



Hungarian Politics

in 2016



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Editor	András Bíró-Nagy
Main author	Gábor Győri
Contributing authors	András Bíró-Nagy, Zoltán Pogátsa
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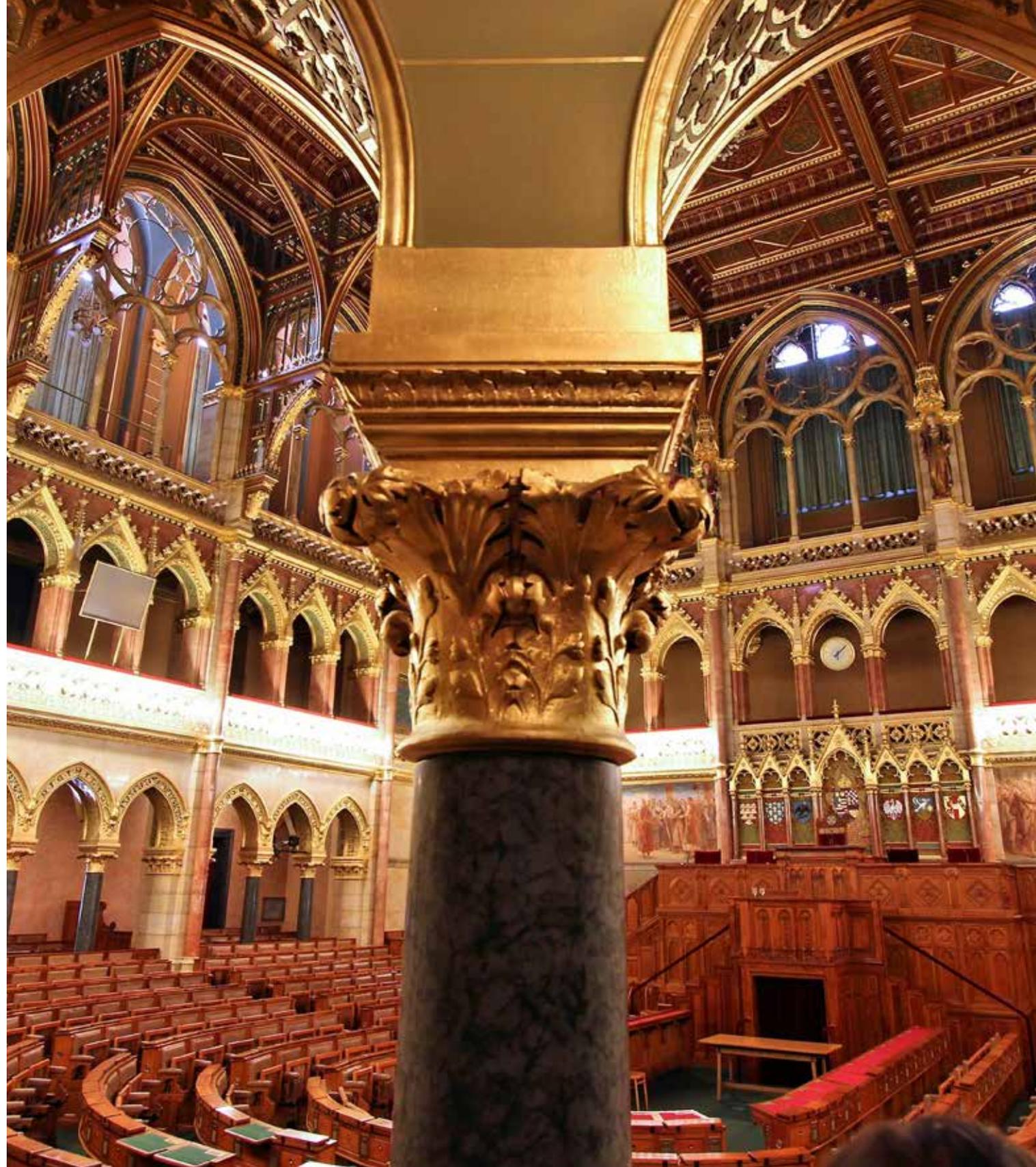
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Introduction

Policy Solutions has a long history of providing international audiences with in-depth analyses of Hungarian political life. Following the successful collaboration with the Friedrich-Ebert-Stiftung in the last two years, for the third time we present an annual review of Hungarian politics. This is a comprehensive overview of recent developments, events and trends in Hungary in 2016.

The target audience of this publication is students and academics, journalists, diplomats or international organisations. In other words, anyone who has an interest in the political, economic and social landscape of Hungary in 2016, be it an in-depth analysis of the anti-migrant referendum or the government's key public policies, the state of the Hungarian opposition, major developments in foreign policy, the main economic trends or the drastic changes in Hungary's media landscape. It is important to stress that our review is not chronological and does not claim to be exhaustive in its scope, rather it reflects our selection of the major developments over the past twelve months.

In particular, we focus on five broad areas, presenting distinct developments in each. In the first section we review the year from the perspective of the Hungarian government, with a special emphasis on what role the migration issue has played in the politics of Viktor Orbán in 2016. In the second section we look at the opposition parties, their state and prospects. The third section focuses on foreign affairs, in particular Orbán's vision about Europe, his government's relations with key European partners, and his international position following the US elections. In the fourth section, we take a detailed look at how Fidesz's policies have shaped the economy. Finally, some key aspects of the Hungarian society – media landscape, anti-government protests, corruption and its perception – are discussed. All of the sections conclude with a brief analysis of the issues which may come to the fore in 2017.

