

# Hungary 2016



**Total: 63.7**

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## Quick facts

Population:	9.856 million
Unemployment rate:	6.8 %
GDP:	113.039 billion EMU
GDP growth rate:	2.9 %
GDP per capita:	11 470 EMU

## Rule of Law

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### Independence of the Judiciary : 4

Constitutional Court, out of whose current 14 members 11 were appointed by the ruling party Fidesz's parliamentary majority, is further on upholding numerous contentious laws as constitutional. A study as of March 2015 by three CSOs - Eötvös Károly Institute, Hungarian Helsinki Committee and Hungarian Civil Liberties Union – found out that the number of laws approved by the CC in high profile cases rose considerably upon the establishment of pro-Fidesz majority in it. CC is anyway prevented of assessing financial or taxation laws. In June 2016, in “András Baka case”, ECHR in Strasbourg ruled that the replacement (with adjacent events) of the President of Supreme Court as of late-2011 was a violation of the right to access to a court and of the freedom of expression. According to Freedom House, the main problems in Hungarian prisons are overcrowding, inadequate medical care, poor sanitation and inadequate mechanisms of legal remedy in cases of abuse.

### Corruption : 5.1

The more stable Fidesz is in government, the more disturbing are changes to the democratic fabric of Hungarian society. High level corruption has taken firm roots. It is more often initiated by political factors than by businesspeople. Tax evasion by big companies linked to the ruling elite is tolerated by financial authorities. Illicit lobbying by domestic or foreign companies - e.g. as seen through a “Bunge case” as of spring 2016 - is far reaching. Transparency of public procurement transactions and infrastructural investments is decreasing due to obstructed or legally limited

public access to information. Hungary fell in the Transparency International's Corruption Perception Index 2015, sharing (with 3 other) the place 50 of 168 countries, while its score fell from 54 to 51 – near the point where corruption would become an additional obstacle for some of the (anyway worried) foreign investors. The European Commission has suspended some of the payments towards Hungary, while USA introduced travel bans to a few of its officials. Petty corruption, such as in the health care sector, is endemic, to the degree that limiting rather than eliminating it is really at stake. Citizens are outraged by corruption in all its forms. To its part, civil society has been increasingly well motivated and organized to uncover and report corruption.

## **Protection of Human Rights : 7.42**

The treatment of asylum seekers and Syrian or other war refugees has indeed become a dark spot, following police brutality against refugees, and construction of a multiple barbed-wire fence and a “transit zone” at the Hungarian southern border. Hungary is at the lead of central European countries which refuse to accept the inner-EU quotas for reception of refugees. The anti-immigrant rhetoric of the Prime Minister resembles hate-speech. Verbal abuse of refugees, foreign companies, NGOs, women, Romany, various religious communities, etc, is anyway widespread and not condemned as anti-social behavior. In December 2015, the government officials took part in a “culture war” over a sexist remark by a celebrity, protecting the abuser and adding additional discriminatory remarks. As ECHR rulings showed, even violent racist attacks against Romany went uninvestigated, such as in the “Balasz vs. Hungary” case. The presence of women in the Parliament barely changed after the elections of 2014 and is now around 10%. Legislation on the LGBT-related issues is no worse than in neighboring countries (regulated partnerships, anti-discrimination laws, protection of gender identity rights, etc), yet the implementation is poorer, whereby there is, according to the Freedom House, harassment by the police or government officials

## **Political Freedom**

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### **Free and Fair Elections : 8.57**

Elections in Hungary are considered as free and fair. However, a few unresolved issues during the last couple of years undermined fairness of the electoral process and political life in the country. Most important are: division of electoral districts allegedly in favor of the ruling Viktor Orbán's Alliance of Young Democrats – Hungarian Civic Union (Fidesz) party; the fact that expatriated native citizens don't have equal voting rights as the ones who have never lived in the country but have the citizenship; and, the unequal access to media. Paid advertisements by political parties are forbidden in private media since 2013, and the only place for competition are public media outlets, where Orbán and his associates, as office holders, always have had far more presence during the campaign. Question of refugees dominated Hungarian political sphere and shaped increasing nationalistic attitude by the largest political parties. Two by-elections took place in 2015. Fidezs party representatives won in neither of the two. With these, Fidesz party and its coalition partners lost their 2/3 majority in the parliament.

### **Absence of Unconstitutional Veto Players : 6.67**

Hungary doesn't have unconstitutional organizations or individuals who have veto power, thus elected authorities hold effective control over the country. System of checks and balances exists on paper, but 2/3 majority in parliament that Fidesz and the Christian Democratic People's party coalition had till recent by-elections (see section Free and Fair Elections) was often used for domination of executive over the judicial branch. Anticorruption measures targeted mostly low- and mid-level corruption but corruption on higher level of authority, especially in the public procurement, is a big problem. Companies of many people close to Viktor Orbán, including his son-in-law Istvan Tiborcz and a wealthy businessman Lorinc Meszaros, were awarded with large contracts from the state.

