Hungarian statehood and territory. The government hides behind Trianon in order to deny Hungary's responsibility for crimes against humanity committed in World War II after the country was occupied by Nazi Germany. This denial also extends to the responsibility for the Hungarian victims of the Shoah and Porrajmos. Moreover, the official narrative minimizes or negates the anti-Semitic nature of the Horthy regime, which is often used as a historical reference point by Orbán's regime, which regards the two governments as sharing values. Despite this, Orbán's government, including Fidesz, does not exploit the strong anti-Semitism present within Hungarian society, particularly among right-wing voters. In fact, Orbán maintains strong relations with Israel, notably with Prime Minister Netanyahu, and also with Jewish representatives in Hungary, such as the government-friendly Jewish Orthodox Community (EMIH).

Coming to terms with the country's socialist past also remains a challenge. The Hungarian transformation from 1987 to 1990 was founded on a "pact" between less radical opposition parties and the reformist wing of the ruling Socialist Party. Efforts to address the injustices and crimes of the communist regime did not play a significant role in this agreement, and it is unsurprising that the Socialist Party regained power as early as 1994. Fidesz and Viktor Orbán used to be staunchly anti-communist, which makes their current ties with Russia feel ironic to some. Nevertheless, anti-communism and the tactic of labeling opponents as communists continue to play a role in the governing party's smear campaign against all adversaries, regardless of their political affiliations – whether leftist, rightist, liberal or Brussels-based.

Reconciliation

2



17 | International Cooperation

The incumbent government's long-term development strategy relies on two pillars: rent-seeking and the maintenance of low labor costs in the manufacturing sector. In addition to benefiting from the European Single Market, Hungary also seeks to establish connections with non-democratic countries in order to maintain a balance of dependencies.

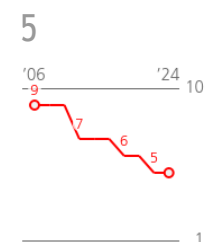
Hungary is almost fully integrated into the institutional setting of the West, holding memberships in NATO, the EU, the OECD and other groups. Because the government lacks a clear strategy for economic development, there is a strong focus on acquiring external funds. For example, Hungary is one of the largest per capita recipients of EU funds. From 2014 to 2020, €22 billion in cohesion transfers were allocated to Hungary, amounting to over 3.8% of Hungary's gross national income. An additional €4.2 billion in financial allocations was received as part of the European agricultural policy. Hungary's absorption rate for EU funds is among the EU's highest. While EU funds are crucial for economic development, their use and distribution are also associated with significant levels of corruption. Despite any disagreement Hungary may have with certain EU policy developments, it must comply with decisions made by European institutions under a majority rule regime or block them if unanimity is required, which is often the case. Hungary is facing an increasing threat given the incompatibilities between the EU's requirements and the interests of corrupt networks.

Within the EU, Hungary is a reluctant partner. Although the country has publicly declared its intention to join the eurozone, attempts to do so have been lukewarm at best. Joining the euro system would deprive the government of a vital instrument to balance its trade accounts. The successive Orbán governments have cut social funds numerous times. At the same time, the governments have been considered reliable supporters of employers' interests. Foreign direct investment (FDI) plays a vital role in Hungary, but conflict with Western investors – some of them being pressured to sell to networks of Hungarian oligarchs – is intensifying. In this area, the government may need alternatives or may be forced to back off as resistance forms.

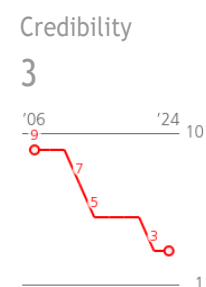
The government is therefore open to alternative financing flows from Russia and China. While Chinese loans offer no strategic alternative to EU funds in terms of quantity, they do provide some buffer for the government against the pressure exerted by EU institutions, as well as extra resources for cronies that can be distributed through networks of corruption.

Facing both directions – attempting to be a part of the “Western” and “Eastern” worlds simultaneously – is becoming increasingly complicated as the Western goal of reducing dependency on China and Russia gains momentum. Hungary may soon arrive at a point where it has to make a general decision.

Effective use of support

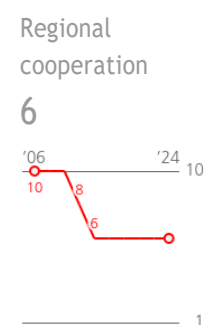


Hungary's credibility in the international environment deteriorated significantly during the war in Ukraine. Hungary presented itself as an unreliable partner in NATO and the EU. Budapest has torpedoed Sweden's accession to NATO as revenge for Sweden actively promoting the use of Article 7 and the rule of law procedures of the European Union against Hungary. Hungary blocked EU action against Russia in many policy areas, especially regarding sanctions. Relations with Ukraine have been at a longtime low ever since Hungary banned the transit of Western powers' military support via Hungarian territory. Relations with previously close allies Poland, Czechia and Slovakia have deteriorated over Hungary's position on Russia. This led to the unraveling of improvements in regional cooperation (the Visegrád 4) that had taken place during and after the refugee crisis. The image of Hungary has become one of an erratic, unreliable and selfish free-rider state that exploits its veto position in international organizations and tries to get its way by blackmail. While relations with the European Union and most of its closest neighbors have reached a nadir, Hungary is seeking friendship with less democratic states like China, Türkiye and Azerbaijan. As part of its "opening to the east policy," Hungary is trying to expand its economic and political cooperation with the Organization of Turkic States and, to attract FDI, with China. The country is at a crossroads; its policy of balancing between the West and East has reached a dead end. The West is hardening its stance on Russia and China, and Hungary will ultimately have to make a choice.