1

**Migration
as a cure-all for
the Hungarian
government**

1.1 | Referendum – a political tool, only for the government

There is a recurring public debate in Hungary about whether the country is now governed by a democratic regime or not. This debate involves leftwing and liberal analysts proclaiming that certain acts of the Fidesz government constitute such a grave violation of democratic principles that they no longer allow for designating Hungary as a democracy. At the same time, rightwing counterparts usually explain that whatever happened is perfectly compatible with democratic governance, or, at best, concede that the given action may not have been the most elegant move but was nevertheless not grave enough to violate one of the fundamental tenets of democracy. This process began roughly with the emasculation of the Constitutional Court within a few months of Fidesz taking office in 2010, and with each additional controversial measure the circle of outraged journalists and analysts who argued that “this was too much” has expanded. A prominent episode in February 2016 led a number of even centrist commentators to fume that indeed, such openly illegal measures do put democracy at risk in Hungary.

What enraged the non-governmental commentators was a heavy-handed and probably illegal attempt at stopping the largest leftwing opposition party (Hungarian Socialist Party, MSZP) for the second time from filing a referendum question on the mandatory closing of retail stores on Sunday. This measure became effective in 2015, and it seemed unpopular to begin with, and there was little indication that the public became much happier with their inability to shop on Sundays. MSZP tried to seize on this widespread dissatisfaction by filing a referendum question on the issue.

Arcane rules

The problems today stem in large parts from a series of complications and restrictions Fidesz introduced in the law governing referenda, which are all essentially meant to ensure that no successful referenda can be launched against the government’s policies. It must be underlined that Fidesz’s massive success in opposition in the term 2006–2010, with the resulting overwhelming election victory and two-thirds majority in Parliament, owed also to the then-opposition party’s successful referenda against the unpopular reforms introduced by the MSZP–SZDSZ government at the time, which led to a dissolution of the coalition and a protracted period of minority governance that substantially deepened the crisis of the Hungarian left.

As Fidesz clearly has a keen appreciation of how much damage a timely and relevant referendum question can do, its leaders definitely did not want their government’s policies subjected to a potentially devastating defeat at the polls. In government, among other changes, Fidesz added a layer of arcane procedural rules about how a question can be filed that will often allow to nip the problem in the bud. They also stuffed the Election Commission (NVB), which certifies referendum questions, with Fidesz appointees.

Just an interested private person

So let’s see what happened with MSZP’s effort at initiating a referendum on the Sunday retail ban. As István Nyakó, MSZP’s

former spokesman, turned up at the National Election Office (NVI) to register his party's question, he found himself physically hemmed in by a large throng of muscular skinheads who sought to skilfully hinder his movements in the NVI's lobby, where one may register referenda questions by time-stamping a ticket just at the right time, as the first person right after a given topic (in this case Sunday closing times) became "available" because, say, previous questions were invalidated by the Election Commission or by the Curia following an appeal. Punching in before a definite decision rejecting earlier pending questions will render one's question on the same issue invalid, while punching in second implies that one is too late, for someone else's question will then be allowed to proceed instead. While this may seem complicated, these dubious rules only come into play in extraordinarily unusual circumstances when a well-informed party seeks to foil a referendum effort by another party, as was the case here.

While Nyakó was hindered by the skinheads in his movements in the NVI's lobby, an elderly lady, who had arrived on the scene in the meanwhile, handed her slip to an assistant who had accompanied her. The latter then punched the time stamp at just the right moment when the Curia threw out the previous question on the issue. Unable or unwilling to aggressively push his way through the crowd of skinheads, Nyakó was a few seconds too late (the crowd immediately allowed him to pass once his "competitor" was done), and the elderly lady, who claimed she was just an interested private party who wanted a national referendum, left the scene rebuffing journalists' questions as to why she was interested in pursuing this issue.

The media immediately found links between the skinheads and Fidesz, showing that several of them are part of a security team used by Gábor Kubatov, Fidesz's party manager who became notorious for boasting in a secretly recorded speech that Fidesz has lists about the party sympathies of large segments of the electorate, which is illegal in Hungary. The backlash from the media and the opposition (including Jobbik) was so strong that even some Fidesz politicians distanced themselves from such overt physical pressure aimed at limiting the opposition's exercise of their democratic rights, and

after some silence Viktor Orbán himself hinted that this will not likely happen again. The Fidesz government also backtracked quickly on the unpopular law, when it moved to lift the Sunday shopping ban only a few weeks after the scandal at the National Election Office. The government's move was a victory for the Socialist party, however it prevented the leftwing opposition to rally around the issue later in 2016.

A warning sign

Fidesz quickly tried to remove the embarrassing episode from the centre of attention and to refocus public debate on an issue on which its rapport with the public is unrivalled: refugees. For Fidesz the refugee issue is vital because it distracts attention from corruption and public policy issues where the government's policies are unpopular, at that time especially education, where surveys showed large majorities of the public agree with the teachers who protested the government's policies.

Before it convinced the public that the refugee issue is one of the most burning questions for Hungary, Fidesz had lost two key by-elections. In early 2016, when the refugee issue appeared on the wane again, the governing party's candidate for mayor was trounced badly in the mid-sized town of Salgótarján, despite local polls showing him on par with his MSZP rival, and despite national polls indicating that the governing party is once again near its previous peak results. Whatever the distribution of party preferences in polls may be, this was a warning that all is not well in the public's view of the government.

The refugee referendum as the great neutraliser

The dilemma for Fidesz was how to bring back refugees into the limelight when there are no new ones coming into Hungary. It is true

that the refugee crisis is still a major issue, but its geographic locus is now outside Hungary, in fact outside central and eastern Europe. In Hungary, with borders sealed across the region, there is no acute pressure of having to manage a large number of refugees.

Still, the government argues that a "threat" is emanating from the EU's efforts at concluding an agreement with Turkey on accepting a number of refugees legally in return for the latter country's willingness to halt the uncontrolled inflow of refugees into the EU. Since this would imply a quota-based distribution of legally accepted refugees into the EU, Hungary would presumably have to share the burden, which the Orbán government has categorically rejected.

