

Hungary 2015



Total: 64.6

Political Freedom

Free and Fair Elections : 8.57

Freedom of the elections is in declining in Hungary. The country's rating went down from 9.64 in 2014, in the "Free and Fair Election" component of the Freedom Barometer Report. Fidesz (Young Democrats' Alliance – Hungarian Civic Union) party, in coalition with the Christian Democratic People's Party, retained a 2/3 majority, capturing 133 seats out of 199. Opposition criticized the new electoral law imposed by the Viktor Orban's government, emphasizing unequal opportunities for political parties. OSCE/ODIHR noted in their report that "Governing party enjoyed an undue advantage because of restrictive campaign regulations, biased media coverage and campaign activities that blurred the separation between political party and the State".

Absence of Unconstitutional Veto Players : 6.67

There are no unconstitutional veto players in Hungary. However, this country recorded decline in this section of the Freedom Barometer Report, from 7.50 in 2014, because of the raising corruption and undermining of the system of checks and balances. Government, with its frequent interference in the market, creates dominant economic players in the country. Also, the system of checks and balances was undermined by the government, on one hand through legislation while on the other hand through appointing of "loyal" people to the key positions in the independent state institutions. The rising of the extreme right forces, such as paramilitary force of the Jobbik Party - Hungarian Guard, with their violent actions towards minorities, poses a threat to the Constitution.

Freedom of Press : 6.3

Freedom of the press is granted by the Hungarian constitution, but in practice a diverse media scene is partly free. Since 2010, the government has constantly tightened its control over media outlets, through adaptation of laws and changing of the constitution. Monitoring of media is now delegated to one body, the National Media and Infocommunications Authority, whose leader also chairs Media Council, the main regulatory body. In 2014, government adopted a new progressive advertising tax, which mostly affected the largest outlets. The introduction of this tax was criticized by a number of media or organizations which protected freedom of expression, as an interference in media market. Only the television station RTL Klub, still one of the main sources of news for Hungarians, was put into the highest taxation bracket. Defamation is a criminal charge often brought against journalists.

Rule of Law

Independence of the Judiciary : 4

In 2014, the independence of judiciary in Hungary was further challenged by indirect political influence. Earlier changes to the organization of the Constitutional Court are now bearing fruit for the Fidesz government. The conservative majority in the Court, consisted of 11 judges (out of the total of 15) appointed by Fidesz supermajority in Parliament, ruled several contentious laws constitutional, such as parts of the electoral legislation and the retroactive regulation of loans pegged to foreign currencies. The Court is anyway prevented of deciding on the constitutionality of financial or tax laws. However, there is less corruption in courts than in other sectors and less direct influence on judiciary than in comparable countries. As for European influence, ECHR had to intervene several times in 2014 against legislation breaching human rights. Disputed issues included treatment of independent regulatory bodies, appointments to the Constitutional Court, further cartelization of the tobacco market and the introduction of life imprisonment without possibility of parole.

Corruption : 5.4

Despite Hungary's stagnation on the Transparency International's Corruption Perception Index world list between 2013 and 2014 (again at the place 47, scoring 54), there came further disturbing signals. High level corruption is taking firmer roots. It is more often initiated by political factors than by businesspeople. Tax - including VAT – evasion, or fraud, by big companies linked to the ruling elite, is tolerated by financial authorities. Transparency of public procurement transactions and infrastructural investments (especially those with Russian partners) has decreased, mainly due to the newly introduced limitations to public access to information. Political party finances, amid elections, were in clear breach of the existing laws, but with no consequences. The situation is seriously affecting many foreign investors and has led to complaints by German, American or other companies or banks. Petty corruption, such as in the health care sector, is endemic, to the degree that mere limiting rather than eliminating it is really at stake. Citizens are increasingly outraged by corruption at all levels. Between October and November 2014, street protests against the-then proposed Internet usage tax have transformed into anti-corruption protests. They repeated in April 2015. Protests encompassed dozens of thousand people in 50 Hungarian towns. The European Commission has suspended some of the payments towards Hungary due to insufficiently transparent tender procedures.

Protection of Human Rights : 7.5

Several successive attempts by the government to establish discrimination against faith groups that did not fit into the definition of "incorporated churches" failed. In April 2014, the European Court of Human Rights ruled that the law on re-registration of religious communities infringed human rights and the principle of state neutrality. Throughout the first half of 2015, amending of

the law was under way, seemingly again in variance with European standards. Civil society, itself also dependent on government funds, has suffered an increased partisan pressure. Disturbing signals included selective auditing of the NGOs' financial operation and denigration rhetoric by government officials against NGOs, as allegedly politically biased, "paid activists", who had been serving foreign interests. The presence of women in the Parliament barely changed after the elections of 2014 and is now around 10%. Macho-style demeaning of women politicians by their male colleagues is commonplace, including among MPs. More generally, in everyday public life, respect for minorities is low. Verbal abuse of Romany, xenophobia or other hate speech is not regarded as anti-social behaviour. Human trafficking also remains as a huge problem. On the top of it, the treatment of asylum seekers and of the masses of Syrian or other war refugees has become, by mid-2015, a truly dark spot, following police brutality against refugees and construction of a barbed-wire fence on the Hungarian southern borders.

