

# Hungary 2018



Total: 60.39

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## Political Freedom

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### Free and Fair Elections : 7.5

Constant efforts by the ruling party to undermine democracy in Hungary are backed by the deterioration of fairness of the electoral process. Although citizens are free to elect their representatives, recent developments in Hungarian politics made this process largely unfair. During the period under review, parliamentary elections were held on 8th of April 2018. Political parties entered electoral year in an environment shaped by the governmental divisive politics on issues such as migrations, or “Western influence”, by hindering of political pluralism, by abuse of power and by increasing control over media sphere. All those were set up, to have secured a clear victory at the parliamentary elections for the ruling Fidesz party. Therefore, election results weren't a surprise, seeing Viktor Orbán and his right-wing coalition regaining a supermajority in the National Assembly, by winning 133 seats out of 199, and allowing them to avoid constitutional obstacles for most of their pro-authoritarian decisions in future. OSCE ODIHR noted in their report a number of voting violations. According to National Election Commission those couldn't endanger the validation of the process. But, more importantly, they stressed a lack of level playing field for political parties to compete for voters, coupled with abuse of state resources, often blurring a dividing line between a party and the state, narrative of fear and restrictive media environment. Abuse of legislative process and media is often used to discredit opponents of the government. Unequal voting rights remained a problem with the electoral law, making the voting easier to ethnic-Hungarian minority members in neighboring countries than to expatriate Hungary-proper citizens.

### Absence of Unconstitutional Veto Players : 5.83

The biggest threat to democratic institutions in Hungary isn't coming from unconstitutional veto players, but from the ruling political elite, on their authoritative path, along which they have already gained an almost ultimate power over the state. Regaining a supermajority in the parliament - having had been previously lost "down the road" during the previous mandate - has allowed Fidesz party to overrule constitutional decisions and tie up domination over all branches of power. At the middle of 2018, one such step was made when parliament adopted the "7th Constitutional Amendment", which included provisions increasing political control over judiciary. Having separation of powers dismissed, government focused, throughout the year, on weakening the CSO sector as an informal institution for protection of democracy, using harsh rhetoric and exclusive narrative and policies. State capture in Hungary is also reflected through close ties between political and business elites in the country, dividing businesses to those pro and those against the government, with former ones clearly benefiting from their position.

## **Freedom of Press : 5.6**

Government took control over almost complete media landscape in Hungary, limiting its freedom and independence and transforming it into a mouthpiece of the regime. While the state-owned media outlets are firmly under Fidesz control, themselves (ab)using legal means and implementing a politics of fear towards their employees, a new, arising problem during the last 12 months was a concentration of media ownership into the hands of Viktor Orbán's friendly oligarchs. Numerous media outlets were acquired by them, immediately changing their editorial policy and showing a clear bias in favor of the ruling regime, while firing journalists critical of the government. State advertising proved to be an efficient tool to expel media outlets from the market, with Magyar Nemzet, popular Hungarian newspaper, ceasing its work due to financial issues, immediately after the parliamentary elections as of April 2018. Such tight control has transformed the media in Hungary into "fake news factories". Needing support in their politics against "enemies", such as migrants, or George Soros, government used media outlets to spread fake news propaganda and shape public opinion, which intensified in the months prior to elections, securing a clear victory of Fidesz coalition. Journalists are not free or independent in their work, being censored by editorial policies and practicing self-censorship due to widespread and justified fear of losing jobs and verbal attacks which go by with impunity.

\* Press freedom score will be updated after data from primary source have been published. For more information see Methodology section.

## **Rule of Law**

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### **Independence of the Judiciary : 3.59**

Since coming to power in 2010, ruling party Fidesz has put all national judicial institutions, one by one, under its de facto control. In high-profile cases independence of judiciary is indeed low, while in lower courts the situation is still not that bad. However, according to portal GAN, among the companies operating in Hungary the trust in the independence of courts and/or their capacity to efficiently resolve disputes or challenge laws sharply fell recently. Freedom House noted a difference in efficiency of the Constitutional Court in various cases. While some not-strictly daily-

politically relevant laws were promptly challenged, the ones that Government has advocated most loudly (such as those limiting NGO activities) have been pending CC evaluation for a very long time now.