To prevent the EU from entertaining any such notion, Orbán proposed that the Hungarians should reject the quota in a referendum. For the government a quota referendum offered the obvious benefit of keeping the refugee issue in the centre of public discourse regardless of whether there are actual refugees coming to Hungary

in this period. It was clear since Orbán's referendum announcement that a long campaign would be especially helpful in neutralising the impact of the anti-government protests, the corruption scandals and the public policy failures – though at the same time it was also risky whether a referendum would draw enough voters to become valid under the new stricter requirements or not.

According to EKINT, a Hungarian think-tank, from a legal point of view, the question that appeared on the ballot violated applicable legal and constitutional requirements, and therefore should not have been approved in the first place. As the legal experts put it: "the question is unlawful because only such issues may be decided through referendum that are within the competences of the Parliament; however, the Parliament may not bind the government's actions in the matter of refugee policy." EKINT also argued that the wording of the question was so general that the government may have taken it as a blanket authorization in case of a successful referendum.



1.2 | Anti-migrant referendum – success or failure?

By most standards, the referendum against the refugee quotas, held on 2 October 2016 was an absolutely superfluous referendum. As Jobbik insisted right from the start, there was ample support in Parliament for any type of restriction in the policy towards migrants and refugees. Thus it was clear from the outset that the goal of the massively expensive exercise was entirely party political and symbolic. What was not preordained, however, was that the referendum would also become a political dud for Fidesz. Almost all Hungarians (98%) who voted in the referendum rejected the European Union's migrant quotas, but turnout was too low to make the poll valid.

Leading government politicians, Prime Minister Viktor Orbán at the fore, insisted that this was a major victory, but even some government supporters have been disinclined to believe them. Nevertheless, the claim could have been true, if not for a series of errors that Fidesz insisted on making. The first major problem stemmed from the amendment of the referendum rules, which of course predated the entire refugee crisis. The previous rules mandated that a proposition was effectively endorsed by a referendum if the majority of those who voted supported it, as long as those supporting the given position made up at least a quarter of voting age citizens. In an effort to forestall successful referenda against unpopular governmental measures, Fidesz raised the bar significantly with a new rule which mandates that at least half of all voting age citizens would have to submit a valid vote for a referendum to be effective.

As a result, the Hungarian left started out with an enormous advantage in this campaign: Hungarian voters' reluctance to turn

out to vote in general, which is especially pronounced in votes of lesser importance than parliamentary elections, set the bar awfully high for the government. The leftwing opposition, which almost unanimously called for a boycott, could essentially lay claim to a very large portion of the electorate which would not bother to turn out under any circumstances. Moreover, only one referendum since 1990 had managed to surpass the 50% turnout mark; the Fidesz-initiated referendum on medical and education fees introduced by the social-liberal coalition at the time drew 50.5% of voters in 2008, fuelled by massive general dissatisfaction with the government.

Thus the opposition could hope that it would have to "mobilise" only a relatively small segment of its own voters to stay home in order to attain the best conceivable outcome, namely a determination that the vote was invalid due to lacking turnout.

A massive anti-migrant campaign

The government in turn spared no effort to make sure that people would turn out. In separately compiled analyses, the anti-corruption newsportal Átlátszó and Hungary's leading newsportal, Index, estimate that the government spent around 14-15 billion HUF (50 million euros) on the campaign. This was more than the roughly 40 million euros spent by both sides on the Brexit campaign – in a country that is far larger, far wealthier than Hungary, on an issue that was arguably more important –, with the key difference that in Hungary well over 99% of spending went to support the government's position. The entire country was covered in billboards calling on citizens to vote "no" to the migrant quota, and ads in a

wide variety of media echoed the same idea. Moreover, estimates on spending do not include a relentless campaign by state and Fidesz-friendly commercial media. For two weeks in September, the Hungarian media watchdog NGO DRI-Mérték reviewed the news shows of five television channels, including the main state television. They found that M1, the flagship state television channel, devoted 40% of its news show to migrant/referendum-related issues, and over 90% of these cast migrants in a bad light. Government politicians also used a desperate ploy to try to lure opposition voters to the polls, saying that the government would resign if the pro-quota position prevailed in the referendum, the chance of which was zero.

These efforts proved futile, however. In the end, all polls estimated a turnout below 50% (Medián came closest with a 42% estimate). Towards the end of the campaign, the opposition felt fairly confident about its chances, while the government sought to deflate expectations stressing that validity was not all that important. Yet it was too late in the game to change the perception that a valid referendum was exactly what the government was after, especially since Orbán had not only said so but even remarked (semi-jokingly, presumably) that he would be “disappointed if turnout was less than 100%”.

Why the failure?

The government started out from a highly disadvantaged position because of the general high level of voter abstinence. Incidentally, this trend often benefits Fidesz, which is very good at mobilising its base and benefits from voters’ lack of concern about its more controversial practices. There are indications that the mobilisation of Fidesz’s own base worked reasonably well once again, but to succeed in the referendum, Fidesz needed activity well beyond its own base.

Second, to some extent Orbán was the victim of his own success. The government had sought to completely cut off any migrants from

entering the country, and it has largely managed to do just that. In light of the general decline of refugee numbers across the EU, coupled with reports about a shift in the EU consensus away from the quota, it seems that many potential voters’ general agreement with Orbán’s position did not necessarily translate into sharing the intense sense of doom that the government tried to project. This was probably exacerbated by the fact that the government had no convincing case why the referendum was necessary to stem future waves of migration.

Many analysts also assume that the government’s excessive campaign backfired. Even some pro-Fidesz intellectuals were wary of the Fidesz’s alarmist messages being projected on every platform, arguing that it reeked of propaganda. Some voters may have been turned off by this as well.

