



Hungary
Political Analysis & Forecast
by Policy Solutions
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Top 5 News of the Month



ORBÁN GOVERNMENT DECLARES STATE OF EMERGENCY

A **package of new laws concerning migrants entered into effect** on 15 September 2015; it had been adopted by Parliament with the votes of the governing Fidesz party along with far-right Jobbik. Based on the new regulations, **the government is authorised to declare a state of emergency if certain specified conditions regarding migration to Hungary are met.** The government duly did so for six counties in Hungary's southern border region. This results in the application of special procedural rules. From now on **illegal border crossings, or damage to the border fence or other border installations, constitute criminal offences punishable by prison sentences and/or expulsion from Hungary.**

The Hungarian government has been using the issue of immigration as a communication instrument, primarily seeking to **instil fear through an intense anti-immigration campaign.** It has achieved at least some success in this regard: by the summer of

2015, it had managed to halt Fidesz's loss of support. In recent months, however, the cabinet was forced into action; with the appearance of masses of migrants, **the issue moved beyond a mere communications exercise and required real and specific action.** The new restrictions and the deployment of police – and the planned deployment of the army – at the southern border also indicate that **the border fence and the sealing of the board are not in and of themselves sufficient for halting the stream of refugees.**

Further anti-immigrant measures aimed at improving the efficacy of the border seal, and the expansion of the latter to cover the Croatian, Slovenian and Romanian border sections, are likely to be taken by the government. These efforts will probably not be impeded by the fact that they might result in **diplomatic conflicts with EU institutions and neighbouring countries.**

Top 5 News of the Month

2.

THE GOVERNMENT TO PRIVATISE 380,000 HECTARES OF LAND

The government has announced a vast **land privatisation programme**. In the course of its implementation, some **380,000 hectares of currently leased public lands will be sold beginning in autumn**. According to the details that have become publicly known, **buyers will have to be Hungarian citizens who are locally engaged in cultivating land**. The current lessees only enjoy the right of pre-emption if they have cultivated the land for at least three years and offer the highest market price at a public auction.

A 20-year restraint on alienation will be registered on the lands sold in this round of privatisation. The agriculture ministry estimates that some 102,000 farmers will receive public lands, while **the state is set to receive some 240 billion forints in income through the privatisation project**. The state's official reasons for the move are that it seeks to **protect Hungarian lands from foreigners**. The planned privatisation also intends to weaken the positions of oligarchs who were successful in recent waves of privatisation but have since become

embroiled in conflicts with the government; though they may continue to use the lands until their leases expire, they may not buy the lands in question nor will they be allowed to retain them. Additionally, **the policy may also aim to improve the positions of economic interests that are still aligned with the government**.

A substantial majority of public lands are leased by business corporations, including companies controlled by major businesspersons with close ties to the government. Though business corporations or legal persons may not be landowners, the stockholders of these companies and their relatives can purchase substantial lands with low interest credits, in other words practically for free. **Thus large landowners that the government had previously helped through land auctions can now buy lands released for bidding by offering better deals than local farmers**. This will give the cabinet another opportunity to award land to persons who are loyal to it, while **it can increase the budget's revenue by 1-3%**.

Top 5 News of the Month

3.

EC CONTINUES TO INVESTIGATE 'PAKS 2' NUCLEAR PLANT

In early July it emerged that the **European Commission (EC)** is **now officially conducting an investigation to ascertain whether the expansion of the nuclear power plant in Paks constitutes an instance of prohibited state subsidies**. EU sources suggest that the **European Commission treats the nuclear power plant in Paks as a priority political issue**, and Commission President Jean-Claude Juncker will himself decide about the Commission's reactions to the sensitive issue. The EU can raise exceptions to the investment project on three different grounds. Apart from the issue of **state subsidies, the handling of spent fuel rods** and the fact that the government **failed to issue a public tender** for the project may also **conflict with EU law**. The latter is especially problematic since there might have been interested applicants as competitors of the **Russian company Rosatom**. A decision on this issue may be handed down this year.

The designation of the Paks II investment project as a priority political issue is bad news for the Hungarian government. Since

Hungary has recently been engaged in several confrontations with Brussels on a variety of key issues, it is conceivable that the Commission will use this project, which the Hungarian government views as a top priority, to **put pressure on the Orbán cabinet and keep Russia out of the EU energy market**.

The mere fact that the European Commission failed to raise technical objections to the Paks expansion does not in itself dispel all professional concerns about the investment. The substantial debate with the EU was not about technical parameters in any case; the EU's jurisdiction is limited in that respect. Instead, it concerned details that potentially conflict with EU law. On these issues, the Orbán government must brace itself for further serious conflicts, and **if unfavourable decisions are rendered, the whole Paks II project may fail, or at least the basic parameters of the project may change**. Should this scenario prevail, then this would result in serious political and economic complications for the Hungarian government.

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4.