Beyond the war in Ukraine, Hungary has faced international criticism for additional actions. Hungary declines to join the European Public Prosecutor's Office, resulting in limited transparency and the preservation of a corrupt regime. Joining the office is crucial for advancing the fight against corruption. It has also been criticized for its non-compliance with international conventions on migration. Finally, the Hungarian government's practice of exerting pressure on international investors may soon have negative consequences, leading to a decline in trust in Hungary as an attractive investment destination.

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. Whereas relations with Slovakia are relatively quiet, 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 the other Visegrád countries, Poland, Czechia and Slovakia, which strongly support Ukraine.

Relations with Austria are path-dependent on autocratic developments in Hungary. The more that Orbán pushes his illiberal agenda, the less Vienna sees Budapest as a reliable partner. Hungarian political and economic activities with its southern neighbors also follow an authoritarian path. Relations with Serbia have seemed to improve given the autocratic affinities with Belgrade's illiberal government, and Hungarian support for the leadership of Republika Srpska in Bosnia and Herzegovina has proved very welcome in Belgrade. Some media outlets in Slovenia are funded by Hungarian capital, including the government-friendly Nova24TV television and web portals, which supported Janez Janza's political career. The former North Macedonian Prime Minister Nikola Gruevski, a very controversial political actor who is wanted by North Macedonian authorities, is currently living in Budapest. All this creates further tensions with liberal democracies in Western Europe and Northern America.

During the review period, Hungary lost considerable credibility with many of its neighbors, and tensions with Western countries further deteriorated. To improve bilateral relations with its neighboring states, the Hungarian government would need to undergo a U-turn in its foreign policy doctrine and return to a basic liberal Western consensus on values and norms.

Strategic Outlook

Hungary's democratic performance has significantly deteriorated during the past 12 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 he may still face 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. The turbulence in bilateral relations may undermine the autocratic alliance between the two countries, originally established to push back against the EU's measures against autocratic tendencies. A change in government in Poland after the elections of 2023 would almost completely isolate Hungary in the Western camp.

Conflicts with the European Union (EU) continue to multiply in number: these include the suspension of Fidesz from the European People's Party (EPP), the initiation of the Article 7 procedure, the country's non-compliance with rulings from the Court of Justice of the European Union (CJEU) and the requirement that it adhere to the rule of law in order to receive EU financial transfers. The Hungarian economy's strong reliance on European markets and financial support has forced the regime to make institutional changes. This process is currently underway but presents challenges to the party's power structure, which is rooted in corruption. Ultimately, international actors may compel Budapest to implement significant reforms. The central issue at hand is whether these measures will eventually erode Fidesz's power base over the medium term.

Orbán's hold on power still holds nationally, as seen in the parliamentary elections in 2022. However, it may be challenged locally, as seen in the 2019 municipal elections, with cascading effects during an economic crisis. It cannot be ruled out that, in such a scenario, Orbán would seek to anchor the country wholly in the autocratic camp. However, it is unlikely that the population would accept a complete change of camps, as political attitudes are still dominantly pro-Western and pro-European, despite the regime's scapegoating and smear campaigns. 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 Prosecutor's Office and opening up the country to modernization. Sweeping reforms are needed in the education, health care and environmental sectors. Given the country's geographic location, industrial structure, tourism assets and other positive factors, Hungary could economically be a leading country in the region. But to reach such a position, the country needs reform, and policymakers would have to set clear priorities.

Currently, with regard to goal-setting and the reform impetus, there are significant weaknesses. Political objectives do not extend beyond the aspiration for the government's survival. Institutions operate below optimal levels, and resources are concentrated in the hands of officeholders. As a result, it is highly probable that the ongoing reform will be no more than superficial.

In order to offer an alternative to Orbán's populist-autocratic regime, the opposition must go beyond mere electoral alliances of convenience, establish a credible or even charismatic candidate to challenge Orbán and then support this individual in the years to come. 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 if the opposition were to secure a single election victory, it might not substantially alter the entire system, since the current prime minister's allies are deeply entrenched across various facets of the political, social and economic landscape. This scenario could potentially trigger a cold civil war and result in enduring political tensions. Consequently, a new reconciliation effort is necessary to mitigate these tensions and establish a secure environment for resolving political, social and economic grievances.