The geography of failure

Strikingly, turnout did not surpass the 50% mark in any of Hungary’s counties, but the disparity was nevertheless enormous. Turning the usual trends on its head, voter participation was lowest in Budapest and in urban centres, while it was relatively high in smaller rural municipalities. Just over a third of Budapest voters turned out to vote, and even among these the proportion of those who submitted an invalid vote – which was suggested by the Two-tailed Dog Party, a satirical party and some civic organisations as the best way to vote against the government without increasing the chances that the referendum would become successful – was the highest in Hungary (in fact almost twice the national average at 11.8%). Left leaning towns and areas were also visibly less enthusiastic. Since urban centres traditionally tend to vote left, this suggests that the opposition’s boycott campaign might have had some impact beyond general public apathy. But this impact must have been limited since the larger leftwing parties did very little actual campaigning. Most of the anti-referendum campaign was the work of the small Hungarian Two-tailed Dog Party.

Left-wing hopes?

As one would have expected, the left was jubilant about the failed referendum and quickly claimed credit for the victory. Praising voters’ ability to critically parse the government’s extraordinary claims about the importance of the referendum, leftwing politicians portrayed the result as evidence that Orbán can be defeated. That conclusion may be true, but the referendum results are hardly conclusive evidence.

The lowest levels of participation – interpreted as a good sign for the left – were largely typical of areas where the left was traditionally strong, such as Budapest. It is expected that if there is any shift nationally towards the left, these areas will take the lead; in other words this is where the left will start to win back voters and seats. The distribution of turnout clearly has some implications for the left’s electoral strategy in 2018, but it would be a mistake to superimpose turnout data straight onto the electoral map. Though low turnout was clearly also influenced by support for the left, in terms of its geographical distribution it also includes a curious mix of relatively high levels of active rejection of the government’s communication on this issue specifically (especially in urban centres) and the opposite of active engagement, namely voter apathy (which was especially pronounced in some underprivileged rural areas).

A different look at the numbers

More importantly, however, the results are only weak when measured by Fidesz’s inflated expectations, most specifically against the expectation that they will meet the excessive validity threshold. Since the practical relevance of the referendum was so dubious, which the opposition and even many pro-government critics stressed, the fact that the issue nevertheless brought almost 3.3 million voters to the polls in support of the government’s position is striking. Fidesz achieved this against the explicit boycott of the leftwing opposition. It must be also mentioned that although Jobbik did not campaign against the referendum, it did not mobilise its voters either.

3.3 million votes are far more than any winning party or coalition of parties has ever received in an election. It is on par with all of the most successful referenda propositions in post-transition Hungary. However much the left controls of the remaining 60% of the electorate is not going to be enough to win an election, not by a long shot. Whoever wants to defeat Fidesz will have to draw the support of a very significant chunk of these 3.3 million voters.

1.3 | Fidesz's public policies

Judging by the coverage in the Hungarian media, one might get the impression that Fidesz is doing next to nothing outside campaigning against migration, but in fact there has been actually some movement in public policy as well. In the following, we will briefly review some of the major and/or widely discussed public policy initiatives proposed or adopted during the past year.

Housing for the fertile upper middle class

The most flashy announcement this year may have been the new Housing Benefit for Families (the Hungarian acronym is CSOK). On the one hand, Fidesz has radically increased the state's contribution to the real estate purchases of parents, from a maximum of 2.5 million HUF (8,000 euros) to 10 million HUF (33,000 euros) plus an additional 10 million HUF in low interest loans. Under the new regulation, three children are enough to claim the vastly increased maximum amount. Apart from the generous funding, the other major change is the huge gap in the amounts for large families (at least three children) and smaller families (1-2 children). Previously, a family with two children could claim over half of the maximum amount available for families with four children, and almost two-thirds of the money offered to families with three kids. Now XL families have disappeared as a distinct category, but children with two families can only claim a quarter (2.6 million forints) of what families with at least three children are (theoretically) entitled to. Ten million forints is a huge amount of money in Hungary - it is the price of a studio apartment in some (poorer) areas of Budapest, and on an average salary it would take a person almost seven years to earn this much.

On the face of it, this generous level of support meshes with the government's proclaimed goal of helping parents manage the

financial burdens that more children imply. Yet in practice the conditions for claiming the exorbitant maximum amount are so stringent that it seems like another policy designed to help Fidesz's primary base of support, the upper middle class. Moreover, the maximum amount is only available for newly constructed housing, and the minimum size of these flats implies that in some areas, particularly Budapest with its comparatively high real estate prices, only a select few can afford to avail themselves of the CSOK's generous funding. A Budapest family of five that buys a new flat or house of any decent size would have to be rich by Hungarian standards, and even with the CSOK they have to be able to put up a major chunk of money.

Critics immediately said that the CSOK programme would have a limited impact on stimulating families' willingness to have more children. The strict conditions and potentially harsh penalties for failing to produce the number of children pledged are apparently putting off many potential candidates for the maximum claimable amount. Even without much of a policy impact, the CSOK might prove useful both in terms of giving lots of money to a small set of Fidesz's loyal supporters and in showing that when it comes to family, nothing is too expensive for the government.

Lowering the VAT

At 27%, Hungary has the highest VAT rate in Europe and one of the highest in the world. Though for foreigners Hungary may be cheap due to the weak forint, for Hungarians the steep burden on their consumption is a major source of expensive prices they have to pay when they shop. It is no coincidence that the VAT is by far the most significant source of income for the Hungarian state, outpacing

revenue from income taxes by a ratio of 2-1. Few of things that Fidesz did in government have benefitted the country's poor, and the most prominent policy aimed at the lower and middle classes, the price controls on utility prices introduced (rezsicsökkentés in Hungarian, which government communication stressed relentlessly, especially in the run-up to the 2014 election), are dubious in this respect: though they have proved extremely popular with the public, lower energy prices have provided very little relief to poorer consumers with limited energy consumption, while all else being equal, the rebate given to large homeowners was much more generous. In 2016, Fidesz was bound to look for a policy that could be seen as a continuation of its successful rezsicsökkentés.