## **Freedom of Press : 6**

Wide range of "tools" is used to limit freedom of the media in Hungary. Press is partly free due to large political pressure, partisan allocation of state advertising and concentration of media ownership. Main regulatory body, the National Media and Info-communications Authority (NMHH), is often criticized, for being biased in favor of the ruling parties, which appoint members of the NMHH, as well as for failing to ensure independence of the public broadcasters. A dispute between Viktor Orbán and an oligarch Lajos Simicska, owner of several media outlets, changed two things. First, the reporting by Simicska's outlets became critical of government after years of pro-government reporting, and secondly, it forced the ruling party to increase ownership share in private media outlets, thus their control over media. The law on progressive media advertising tax targeted only one broadcaster - RTL Klub - which was the only outlet that fell into highest taxation bracket. Finally, it all ended up with compromise. Flat tax for broadcast media outlets was established, while RTL Klub executive was replaced.

## **Economic Freedom**

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### **Security of Property Rights : 5.06**

Property rights are largely protected in Hungary, but they are not always adequately secured. While the country's legal system still was ranking high in that area in 1990 (7.25), it has suffered a huge decline since then (2015: 6.10). Executive power can influence court proceedings to benefit the political elite or connected third parties, resulting in low judicial independence. Examples of this are the acquisition of private pensions from citizens of Hungary (although with compensation in the shape of public social security pensions), as well as it is the introduction of industry-specific special taxes. Their retroactive implementation poses a significant threat to the rule of law and property rights. These moves were clear violations of private property. However, the EU regulation represents at least some kind of protection from such measures. Government policies on increasing share of domestically owned enterprises in certain industries can also be regarded as property-rights` violation, due to strong informal pressures. 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. Acquisition of agricultural land by foreign natural persons is largely restricted, but the land can be leased. Even the EU nationals face restrictions in this regard, having to meet the criteria of residing in Hungary for at least three years and of an experience or education in the field of agriculture.

## **Size of Government: Expenditures, Taxes, and Enterprises : 5.27**

The size of government in Hungary is exuberant, reaching 50% of GDP in 2015. As one famous Hungarian economist put it, Hungary is a premature welfare state - providing numerous services to its citizens, but without economic foundations for that. Large public sector stifles growth with high taxes necessary to finance it: the VAT level is set at 27% (the highest in the EU and higher than the maximum level approved by the European Commission, 25%), while the total tax wedge on labour is standing at 49% (with only Belgium, Germany and Austria having higher rates). Personal income tax is flat, but accompanied with high social contributions. Corporate tax rate is set at 19% (10% for small companies). Fiscal deficits that accumulated high public debt of 75,5% of GDP have been put under control, in accordance with the Maastricht criteria of 3% GDP. Government renationalization programs increased the role of the state in the economy in certain industries – foreign bank subsidiaries and energy companies; and, large scale public works were introduced with the intention to curb unemployment. The government has acquired the Budapest Bank and thus increased its role in the banking sector, as well as minority equity in the branch of Erste Bank in Hungary. However, MKB bank was sold to a group of institutional investors. In the energy market, expectedly just the state-owned company Fogaz will continue operation. These SOEs are sometimes preferentially treated.

## **Regulation of Credit, Labour, and Business : 6.81**

Business regulation is overall favourable to conducting business. However, the biggest problems of the Hungarian business environment include policy instability, inefficient government bureaucracy and, in the field of taxation, both tax regulation and tax rates. Starting a business is inexpensive and quick, but with high minimum capital requirements. Obtaining a construction permit involves many procedures, but is inexpensive. Getting electricity is a long process due to inefficiency of the utility company. There are regulations which are purposefully written in a way to provide rents to private companies with ties to influential politicians (e.g. legislation limiting working hours of retail shops). Some administrative procedures include legal services from lawyers, which are very expensive, although they are not necessary - for example, in opening a new business. However, the use of notaries was made optional, and standardized articles were introduced, which is expected to alleviate this problem. Multinational or foreign companies are often put into a less competitive position regarding public tenders due to favouritism of the government and government-related companies. Non-transparent business practices of the Hungarian government raise questions of high level corruption and favouritism - the government tried to classify for 30 years the documents related to a power plant expansion project won by a Russian state company, as well as contracts and financial statements of some state-owned companies. Tax procedures are complicated and burdensome to businesses. On the other hand, labour market regulations are mostly flexible, but notice periods and redundancy costs increase with the years of tenure, protecting more seasoned workers. Low maximum of 5 working days creates obstacles in a situation of seasonally or cyclically increased workload. The minimum wage is high, which could lead to labour market distortions.

## **Freedom to Trade Internationally : 8.8**

Freedom of trade is generally upheld in Hungary, which has been an EU member state for more

than a decade and as such applies its common trade policy. Tariffs are overall low, excluding the agricultural sector where they can be significant for some products. Non-tariff barriers in trade are more important, with complicated and expensive certification and standardization. Geographical features, as well as high quality public transport infrastructure, significantly lower freight cost, positively influencing trade. Hungary has actually set an efficiency frontier in dealing with necessary export / import documentation. Main trade partners of Hungary are found on the EU internal market. Its most important partner is Germany. The Russian Federation is another important partner due to Hungary's reliance on imported energy, especially natural gas. Hungary still keeps a number of capital controls on short term transactions.