Economic Freedom

Security of Property Rights : 5.06

Property rights are largely protected in Hungary, but are not always adequately secured. Low judicial independence from the executive power is one of the main problems, which can influence court proceedings to benefit the political elite or connected parties. Acquisition of private pensions (from mandatory private pension funds) from citizens of Hungary by the state is a clear example – although compensation in the shape of public social security pensions was offered, this move was a clear violation of private property. Government policies on increasing share of domestically owned enterprises in certain industries can also be regarded as property-rights violation: although there were no classic cases of nationalization, informal pressures to change current property situation were present. Furthermore, legal enforcement of contracts is burdened by a high number of procedures, and therefore it is slow, which diminishes the possibility to manage private property effectively. Another problem is police reliability which is not high. That is also influenced by political factors. Acquisition of real property by foreign natural persons (apart from EEA citizens who are considered to be al par with Hungarian citizens) is largely restricted.

Size of Government: Expenditures, Taxes, and Enterprises : 5.23

Hungary has experienced a double recession, in 2009 and in 2012. However, bigger problem rests in low levels of growth that occurred in between – only in 2015 did the estimated GDP reach its pre-crisis level. Fiscal deficits in recent years have been high. It was only after 2012 that they fell below the targeted Maastricht criteria of 3% GDP. The accumulated high public debt, standing at 78% of GDP, seems to finally be under control. Public expenditures in Hungary are high, even for European standards, reaching 49.6% of GDP in 2014. High propensity to spending needs to be financed by high tax rates: the VAT level is set at 27% (the highest in the EU and higher than the maximum level of 25% approved by the European Commission), while the total tax wedge on labour is very high, standing at 49% (in the EU, just Belgium, Germany and Austria have higher rates). Personal income tax is flat and stands at 16%, but social security contributions, divided

between the employer and the employee, are high and make for the rest of labour taxes. Corporate tax rates are set at 19% (while 10% for small companies). The government has increased its role in the economy through measures of renationalization in certain industries – foreign bank subsidiaries and energy companies; and large scale public works were introduced with the intention to curb unemployment.

Regulation of Credit, Labour, and Business : 7.07

Business regulation is overall favourable for conducting business. Starting a business is inexpensive and quick. Obtaining a construction permit is not difficult. There are few industries or occupations with existing licensing restrictions. However, certain challenges remain in the area of administrative requirements, which are costly to businesses – for example, getting electricity requires long procedures. Increasing bureaucracy costs borne by business entities is also a matter of concern. This situation is enhanced even by regulations which are purposefully written in a way to provide rents to private companies with ties to influential politicians. Government's preference towards domestically owned companies (which, of course, might be connected to politicians) creates an environment where foreign-owned companies can be faced with obstacles and discriminatory regulations, although it is required by the law that they be treated in the same manner as the domestic ones (recent examples include the regulation of the working hours of supermarkets, which puts foreign owned companies at disadvantage). Tax procedures are complicated and burdensome to businesses. On the other hand, labour market regulations are mostly flexible, but redundancy costs and notice period increase with the years of tenure, protecting more seasoned workers (but also putting them at a disadvantage in the labour market). However, rigidity is preserved in the working-hours regulation, which stipulates relatively low maximum of working days, banning possible prolongation due to an increased workload. The minimum wage is high, above 40% of the average wage, thus having a distortion effect. Low level of participation rates, especially among women, is a reason for concern.

Freedom to Trade Internationally : 8.8

As a member of the European Union since May 2004, Hungary applies its common trade policy. Therefore, tariffs are low, although still significant for some agriculture products. However, non-tariff barriers in trade - via complicated and expensive certification and standardization - remain, increasing the cost of imports. Good public transport infrastructure significantly lowers the cost of freight, boosting international trade, while necessary export / import documentation can be obtained within reasonable time. Capital controls introduced during the financial crisis in Europe on the movement of short term capital ("hot money") are still active. The EU internal market is of utmost importance to Hungarian economy. Germany is the main trade partner. Therefore, a relatively high number of cases which Hungary filed against its neighboring EU member states in front of the World Trade Organization (WTO) are surprising.