A QUIET BUT IMPORTANT RESHUFFLE IN THE CABINET

In an episode that was overshadowed by the refugee crisis, the **Orbán government has quietly performed a reshuffle** that involved changes which may be deemed major by the standards of an extremely stable cabinet. The process began with the **sudden resignation of Defence Minister Csaba Hende**, whom Orbán had chided for the allegedly slow pace in the construction of the border fence. Following the appointment of old Fidesz hand and state secretary for sports István Simicskó as Hende's successor (Simicskó's claim to fame is that he was the only MP to vote against Hungary's EU accession), Orbán also named Fidesz's parliamentary leader **Antal Rogán as his new chief-of-staff**. Though this position was previously a non-cabinet post, Orbán has elevated it to cabinet rank, thus expanding the number of government ministries to 10. In parallel with Rogán's appointment to the cabinet, **government spokesman András Giró-Szász resigned**, which was unsurprising given that Rogán will take over most of his responsibilities.

The appointment of a major figure among the potential rivals to succeed the PM as chief of staff is unusual (not only in Hungary). With János Lázár in charge of the Prime Minister's Office, the two politicians most often mentioned as Orbán's potential successors work in direct proximity with the PM. **Both Lázár and Rogán are extremely self-disciplined**, and though they are supposedly in an intense rivalry with one another, no public sign of friction has ever emerged. By making them work closely with one another, Orbán may spurn them to even higher levels of performance, but their famous discipline, too, will be challenged. It is also worth noting that Orbán has now decisively settled the previous conflict between the party's old guard and its new generation in favour of the latter. Previously, Fidesz stalwarts László Kövér and Zoltán Pokorni had been openly critical of Lázár and Rogán. Orbán was initially cautious in stressing his trust in the aspiring new leaders, but it is hard to imagine a more emphatic show of confidence than the current arrangement.

Top 5 News of the Month

5.

PUBLIC PROCUREMENT: DUBIOUS CHANGES IN A DUBIOUS SYSTEM

Against the votes of the entire opposition, **the government has adopted a major overhaul of the public procurement system.** Among the many changes, the evaluation criteria have been rewritten to **remove lowest price as the key factor in awarding public tenders**, increasing the role of job creation and innovative solutions. The law will also allow tender issuers to set a maximum price above which they may exclude bidders. **Tender deadlines will be briefer**, there will be **more significant limitations on what information can be withheld from the public as confidential business information**, and administrative burdens will be reduced. Crucially, companies owned by **relatives of cabinet members and other high officials will be barred from submitting bids** in public procurement tenders, **as will companies in which offshore companies control 25% or more.**

While theoretically a greater focus on job creation and innovation is a good thing, in Hungary these criteria – especially nebulous innovation – maybe used to award even more public contracts to cronies, which is already a major problem. Government politicians told Index.hu that the **shift from price to other evaluation criteria was meant to ensure that Lajos Simicska's companies cannot underbid favoured competitors.** The opposition also criticised the shortened tender deadlines, which will make it easier for companies with insider information to submit a bid, while those with less access need more time. Opposition MPs also complained that **the law failed to do anything about key problems, such as lacking transparency** in the procedure for drawing up tender notices and specifications (specifications are often used to tailor tenders to specific companies), and the fact there is often only a single bidder in public procurement tenders.

Economy at a Glance

CURRENT SITUATION

GDP GROWTH IN Q2 2015: 2.5%

UNEMPLOYMENT IN Q2 2015: 6.9%

INFLATION IN Q2 2015: 0%

GOVERNMENT DEBT IN Q2 2015: 79.6%

BUDGET DEFICIT IN 2014: 2.6%

FORECAST FOR 2016¹

GDP GROWTH: 2%

UNEMPLOYMENT: 7%

INFLATION: 2.5%

GOVERNMENT DEBT: 73.9%

BUDGET DEFICIT: 2.3%

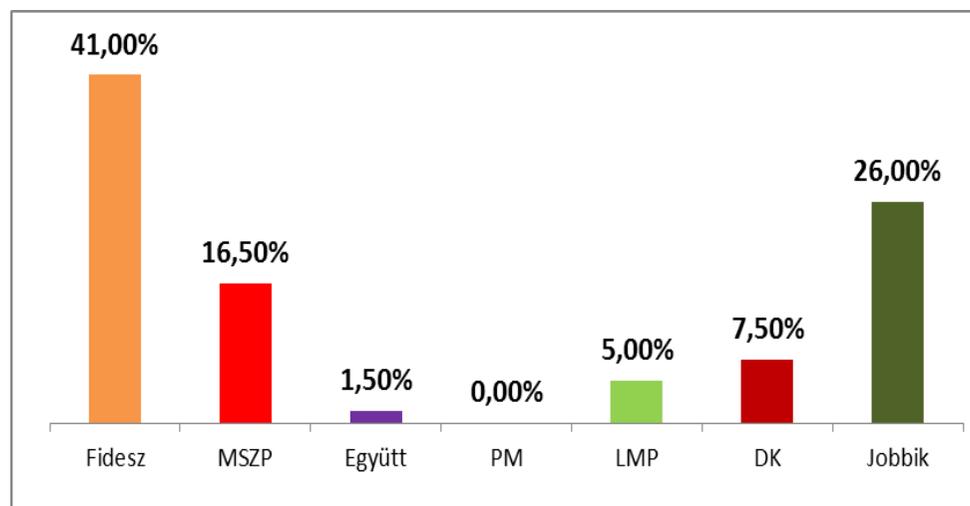
¹ Source: GKI (www.gki.hu) and Hungarian National Bank (www.mnb.hu)

