

Hungary 2017



Total: 60.64

Rule of Law

Independence of the Judiciary : 3.34

Hungary is a fine contemporary example of the strategy of autocracy-minded politicians on how to subvert liberal democracy and (re)build authoritarianism. Constitutional Court was the first victim of the ruling party Fidesz in its post-2010 attempts to gain unlimited power. Once the CC came into the hands of loyalists, numerous laws might have been approved without much care of their constitutionality. Currently, 11 out of 15 members of CC are government-loyalists, while the remaining 4 seats were filled in November 2016 following an agreement in the Parliament. The National Office for the Judiciary is also led by a loyalist (Tünde Handó, the wife of a Fidesz's MEP József Szájer), who has power to appoint the highest ranking judges in the country, thus influencing the outcome of the most important court cases. However, according to the Freedom House's Nations in Transit 2017 report, lower courts "can be considered mostly independent". Overcrowding of prisons is still at 129%, according to the survey by the Council of Europe as of March 2017.

Corruption : 4.8

High level corruption in Hungary has (re)taken firm roots. Downward trends were present throughout the last ten years, visible even before Fidesz took power and accelerated them. Corruptive engagement is more often initiated by political factors than by businesspeople. Freedom House has called it a "reverse state capture". It goes unpunished, except at middle or local levels. Due to strong civil society and public sensitivity numerous scandals broke out during the past year, including MFA and state-sponsored institutions for various goals abroad, oligarchs close to the government, or suspicious deals with Russian companies. But the number of court cases processing corruption is plummeting, which coincided with the appointment of a Fidesz loyalist Péter Polt as the attorney general. In the Transparency International's Corruption Perceptions Index 2016, Hungary again fell, from the place of 50 (out of 168) in 2015 to the place 57 (out of 176), with its score in fall year and again since 2012 (now 48, equaling Romania's). That means Hungary is (again) more corrupt than not.

Protection of Human Rights : 7.28

Academic freedom, till recently one of the brightest aspects of human rights situation in Hungary,

was endangered in March 2017, by the draft amendments to the law on higher education, which jeopardized the existence of foreign-founded universities, primarily Central European University sponsored by the American philanthropist of Hungarian descent George Soros. The attempt by the government to close down the CEU (or at least hinder its work) was a continuation of a verbal campaign, whereby PM Orbán and other leaders of Fidesz accused Soros of the whole range of political and social evils world-wide. True reason for a take against Soros by so many autocrats in various countries is in that NGOs or schools which he had sponsored gave tremendous contribution to building more open and free societies in transition countries. For instance, CEU is among 200 best universities in the world and some of its alumni are leaders in their countries. Recent reports indicated that a campaign was spreading also to NGO publications supported from anywhere abroad, which had to be indicated on all the printed copies. The desire is to stigmatize NGO activities. Other breaches of human rights in Hungary also multiplied, as seen through a dramatic rise of applications to the European Court of Human Rights (more than tenfold during the past 7 years). Hungary defiantly refuses to participate in the EU schemes of sheltering Syrian or other MENA refugees, while PM and other officials openly link migrations to the spread of terrorism. Women rights still need lots of improvement. There are too few women in management boards, or in politics. As a positive detail in the field, the survey by The Economist as of 8 March 2017, on the overall position of working women in OECD countries, placed Hungary to the fifth place (as the best non-Nordic country), due to a very low gender pay gap (just 3.8%) and generous maternity leave (with a possibility of opting for some of the parental leave benefits for even up to three years). As for the equality of LGBT citizens, Hungary, with the same-sex unions legalized, is thereby better than other Central Europe transition countries.

Political Freedom

Free and Fair Elections : 7.86

All previously held elections in Hungary were generally free and fair. However, the score in the Free and Fair Elections section of the Freedom Barometer index declined drastically in recent times, due to the constant undermining of political pluralism and fairness of political playing field by the governing coalition. Means for doing so vary from limited access to media and difficulties in submitting referendums to intimidation or physical prevention. In June 2017, Parliament passed the “Billboard law”, which aims to tighten regulation on political advertising on billboards. According to opposition, it will further limit their opportunities for campaigning. Opposition representative was physically prevented from submitting a request for referendum on law which obliged stores to close on Sunday. Eventually, government revoked the law. In October 2016, a referendum was held on whether EU was allowed to allocate migrants on Hungarian territory without Parliament’s approval, but it wasn’t successful due to insufficient voter turnout. Also, fairness of political process deteriorated because of biased media reporting, gerrymandering in favor of ruling party and abuse of office. Whether someone is a Hungarian resident or a citizen without residency in Hungary affects the voting procedure, highlighting unequal voting rights for all citizens.

Absence of Unconstitutional Veto Players : 5.83

Elected authorities in Hungary have unchallenged power to govern the country without

interference of veto players. Loss of supermajority in the parliament by Viktor Orbán's Fidesz party and its coalition partner, brought back certain control over democracy, since they are not able any more to overrule constitutional decisions. It was a practice that was exploited numerous times during the last couple of years. Relations between wealthy businessmen and politicians are intense, orchestrated by governing officials to serve both sides' private interests. Many people with close ties to Viktor Orbán, including his son-in-law, have benefited from such partnerships. However, corrupt practices which involve high ranking politicians are often let go with impunity.