## **Corruption : 4.5**

Freedom House reports about “large scale and unpunished corruption” in Hungary, “involving not just government-friendly oligarchs but also high ranking politicians and officials”. Year and again since 2012 Hungary has fallen in the Corruption Perception Index of the Transparency International. In 2017, it fell to the position 66/180, below once upon a time outspoken EU members Romania and Greece and EU-candidate Montenegro. It is estimated that 70% of the public procurement involves corruption. The government continues to reject the creation of the European Public Prosecutor’s Office. A company owned by PM Orbán’s son-in-law was found - by OLAF, as a result of months-long investigation - to have had used EU funds in a wrongful manner. It was threatened with having to pay back those funds. Yet Hungarian police declared that nothing suspicious had been found during their investigation. Political campaigns (such as “Stop Soros” or those against illegal immigration) are often used as a smoke screen to hide favoritism towards crony media, NGOs, sporting associations, housing projects or even academic research institutions. Non-transparency spills in or out all over the borders, with involvement in the Azerbaijani scandal of bribing EU politicians and journalists, revelations of corruptive oil industry’s operations in Croatia, lavish share of Hungary in “Golden Visa” schemes (estimated more than 10.000 EU residency permits sold), or starting of a nuclear power plant program with Russia without a proper tender procedure. Meanwhile, petty corruption is systematically repressed.

## **Protection of Human Rights : 7.24**

The situation is becoming worrisome, taken the constant deterioration of human rights throughout this decade. Access to the country of refugees and asylum seekers is severely restricted and those are subject to cruel and hateful rhetoric of the government officials, arbitrary detentions, excessive use of force by the police, labeling their riots as “acts of terror”, lack of legal remedies, or other mistreatment, all in sharp contrast with even average EU standards. “Helping illegal immigration” has become a criminal offense, whereby the definition of “help” is very wide. In spite of the case lost at the EU’s Court of Justice, Hungary continued to reject relocation of asylum seekers under EU-assigned quotas. A constitutional ban (as described in the 7th amendment to the Constitution) on rough sleeping enabled the government to criminalize homelessness, with often dehumanizing treatment of homeless people both by the police and later in court. In spring 2018, the so-called “Soros Law” further limited opportunities by NGOs or universities to seek foreign funding, thus limiting their freedoms of association, civic activism and academic work. A centralization in education on one hand eliminated loopholes that allowed segregation of Roma, while it on the other hand generally limited school autonomy and school choice. Hungary on one hand has a low gender pay gap, yet protection of women is not improving, such as against mobbing or sexual harassment. Ratification of the Istanbul Convention against domestic violence is uncertain. On the positive side, position of LGBTs is better (e.g. there are legalized partnerships and anti-discrimination laws) and homophobia in public discourse weaker than in the other three “Visegrad” countries.

# Economic Freedom

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## Security of Property Rights : 5.36

Property rights are mostly protected in Hungary. However, judicial independence is not secured from the influence of the executive power or entities with political ties to it. In some cases the laws were retroactively implemented, which posed a significant threat to the rule of law and property rights. Although EU rulings were able to create safe haven for some sectors, as was visible with the advertising tax and retail store working hours, their influence has been rather limited regarding market discrimination or illegal state aid. There are allegations that several foreign owned banks were persuaded to leave the market through unfriendly regulation or taxation. Resolution to Swiss franc mortgage disputes was thereby notable. Furthermore, legal enforcement of contracts is very slow, lasting for more than 20 months on average; adjournment process is not regulated and there is little court automation. 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 – court cases are still assigned manually, which is easier to manipulate than electronic assignments. Enforcement of contracts was recently made somewhat easier, by introducing a system that allows its users to pay court fees electronically. Registering property is relatively 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 up to two years on average and with a low recovery rate of below 50% of the claim. 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, while purchases should be confirmed by a local land committee.