Thus came the announcement that the VAT on some basic foodstuffs (milk, chicken and eggs) would be lowered from 27% to 5%, which could theoretically allow for a significant drop in prices, though the Fidesz government might actually find it difficult to ensure that producers and retailers will not use a significant slice of the tax relief to pad their own margins. The move follows a previous decision on lowering the VAT for pork products - widely seen as another favour to Orbán's ally Lőrinc Mészáros, who has added pork to his extensive business portfolio - and on construction, which was introduced to stimulate housing. Though the piecemeal VAT cuts probably make a convoluted tax system even more complex, they nevertheless constitute a reasonable compromise between the government's need to largely preserve the tax collection ability of its cash cow, the VAT, while giving the public a break when it comes to the consumption of some essential products.

Increasing wages

The low wage level, which has boosted investment in Hungary previously, has become increasingly problematic for companies as many qualified workers leave the country. Therefore, the wage level is now a serious impediment to faster economic growth. Trade unions and leftwing parties have been demanding higher wages for a long time, and at the end of 2016 the government has also decided to intervene in order to increase wages. In November, Minister for National Economy Mihály Varga announced that the government had agreed with its social partners to substantially increase both the minimum wage and the so-called guaranteed minimum wage in 2017 and then again in 2018.

Gross monthly minimum wages are set to increase 15 percent in 2017 from HUF 111,000 HUF (355 euros) to 127,650 HUF (410 euros), and another 8 percent the following year. In the case of skilled workers, they are set to increase 25 percent in 2017 from 129,000 HUF (415 euros) to 161,250 HUF (520 euros) and an additional 12 percent in 2018, when a general election is to be held. Employers will be partially compensated by a modest decrease in employer contributions - a 5 percent decrease in 2017 and another decrease of 2 percent in 2018.

1.4 | Outlook on the Hungarian government's prospects in 2017

For the governing party, the anti-migrant referendum was undoubtedly the key event of the year. The results of the invalid referendum showed that, although the refugee issue is very powerful, it is unlikely to be strong enough to carry the Fidesz government to victory unless there is actual refugee pressure going into 2018. If the current relatively calm conditions persist, then the issue is likely to decline further in importance in 2017, while government propaganda is not going to be enough for it to be the decisive issue during the next general election. Fidesz must find other issues to focus on until then, while obviously stressing its credentials on the migrant issue.

For the left, and to some extent for Jobbik too, the situation is reversed. Given Fidesz's successful monopolization of the migrant question, it must hope that it does not re-emerge as a major issue in 2018. At this point, it is hard to imagine an election that Fidesz might lose while Europe is struggling to manage a significant number of new refugees. That said, if the problem does emerge as a focal issue in the near future, the challenge for the left will be to come up with an answer that neither alienates the anti-migrant nor pro-refugee segments of its base, while simultaneously expanding the said base with further anti-migrant voters. It is conceivable that such a position simply does not exist, and that any election that is dominated by the refugee issue will be hopeless for the left in 2018.

It should be underlined that Fidesz managed to garner 3.3 million votes when the refugee issue was indeed less salient. Had the conditions of the summer of 2015 prevailed before the referendum, then it is extremely likely that the validity threshold would have been surpassed. It is safe to say that, for Fidesz, another wave of refugees would be a godsend, especially if it is close to the election. For the opposition parties on the far right and the left, it would be a nightmare, which would very likely destroy any hope they have of winning the election.

Given the fragmentation of the opposition, Fidesz does not even need to transform all of the 3.3 million voters who rejected the refugee quotas into supporters at the next general election. If no clear challenger emerges, all it needs to do in 2017 and 2018 is to hold onto its current level of support among voters (roughly 2.5 million people). Some of the recent public policy initiatives of the government suggest that it is aware that lower-educated, disadvantaged supporters are the most vulnerable part of the Fidesz base, given that dissatisfaction with the direction of the

country is highest among this group. Measures such as lowering VAT on some basic foodstuffs and raising the minimum wage are clearly targeting these voters. At the same time, the government's housing policy now adds to its tax policy, which favours those who are already better off. The (upper) middle class has always been the most loyal supporter of Viktor Orbán's government, and it seems that Fidesz never forgets this when it comes to policymaking.

Finding "enemies" has always been a key tool used by Fidesz to consolidate its base. The list of enemies has been quite long since the Orbán government took over in 2010, and it is reasonable to assume that migrants, Western leftists and liberals, the European Union and NGOs, which criticize corruption and the government's human rights record, will be among those who will be under fire from Fidesz in 2017. The anti-immigration position, well-targeted economic measures and the fight against "enemies" of the government are likely to make up the political mix, which is intended to hold together the Fidesz camp in 2017.

2

No breakthrough for the Hungarian opposition



2.1 | Another challenging year for the leftwing and liberal opposition

2016 is the latest instance in what has been a long string of bad years for the left in Hungary. Most crucially, the left remains as fragmented as ever – which is an enormous disadvantage in light of the majoritarian election system – and continues to lag far behind Fidesz in the polls. Though the combined support for the leftwing and liberal parties continues to outpace that of Jobbik, the far-right party is the only formation with an obvious candidate to challenge Viktor Orbán. In many respects, Jobbik Chairman Gábor Vona has emerged as the leader of the opposition, which is also increasingly manifested in the frequency of attacks against him by pro-government media.

In terms of leadership, the most important change occurred at the helm of the largest party on the left, the Hungarian Socialist Party (MSZP). József Tóbiás, who was elected MSZP chairman in 2014 after Attila Mesterházy was pressured into resignation following his defeat as a prime ministerial candidate in the national election, was ousted by the Socialist Party's congress at the end of June. With four candidates, this was probably the most contested MSZP leadership battle ever. Tóbiás ultimately had to cede the chairmanship to Gyula Molnár, who had previously served four terms as an MP and two terms (in parallel, as the previous law made this possible) as mayor of Budapest's most populous district, District 11. Molnár, who is also a former chair of the party's most powerful regional organisation, the

Budapest chapter, had been sidelined for years due to a corruption trial that ultimately resulted in his acquittal, paving the way for his return to politics. Tóbiás' role was highly important to help MSZP survive after the 2014 electoral defeat. Also, all indications are that Tóbiás is an able party organiser/operator; in such a background role he had excelled for a long time before he was elected party chairman. However, the 2016 leadership contest was about who should lead the party to the next elections, and the dynamics of the party's level of support created an atmosphere in which candidates offering change could have a chance against the incumbent.