Opinion Polls & Trends

THE REFUGEE ISSUE HALTS THE DECLINE IN FIDESZ'S POPULARITY

Based on September's public opinion polls it emerges that there was no large-scale change in the ranking of Hungarian political parties, though there are moderate shifts. **The winner of this period was the governing party Fidesz**, which managed to **slightly increase its support** among likely voters by 2%, raising its to 41%. It is very likely that this owes to Fidesz's successful communication on the dominant political question of the summer, the refugee issue. All this confirms for Fidesz-KDNP the success of its anti-immigration policies.

Recently, **the rise of far-right Jobbik has been halted**. Though it retains a stable second position, it has nevertheless dropped by two point; currently, 26% of likely voters would vote opt for Jobbik.



A potential reason for this decline is that even though it proposed even harsher anti-refugee measures than Fidesz, it failed to cast itself as one of the defining forces on this issue; for the most part, it was relegated to a position of having to react to the government's measures and pronouncements on the subject.

Aggregated support for the left-wing and liberal parties (MSZP, DK, Együtt) has not changed, there was only a minor degree of realignment within the camp. The strongest party of the left, **MSZP**, **gained 1.5% between summer and autumn**, and now enjoys the support of 16.5% of voters. **Support for Demokratikus Koalíció dropped from 8.5% to**

7.5%. At roughly 5%, **the green party, LMP, is still hovering around the threshold to enter**

Parliament. The social base of Együtt and PM hardly changed, and they are still barely discernible in representative surveys.

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REFUGEE ISSUE STAYS ON THE AGENDA

The government has a strong interest in keeping the refugee issue on the public agenda, as recent polls confirm that it has benefitted massively from its anti-immigration communication. This will become more difficult as the government's ability to frame the issue will depend to a significant extent on external developments, to wit the actual number of refugees arriving (which may decline due to harsh weather conditions), the decisions of other countries in closing or opening alternative routes, and European events and decisions.

There may be further legislative action on the issue, but it is unlikely to be substantial; instead, there may be symbolic changes to emphasise the government's commitment to fighting immigration. We expect that especially right-wing media and background institutions will continue to devote attention to refugees through coverage and analyses, thus offering the government opportunities to react to "public opinion".

Incidentally, the refugee issue will give Orbán an opening to mend fences with his former Polish allies in the PiS in the event of the latter's electoral victory in the Polish general elections of October

25. This relationship had become strained as a result of Hungary's stance on the Russo-Ukrainian conflict, but Orbán has now emerged as the Central and Eastern European leader on the refugee issue, and his position is popular throughout the region, including Poland. We expect that Orbán will reach out to the new Polish government in the event of a PiS victory – if Jarosław Kaczyński will signal a willingness to receive such an overture.

PRIVATISATION OF PUBLIC LANDS BEGINS

The government's interest in the refugee issue should be especially pronounced as public attention is likely to shift to the problem of public lands. The government's plans to sell another major portion of state-owned lands have already aroused public attention, and the opposition will relish the opportunity to finally attack the government on an issue where the latter's position is clearly on shaky grounds as a result of widespread suspicion that it is handing out lucrative land deals to cronies. Thanks in no small part to Fidesz's own intense communication on the issue, land is a highly sensitive problem in Hungary.

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Though there were some rumours in the mainstream media that there would be joint protests by the entire opposition from left to far-right, this is rather unlikely. Far right Jobbik and the green party LMP are likely to push the hardest on the issue. For the former, it is a betrayal of nationalism, while for the latter it is also a major environmental problem due to the spread of large landholdings. Demonstrations and potentially parliamentary stunts are very likely if the current plans take on more concrete shape.

INFIGHTING IN FIDESZ

The appointment of Antal Rogán (former chair of Fidesz's parliamentary group) as Orbán's new chief-of-staff with the rank of

cabinet minister will certainly lead to some shifts in the government's policies and communication, though given Fidesz's extraordinary ability to shield internal deliberations from the public, it is unlikely that Rogán's influence will be clearly attributable to him. Despite János Lázár (minister of the Prime Minister's Office) and Rogán's assurances that all is well, the competition between Fidesz's two young stars is likely to increase as two powerful men now occupy major positions with huge potential overlaps. Given their extreme discipline, it may take years for the wear in their civility to show, but at the same time the novelty of the situation and the need to outline Rogán's responsibility might result in clashes until a new routine emerges. Whether the public will find out will depend on the intensity of potential conflicts.

Further Information

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