## Size of Government: Expenditures, Taxes, and Enterprises : 5.4

The size of government in Hungary is exuberant, taken the level of economic development, with public expenditures reaching 50% of GDP in 2017. Growth has recently picked up, reaching 4% in 2017. However, there is a clear pro cycle fiscal policy due to relatively high deficits recorded even in the time of economic boom: they are under the Maastricht criteria of 3%, being 1.8% and 2% in the previous two years. The high level of public debt has been steadily in decline, reaching 73.6% in 2017, with further although slow decrease. It is planned to reach the EU public debt rule (below 60% of GDP) in 2022. Government renationalization programs increased the role of the state in the economy in certain industries – foreign bank subsidiaries and energy companies; furthermore, there is a strong political preference for a higher market share of local companies in industries dominated by the multinationals, such as retail trade. Needless to say, local private companies in these industries are often politically connected to the powerful political circles. The total number of SOEs is close to 500, whereby more than 60 of them are considered as strategic, meaning that the government should keep its shares. Employment in the SOEs at the central tier of government is near 5% of the total employment in the country. Another significant intrusion into the market by the state is a very broad program of public works, set up during the last recession, which is to be phased out slowly, due to rising employment. There were changes in tax policy: in accordance with the wage agreement with the employers, social security tax was reduced in January 2018

from 22% to 19.5% with possibilities for further reduction, while family tax allowance was increased. The corporate tax rate is among the lowest in the EU, at 9%. VAT rates are 27% (standard rate, still above the 25% maximum rate for EU countries) and 18% (preferential rate). On the other hand, income tax is 15% flat (but with certain allowances that enable progressivity), which coupled with the high social security contributions leads to the highest labour tax wedge (46%) among the transition countries, surpassed by only a couple of advanced European countries.

## **Regulation of Credit, Labour, and Business : 6.68**

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 used as political vehicles, through unfair treatment of businesses. 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 in retail shops. There is limited transparency and quality in policy making, while social dialogue is underdeveloped, which leads to policy uncertainty and burdensome regulation. 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. Starting a business is inexpensive and quick, but with a high minimum paid-in capital. Obtaining a construction permit involves as many as 20 procedures and takes almost 7 months on average, but is not costly. On the other hand, getting electricity is both long and expensive. Labour market regulations are mostly flexible, with fixed term contracts that can last for up to 5 years, and few restrictions on redundancy procedures. Notice periods and redundancy costs increase with the years of tenure, protecting more seasoned workers, but they are relatively meager. Several reforms of the business regulation were recently introduced in order to boost the competitiveness of the SMEs: mandatory registration of the company seat at the local government was waived (making a one stop shop for business registration) and online land registry map was introduced. The procurement system has recently been upgraded through changes in legislation, but also by introducing an Electronic Procurement System whose use has become mandatory for all contracting authorities. However, any improvements in this area are yet to materialize. Although significant changes regarding the VAT and personal income tax administration have been introduced in order to alleviate administrative burdens of tax collection, the tax system is still overly complex, with presence of sector-specific taxes. There is only a limited impact of reforms in the area of regulatory requirements for professional services, many of which effectively remain closed to competition.

## **Freedom to Trade Internationally : 8.69**

Freedom of trade in Hungary is generally upheld. Since its EU accession in 2004, the country has been applying the common EU trade policy. Tariffs on manufactured goods are moderately low, with Most Favoured Nation average rate of 5.1%, while tariffs on agriculture products are more pronounced, especially on dairy and sugar. Non-tariff barriers are more important as trade obstacles, with complicated and expensive certification and standardization for products coming from outside the EU. Geographical features, as well as high quality public transport infrastructure significantly lower freight cost hence due to geographical position Hungary is a very important transit hub. Customs office is efficient and uses mainly online services, which reduces time and pecuniary costs for border procedures: there are only 5 documents needed both for exports and

imports. Hungary is well positioned within global supply chains in automotive and machinery industry. Its main trade partner is Germany, followed by neighbors: Austria, Slovakia and Romania. Although obliged to join the Euro-zone in the future, Hungary has yet to make any steps in that way. A number of capital controls on short term transactions are still in place, which is connected to exchange rate regime of its currency, the forint, which is in free float.