The most important issue for the left this year has been the perennial problem of whether to conclude an electoral alliance, and if so, what shape this alliance should take. Unlike previous years, however, there was also a lot of debate surrounding a new solution to this vexing dilemma, namely the proposed introduction of a left-wing primary to select the left's MP candidates in Hungary's 106 single-member districts and/or their joint prime ministerial candidate. The idea to hold primaries has been around for a few years now, but until now it had never gained traction among significant parts of the left. In 2016, however, all the relevant parties have signalled that they would be willing to participate in a primary scheme, at least in principle.

What type of primaries?

Regarding the primaries, there is a plethora of open questions. In no particular order, the left needs to clarify who can nominate candidates and who can vote on them (closed or open primaries); who should organise it; who should pay for it; how long the campaign should be; how the voting should be conducted; whether the prime minister should also be selected by way of the primary scheme or whether the primaries should be limited to the selection of MP candidates. None of these questions have been answered in 2016.

Viewed from the vantage point of potential participating organisations, the issue is so intractable because their interests

objectively vary and conflict. MSZP is considered to have a major edge over the other parties because it has a larger base, more resources and a base of activists who can be mobilised to campaign and vote. Yet there are risks, too, for the Socialists, since the EP election of 2014 showed that low-stakes election are not good at mobilising its voters; in a stunning upset, the two smaller liberal parties, Ferenc Gyurcsány's DK and the Együtt party, which at the time was associated with Gyurcsány's successor, Gordon Bajnai, were almost on par with MSZP nationally and even outperformed the Socialists in the left-wing bastion of Budapest. Együtt is much weaker now, but DK is even stronger than it was at the time. Furthermore, there are numerous unknowns in such a process, and more popular politicians of smaller parties could potentially outperform the candidates of MSZP or DK. For example, the Együtt politician Péter Juhász has emerged as one of the most recognised faces in Hungarian politics, and he has successfully cast himself as the leading anti-corruption crusader on the left. On 23 October, he even mobilised a fairly large crowd to disturb Viktor Orbán's speech at a national celebration by whistling; at a time when virtually the entire left held a sparsely attended joint demonstration, Juhász single-handedly drew almost the same number of people to his effective publicity stunt.

Former Prime Minister Ferenc Gyurcsány is still widely rejected by large segments of the population, but he commands the fervent loyalty of a distinct minority, and it is entirely conceivable that his energised base could turn a primary into a success for DK. Most of the leftwing splinter parties which would likely wish to compete in the primary have at least one or two high profile nationally-known politicians, and if those are wisely deployed, they could probably win their primaries.

Time is pressing

As of early December 2016, negotiations about the primary scheme have stalled. The rightwing daily Magyar Nemzet reports that

in Ferenc Gyurcsány's DK the notion that the primaries will never take place is gaining ground, though there appears to be some openness in the party towards a recent proposal by the Socialists, which would make a participation in the primaries contingent on a controversial condition: nominating organisations would have to field candidates in all 106 districts, which would be an enormous challenge for the smaller parties and might lead them to lose even the few seats where they might have a realistic shot at winning. MSZP would also make the acceptance of a joint list for the election a condition of participation. The joint list was also set as a precondition by László Botka, the successful Socialist mayor of Szeged, when he announced in December 2016 that he would be ready to stand as a prime ministerial candidate in 2018.

In large parts, the Socialists' proposal essentially meshes with the previous plan that green-left Párbeszéd had proposed, the main difference being the requirement to nominate candidates in all districts, which is designed to crowd out smaller organisations like the green splinter party that is pushing the primary idea. If DK and MSZP end up agreeing on this scheme, then the left will end up divided because the smaller parties probably cannot successfully compete, nor are they likely to try. The two major parties on the left may very well figure that that's not a major loss given the marginal level of support that the smaller parties enjoy. Reality may be slightly more complicated, however: at the moment the left can hardly afford to alienate even a few percent of voters.

Unsolved problems

Still, there are plausible analyses out there which argue that by focusing on the alliance business the left is missing the real issue. It has no persuasive platform, and if it did, it would not have to bargain with marginal parties representing one to two percent of the electorate. Orbán's luck and amazing success stem from capturing a range of right issues – refugees, the crisis on the left

between 2006-2010, the hope for a strong leader, etc. – and dominating political discourse with them. What the left would ideally need would be a leader and a message (or rather a package of messages) that would win the election for them.

Yet, while in the abstract the answer is clear, specifically it is not as if many international potential role models have indeed delivered this type of combination, and definitely not in a way that would be easy to localise. Some features of the crisis on the Hungarian left are home-grown, such as the pervasive distrust stemming from the left's dismal performance in government, its fragmentation and the refusal of mostly self-centred partners to find a common ground. So is the absence of a joint candidate for prime minister. Without these, what's left – in every sense of the word – is a hugely divided group that strikes voters as incoherent and not strong enough to challenge Orbán. There is no persuasive message and there are no core candidates to represent the message in public.

Theoretically, this makes the notion that one alternative leftwing force must emerge more compelling. This also appears to be the strategy of LMP, which steadfastly refuses to buy into the idea that an alliance with other parties to the left of Fidesz is a good idea. Of course, LMP does not even define itself as a leftwing party, it views itself as a centrist force and it has tended to stress its rightwing bona fides, probably in the hopes of attracting disaffected Fidesz voters. While thus far LMP has failed to break through with independent voters or former-Fidesz voters, it has successfully competed in two parliamentary elections, and has survived despite doomsday predictions.

