



HUNGARIAN POLITICS IN-DEPTH

AUGUST 2014

Analysis: SPIES, TANKS AND NUCLEAR DEALS - HUNGARY'S THORNY RELATIONS WITH RUSSIA

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TOP 5 NEWS OF AUGUST

I. LEFT FIGHTS HARD FOR ELECTION AGREEMENT

Rather than seeking a nationally applicable general strategy of co-operation, the parties on the left have decided to conclude individual local agreements on joint candidates. The wrangling in Budapest, the most prestigious national price, where the left is far stronger than nationally, presented an especially damaging instance of open haggling. After some initial opposition by MSZP's local organisation, where perennial mayoral candidate Csaba Horváth openly revolted against the idea that a mutually agreed upon candidate might stand a better chance, the candidate for Budapest mayor was found pretty quickly, in the person of Hungary's former chief medical officer, Ferenc Falus. Falus is inexperienced politically and faces a tough race against popular Fidesz-endorsed incumbent István Tarlós, but he does have the advantage of not being a politically washed-up has been. Independent-minded voters might find it difficult to object to his person as being overly affiliated with the discredited left, though of course his lack of political experience carries its own risks, and this was demonstrated by a series of gaffes and embarrassing public performances. Apart from the relatively quick consensus on the highest position, agreements were much more difficult to come by, and for a while the entire Budapest agreement between the parties on the left seemed to fall apart when several MSZP district organisations rejected the distribution of candidacies between the left-wing parties. There was significant pressure on MSZP's newly minted chair, József Tóbiás, to end the standoff by involving himself in the negotiations, but after a long silence on the subject he publicly rebuffed the calls to help the messy process along, citing the autonomy of MSZP's local organisations. Though the argument is somewhat disingenuous, not entering the fray may have been a smart move on Mr. Tóbiás' part, for he has little to gain and a lot to lose from being sucked into a protracted and occasionally embarrassing intra-left squabble. Still, the fact that he was forced to be a spectator as the left demolished itself shows that his authority is far from consolidated in his own party, not to mention the left on the whole. In the meanwhile, the left-wing parties have concluded

cooperation agreements in several key municipalities where they face reasonable odds of victory, while they have also fail to come to terms in a few others.

2. HUNGARY'S GDP CONTINUES TO GROW ROBUSTLY

The government had been maintaining for years that Hungary's economy is among the most dynamic in Europe, but until a few months ago the numbers failed to substantiate the claim. After several months of impressive growth, Hungary is indeed at the top in Europe with a growth rate of 3.7% (Eurostat) or 3.9% (the government). This is especially welcome news as European "growth" stands at a lacklustre 0.2% and there is talk everywhere of a protracted Japanese-style deflation. On the job front there is also some progress, as employment stands well above the psychologically important mark of 4 million and is 4.8% higher than a year ago. Given the uncertainties in the data since the government has asked the Central Statistical Office (KSH) to change some key measures, for example by including those working abroad in the employment statistics, there is some level of controversy as to what these figures mean. There is a debate among experts, for example, about how much the impressive economic surge owes to genuine market-led growth, since public works programmes continue to play a significant role in the labour market. While public works likely exert a substantial impact on the long-term improvement in the economic figures, even the opposition daily *Népszava* conceded that commercial enterprises were the "engine" behind the most recent uptick – growth in that area had been lacking until now. While the government is understandably confident about the news, some structural concerns remain. The deficit seems difficult to control, the forint appears stuck at near-record lows, budget reserves are used up and public debt is at record levels once again, despite the fact that Orbán had personally declared debt reduction a key priority. Excellent growth, improved employment, high deficits and high debt – this is all typical of election years in Hungary. The question is whether the foundations behind the current growth are strong, or, as some critics allege, the surge experienced now is just a result of unsustainable public spending.

3. HUNGARIAN-NORWEGIAN RELATIONS AT A FREEZING POINT

With due respect for an unpredictable opponent, until now Norway has been fairly reserved and polite in its reactions to the harsh allegations from Hungary about its alleged meddling in domestic politics. But recent news of criminal investigations concerning the activities of the Ökotárs Foundation related to the disbursement of Norway Civil Fund money marks another climax in the unfortunate affair. The Hungarian government's actions are beginning to exhibit all the hallmarks of the ways in which authoritarian regimes handle quarrelsome oppositionists, and the Norwegians appear determined to exploit their limited options to protect the civic partners who helped them administer their financial support for Hungary. In the context of the heavy-handed actions against the institutions that who accused of misappropriating Norwegian money and conducting political activities with foreign funds, Orbán's pronouncements about illiberal democracy appear to take on a different, altogether more sinister, meaning than the PM himself had suggested. Apparently these measures were not seen as friendly gestures in Oslo, and Norway's European Affairs Minister Vidar Helgesen has attacked the Hungarian government in strong terms, explicitly drawing a parallel between the current government and the pre-transition regime before 1989/1990. "As we approach the 25th anniversary of the fall of the Berlin Wall," Helgesen argues, "the EU should demonstrate in no uncertain terms that it will not accept the re-establishment of an illiberal state within its borders." In the end, however, the Hungarian government stands more to gain from stopping Norwegian funding for NGOs, even if it comes at the expense of all Norwegian subsidies.