Freedom of Press : 5.6

Decline of political fairness and freedom in Hungary went hand by hand with deterioration of media freedom. Diversity of views is rapidly shrinking, since public media outlets are showing clear bias toward government's actions and its politics, while in the private sector there are numerous acquisitions of traditional outlets by the people with close ties to the ruling elite. Those acquisitions are often backed up by state financial support. Shutting down of a country's largest daily newspaper "Népszabadság", which had often been critical of the government actions, has had a huge impact on media freedom and diversity. Despite the claim that it was justified by economic and profitability reasons, many believed that strong political influence stood behind the move. This triggered mass protests in Budapest, with several thousand people protesting against unsatisfactory level of press freedom in the country. National Media and Info-communications Authority (NMHH) and Media Council are the main regulatory and supervision bodies, composed of members appointed by the ruling parties or their proxy outlets. State advertising is often used for navigating a more pro-government stance of the particular media.

Economic Freedom

Security of Property Rights : 5.39

Property rights are mostly protected in Hungary. However, judicial independence is not secured from the influence of the executive power or political or economic elite connected to it. In some cases the laws had retroactive implementation which posed a significant threat to the rule of law and property rights. Government policies on increasing share of domestically owned enterprises in certain industries (banking, media, energy and retail) have again been confirmed. Although EU rulings could create safe haven for some sectors, as was visible with the advertising tax and retail store regulation, their influence has been rather limited in regards to market discrimination or illegal state aid. There are allegations that several foreign owned banks were persuaded to leave the market through specific regulation and taxes, such as Swiss franc mortgage holders' regulation. Furthermore, legal enforcement of contracts is very slow, lasting for more than 20 months on average - adjournment regulation is very lax and there is little court automation. There are no specialized commercial courts, so these disputes are taken on by general courts. An electronic filing system was recently introduced, with the aim of alleviating at least some of these problems, but its implementation remains to be seen. Registering property is quick but it includes high costs due to the transfer tax of 4% of the property value. On the other hand, bankruptcy procedures are very long, taking two years on average and with a low recovery rate of only 40%. Acquisition of agricultural land is restricted to Hungarian citizens and EU nationals that have resided at least three years in the country and that have adequate education in the field; all the others could only lease the land. Even then, the plots are limited to 300 ha and purchases should

be confirmed by a local land committee.

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

The size of government in Hungary is exuberant, with profligate expenditures reaching 48% of GDP in 2016. Large public sector stifles growth with high taxes necessary to finance it: the general VAT level is set at 27% (with preferential rates of 5% and 18%) which is the highest in the EU and higher than the maximum level approved by the European Commission, of 25%. Although corporate tax rate is mere 9%, the total tax wedge on labour is standing at 48%, the highest among post-transition countries and third after Belgium and Germany among the OECD countries, due to high social contributions while personal income tax is flat and set at 15%. Although growth rates are strong, the government still keeps high deficits, although within the Maastricht criteria of 3%. Bad fiscal performance led to piling up of public debt, which recorded a level of 74% of GDP in 2014, to it not declining. 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. This process is most visible in banking and energy sector. The total number of SOEs is close to 500, and more than 60 of them are considered as strategic, meaning that the government should keep its shares. Another significant intrusion to the market by the state is a very broad program of public works.

Regulation of Credit, Labour, and Business : 6.61

Business regulation in Hungary is mostly favourable for conducting business. However, the biggest problems arise from policy instability and corruption - public institutions have increasingly been accused of unfair treatment of businesses, having in mind their relation to politicians in power. There are regulations which are purposefully written in a way so as to provide rents to private companies with ties to influential politicians. However, some of these were challenged by the European Commission and revoked, as was the limit on working hours of retail shops. Starting a business is inexpensive and quick, but with a high minimum paid in capital. Obtaining a construction permit involves many procedures and takes almost 7 months on average, but is inexpensive. Getting electricity is also long process and involves high fees for the services of the utility company. Tax procedures are complicated and burdensome to businesses, requiring long hours to administer it properly, but new deductions for new land and buildings acquisition were recently added. Still, foreign companies are often considered to be in a less favourable position regarding public tenders due to favouritism of the government and SOEs. Non-transparent business practices raise suspicion of high level corruption and favouritism - which is tied to the policy of "hungarization" of certain sectors and industries. On the other hand, labour market regulations are mostly flexible, but the total number of working days is limited to only 5 per week and notice periods and redundancy costs increase with the years of tenure, protecting more seasoned workers. However, fixed-term contract can last up to 60 months and there are no restrictions on their use.

Freedom to Trade Internationally : 8.7

Freedom of trade in Hungary is generally upheld. The country has been an EU member since 2004 and it applies its common trade policy. Tariffs are overall low, more prominent only in the agricultural sector, where they could be considerable. Non-tariff barriers in trade are more important, with complicated and expensive certification and standardization for exports from outside the EU. Geographical features, as well as high quality public transport infrastructure

significantly lower the cost of freight. Due to geographical position, Hungary is a very important transit hub. Export and import procedures do not pose obstacles to trade, due to an efficient customs office and use of online services. There are only 5 documents needed both for exports and imports. Main trade partners of Hungary are found on the EU internal market, the most important being Germany, followed by countries from the region such as Slovakia, Austria and Romania. The Russian Federation is another important partner due to Hungary's reliance on imported energy sources, especially natural gas. Hungary still keeps a number of capital controls on short term transactions, which is mostly connected to exchange rate regime of the forint, its currency.