LMP is looking for alternative paths

After the withdrawal of LMP founder-chairman András Schiffer his successor, Ákos Hadházy, softened the strict refusal to cooperate with the left and remarkably appeared at some joint

events with some leftwing leaders. It was all the more surprising that recently LMP was the only party willing to compromise with the government on electing new judges to the Constitutional Court, with the result that one of its nominees made it onto the Court, and the others appear -- at least on paper -- less obviously beholden to the governing party than previous judges selected since Fidesz took power in 2010.

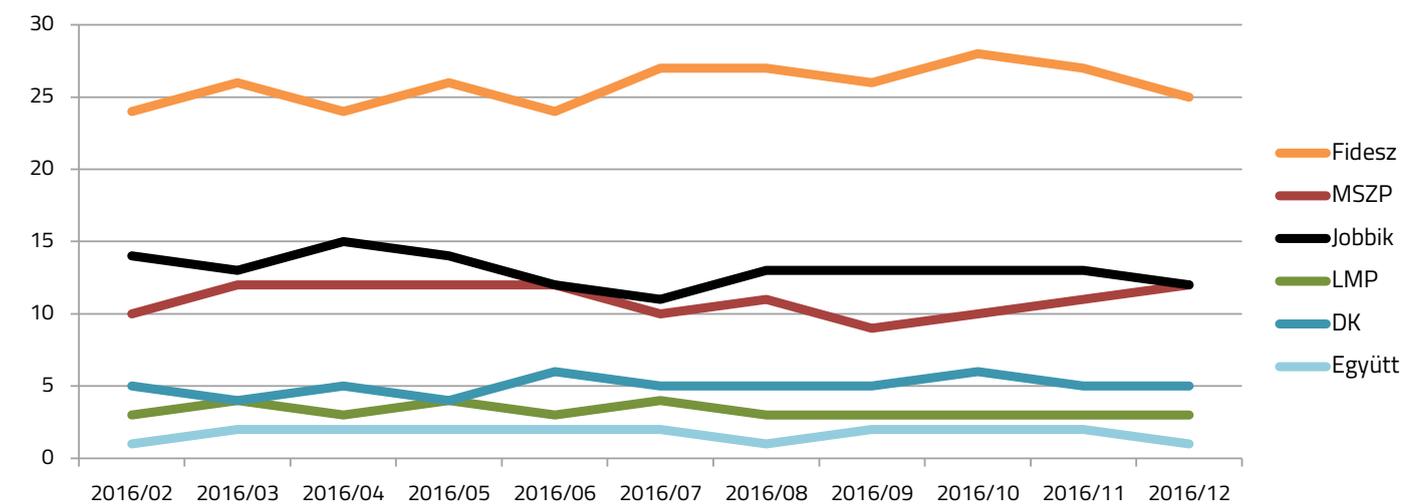
To many on the left, this appeared one compromise too far, and the Democratic Coalition immediately laid heavily into LMP, with major politicians from both parties gleefully clashing in front of the cameras, calling each other collaborationists (DK to LMP) and communist secret police (LMP to DK). What was most surprising about the affair was that András Schiffer, who had previously withdrawn from politics, represented his party once again on this issue, and when he argued with DK vice-chairman László Varjú, LMP's current chairpersons stood behind him mostly quietly, symbolically showing that even without an actual position Schiffer remains the party's dominant figure.

Where the race is

The good news for the left is that in the most recent survey by the pollster Závecz Research, the combined support of leftwing parties stands at 29% among likely voters with a party preference. That is far behind Fidesz's 44%, but one and a half years before the elections this is theoretically not an insurmountable lead. At the same time, this polling result is very close to the actual outcome of the 2014 elections (44-26 Fidesz vs. the left), so it also illustrates that the leftwing opposition has not gained any major ground since then.

Yet there is another piece of good news: the share of undecideds continues to remain very high, and a slight plurality in Hungary would prefer if the governing party were ousted. This means there is still an opening for the leftwing opposition to overcome the governing party. Translating this theoretical possibility into an actual victory in a dynamic three-player race is a major challenge, however, and thus far the left has improved too little since 2014 to make this outcome appear any more likely than back then.

Graph 1. Popularity of Hungarian political parties in 2016, % of total population



Source: Závecz Research



2.2 | Jobbik attempts to rise as the main challenger

For over three years now Hungary's far-right party Jobbik has been engaged in a massive if inconstant effort at overcoming its radical reputation and establishing itself as a mainstream party that can challenge Fidesz as the leading mainstream party on the Hungarian right. Through the campaign, which has been informally dubbed the "cuteness-campaign", Jobbik wishes to live down its image as one of the most extreme among Europe's increasingly successful far-right populist movements. Yet even as the party embraces moderation in an effort to pave the way for a genuine shot at political power in 2018, the going within the organisation itself just got rougher in 2016.

In a surprising coup, Jobbik Chairman Gábor Vona suddenly took out the long knives and successfully sidelined several actual and potential opponents within the party. There was no immediate explanation for the timing of this move, it was most likely motivated by taking care of this difficult issue well in advance of the 2018 campaign, when Jobbik can ill afford to be bogged down by internal strife about its direction. The victory in this internal war came at a cost for Vona, but it was by no means Pyrrhic.

Vona's veto

The declaration of war was issued in April 2016, when Chairman Gábor Vona called on three of his six deputies not to run again for this position at the upcoming party conference. All three of the party officials that Vona wanted to oust are regarded as representatives of the party's radical wing, as was a fourth, Zsuzsanna Hegedűs, who also appeared to be interested in the position when Vona

essentially told her to drop the idea. Only one of the four was a politician of national stature, however. Előd Novák was not only the party's most prominent radical but also one of its most active and ingenious self-promoters, whose recurring publicity stunts, such as attacking the Soviet war monument in Budapest's centrally located Szabadság Square with a hammer and burning an EU flag, had irked Vona for some time.