4. NEW MISSION FOR DIPLOMATS

Generally, high ranking diplomats tend to profit from the government being re-elected; the customary replacement of ambassadors and other top diplomats that accompanies a new government taking office is unnecessary, since previous appointees tend to enjoy the confidence of the incumbent government. But the Orbán government, never one for half-measures, has outlined new strategic goals for its diplomatic staff and has replaced a whopping third of all ambassadors since taking office. It plans to appoint new ambassadors to



another third of all missions by the end of the year. Now the prime minister has laid out his vision of foreign policy to the survivors (in a professional sense): a significant portion of their new assignment is to find markets for Hungarian small and medium-sized enterprises that produce exportable products. Orbán wishes to quintuple the number of such enterprises, and he wants the diplomatic staff to engage in "minute work that offers little inspiration" to give the newly created companies outlets for their production. Less novel is the fact that Orbán wants the Hungarian ambassadors to represent the government's image with self-confidence and a sense that "no one has the right to question us." Ambassadors are of course always also apologists for government policies right or wrong, but under the Orbán government they were also asked to act as propagandists regularly reacting to news reporting that expressed critical views of the Orbán government, disputing not only factual errors but also views that simply happen to disagree with that of the government. The latter role won't change, but if Orbán's preferences are implemented, then they will be supplemented by a heavy focus on business diplomacy.

5. NOBEL PRIZE WINNER IMRE KERTÉSZ IS HONOURED

For Hungary's most important holiday, the anniversary of the state's foundation on 20 August, Viktor Orbán landed a major coup by offering Hungary's only literature prize winner, Imre Kertész, a prestigious national award. The decision was of course intensely controversial on the right, where leading commentators, such as for example Fidesz' recently withdrawn nominee for the position of Hungary's ambassador to Rome, Péter Szabó-Szentmihályi, and Orbán's friend Zsolt Bayer had often treated Kertész as an embodiment of everything they found loathsome about Jews and cosmopolitanism. But Orbán likes the occasional symbolic moves that superficially appear conciliatory towards Fidesz' enemies (and are usually anything but), and he needs good stories to sell abroad to balance Fidesz' attack on democracy, its historical revisionism and not least the fact that Fidesz has given awards to plenty of outspoken racists.



ANALYSIS: SPIES, TANKS AND NUCLEAR DEALS - HUNGARY'S THORNY RELATIONS WITH RUSSIA

Theoretically, Orban's complex web of foreign policies and foreign policy-oriented rhetoric aimed at domestic audiences could have created a niche for Hungary to exploit in light of the drastically worsening relations between Russia and the West. As an EU and NATO member state, Hungary is formally part of the West with access to all the corresponding official institutional fora. At the same time, Orban has been relentlessly praising the eastern model of economic and social development, arguing that that is the goal Hungary should aspire to rather than the declining decadent West, which seeks to force its failed ideas and policies on smaller Member States that seek their own independent ways, such as Hungary. If this policy is more than mere rhetoric - and there are some very real indications that it is - then Hungary's trajectory will increasingly make the country member of an unofficial and ill-defined eastern club.

With one (official) foot set in the West and another moving towards the East, Hungary could emerge as a key diplomatic player to mediate between two sides that increasingly find it difficult to talk to another as the protracted Ukrainian crisis opens up new fronts. Apart from Hungary's size and economic weight, which impose a "natural" limit to any potential role as a mediator, two further question marks remain as to Hungary's ability to become a bridge between East and West (as it to some extent was already once in the 80s, when the Warsaw Pact's least repressive "happiest barrack" enjoyed comparably good access to the West.) For one, there is the question whether as an EU member Hungary has gone too far in attacking our western friends and in dismantling domestic democracy to be acceptable in the role of mediator, which presumes some level of trust. The latter is not something Orban

has much left of in the West. More recently, however, the remarkably solid-looking second pillar of Hungary's potential niche position, namely our improved ties to Russia, also appear more wobbly than thought possible only a few months ago.

Back then, Orban had topped off his charm offensive towards the East in general and Russia in particular by signing a massive nuclear deal with the Russian energy giant Rosatom, which will redistribute money to the tune of 10% of Hungarian GDP into Russian hands, in exchange for nebulous benefits. Aspiring a return to its former superpower status, Russia is used to occasionally sacrificing financially to foster allegiances, and by comparison Hungary was a bargain.

This combination of ideological sympathies and mutually beneficial financial dealings provided a good basis for embarking on a new chapter in the previously troubled Fidesz-Kremlin relations, for in opposition the Hungarian governing party had been among the harshest critics of Putin's government and its attempts at bolstering Russia's clout on the continent.

Since then, however, three episodes have marred the idyllic beginnings. First, in the run-up to the EP election the Fidesz-controlled national security services let it slip that they were investigating an MEP of far-right Jobbik, Béla Kovács, for being a Russian agent. Regardless of whether the charges were true (Kovács was allegedly referred to as KGBéla among party insiders), Kovacs was indeed one of the key supporters of Russia in the EP, and he was an instrumental player in forging a cross-European far-right alliance that supported Putin on the key issues of the day. The political damage to Jobbik was massive (though probably temporary) and given the vast amounts of financial resources with hazy origins wielded by Kovács, Fidesz' election ploy might have been financially expensive for Russia, too.

Then the Hungarian government, after prevaricating on the issue as long as possible, finally condemned Russia's designs on Ukrainian territorial integrity (while simultaneously registering its own claims for regional autonomy in the ethnically Hungarian region of Ukraine). To be sure, the statement was issued by the Ministry of Foreign Affairs rather than Orban himself; the impersonal nature of the announcement suggests a lackadaisical commitment, for Fidesz is generally glad to put a face on policies it endorses with



enthusiasm. Arguably, Hungary had no choice on the matter, and Russia must be aware of Hungary's limited wiggle room as part of NATO and EU. Still, this episode also underlined that when push comes to shove, Fidesz does not plan to break with the West. Hungary would also be less useful to Russia if it did, but we will come back to this question below.

And now comes the tank affair, or rather farce. The whole story rests on the report by a largely unknown far-right news portal, which submitted photos of tanks on a train (submitted by a reader), claiming that they were destined for Ukraine, thus leading to the sensational headline that Hungary was selling arms to Ukraine, which would be unusually provocative given the substantial efforts at placating Putin. The government immediately denied the claim, though it acknowledged the existence of an arms deals with Ukraine that preceded the current conflict.

From the public perspective the issue remains largely unclear, but MSZP, which had called for an investigation largely accepted the government's position presented at a closed session of Parliament's National Security Committee. Most troubling about the whole affair is that the website which first published the story appears to have some Russian links, so its interest in the affair was probably not purely journalistic. The Russian government immediately pounced on the story and condemned the arms sale in harsh terms, as if the report of the aptly titled "bridgehead" (*Hidfo.net*) portal were verification in itself.

At the aforementioned closed parliamentary committee session, FM Tibor Navracsics labelled this an "unfriendly gesture", which is a rather a polite way of putting it. Given the indications that Russia launched a story to take the opportunity to publicly lash out at Hungary, the entire affair suggests that the current rift between Putin and Orbán may run deeper than previously anticipated. Perpetual conspiratorialists assess that this is all for show, of course, and that below the level of the war of proxies, the ties at the very top level are unaffected. It is beyond the scope of our insight to assess that, but given the Russian (and Hungarian) regime's intense dislike for public criticism, the more obvious account of some level of souring in the bilateral relations seems more plausible.

The tiff is especially striking in light of the fact that Orban had just previously denounced the EU sanctions against Russia. That may not have been a particularly bold move given that Slovakia had already done so, but it was nevertheless a probably welcome (from the Russian perspective) contribution to the efforts at chipping away at the EU's unity and resolve on the subject.

For Hungary this is all problematic news. Troubling as Orban's appreciation for the more repressive aspects of Putin's regime may be, particularly at this time Hungary could have benefited from being among the few countries that remains on reasonably good talking terms with the Kremlin.

Instead, in the current state Hungary remains estranged from the West, the consequences of Orbán's resounding rejection of western values, and humiliated by Russia, a consequence of apparently not being sycophantic enough (and maybe for scoring points domestically by exposing a Russian asset). In moral terms, this may leave Fidesz precisely where it deserves to be, that is in the international isolation it has so avidly courted. At the same time it is frustrating to see how we fail - at the national level - to draw even the slim potential benefits that might accrue from the fundamentally misguided policy of reorienting Hungary towards the East.

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