The targeted persons were visibly caught off guard by Vona's request, and their immediate public reaction was that they would run despite Vona's request. However, in a striking demonstration of Vona's strength within the party, none of them openly criticised the party leader. The press reported that there was considerable grumbling at the base, where radicals are still well represented, but no one in a position that mattered dared take their frustration out on the man who was obviously the cause of this frustration.

At least publicly, Vona appeared unfazed by the announcements and he made clear that if these deputies or Hegedűs would run, he would veto their candidacies. Jobbik's chairman had the foresight to plan for such an eventuality, and had asked a previous party conference to give the chairman the right to veto deputies he could not work with. Under what one must presume was massive pressure, the potential candidates withdrew one by one. Novák held out longest, but ultimately, at the last second he decided not to run, allowing Vona to get his preferred team elected at the party congress.

Yet the party chairman found that this was not enough. Though Novák professed loyalty to Vona publicly, there were indications

that he was far less accepting of his ouster in internal forums. Ultimately, shortly after the party congress and Novák's removal as deputy chair, Vona held a series of secret meetings with the members of Jobbik's parliamentary faction who agreed to eject Novák from the faction, too. In a near unanimous vote, Vona once again got his wish. In an unusual move, Novák also resigned his seat in Parliament, citing an earlier oath he had made to this effect.

De-radicalisation or power gamble?

Much of the speculation in the press centred around the question whether Vona's actions were intended to rid the party leadership of extremists and thus bringing it in line with Jobbik's envisioned moderate profile, or whether he was merely consolidating his power within the party. It bears pointing out that the two are not mutually exclusive in this context. Arguably, radicals are the greatest threat to Vona's moderate course and most likely to entangle the party in infighting that would damage its electoral prospects in 2018.

Yet it is also clear that extremism in itself was less relevant than Vona's assessment of who is more likely to be loyal to him. In particular, the selection of László Toroczkai, the extremist mayor of Ásotthalom and one of the former leaders of the far-right hooligan movement that set fire to the public television building in Budapest in 2006, as one of the deputy chairmen of the party who succeeded Novák is not an indication of moderation. Toroczkai, who surrounded himself with paramilitaries in his "hunt" for illegal migrants in the border area, appears most comfortable – even among Jobbik politicians – in his commitment to extremism. Vona justified the selection of Toroczkai and the other new deputy chairs by arguing that as mayors they bring a practical experience to the table that voters will prize highly in the election. It appears more likely, however, that their primary quality is that they are more easily controlled than their predecessors, especially Novák.

Vona now finds himself in full control of his party and is backed by a party leadership whose members assumed their positions in the full awareness of his strategy of moderation for 2018. The new unity in the Jobbik leadership might be enough to forestall any damaging internal division at the top of the party in the run-up to the 2018 election. Even more importantly, Vona has managed this conflict without generating a split-off from Jobbik that could give rise to a new, more "authentic" extremist formation. The defeated extremists have remained silent and no one left Jobbik in a huff.

Preventing Jobbik from splitting even as the party's tone is changing substantially may well be Vona's most remarkable achievement thus far. For an illustration of how damaging the fragmentation of the far-right would be, one need only take a look at the state of the left, which is (rightly) perceived to be in shambles even though its aggregate support – which continues to exceed Jobbik's polling figures – still leaves it in theoretical contention for 2018, if it can unite and present a strong candidate.

A page from Orbán's playbook

Still, even as the extremists did not voice their displeasure aloud at the party congress, in the secret ballots electing the chairman and his deputies, their frustrations were apparent. Vona himself received the support of 79% of delegates, which is rather weak considering that he was the only candidate. This is a small price to pay for leading a party that is united, however. Vona is clearly pursuing Orbán's strategy towards power, which has shown the necessity of taking full and undisputed control over the party. His desire to emulate Orbán was also apparent in another move that followed his re-election as party chairman: he announced that he would turn over the leadership of the party's parliamentary faction to his deputy János Volner, who is the party's second most popular politician and, at present, arguably a less divisive figure within Jobbik than Vona himself.

This was a smart move not only because the selection of the popular Volner can smooth ruffled feathers within Jobbik, but also because it allows the chairman to cast himself as a prime ministerial candidate who is above the fray of the everyday verbal battles in Parliament. Apart from his legal obligation to occasionally respond to parliamentary questions, Orbán has mostly withdrawn from Parliament, and he had done so already while in opposition before 2010.

Reaching out to leftwing voters

Vona is now relentless in his emphasis that Jobbik will be the main challenger of Fidesz in 2018. During the autumn, he also tried to position himself as well as the main challenger of Orbán. Following the invalid quota referendum, Vona managed to arrange a bilateral meeting with the prime minister, when the latter was in big need for some extra votes to amend the constitution. The Jobbik leader openly blackmailed Orbán when he demanded that the Orbán government put an end to the so-called residency bond scheme whereby foreigners can buy the right to reside within Hungary and move freely about the EU. Vona set the abolition of this scheme – widely seen as a symbol of corruption – as a precondition for Jobbik's support of Orbán's anti-migrant constitution amendment.

"We want neither poor migrants nor rich migrants to be settled in Hungary, neither poor terrorists nor rich terrorists should come", Vona said. Orbán refused to make deal between the two sides, and eventually the constitutional amendment failed to get enough support in the Parliament. It is worth mentioning that these were the weeks when Gábor Vona started to receive heavy attacks from the Fidesz-friendly part of the media.

In another marked reversal of the party's previous rhetoric, Jobbik's communication now often completely ignores the leftwing parties, but clearly target leftwing voters. A survey performed by Policy Solutions on the parliamentary activities of Jobbik's deputy chairmen – including the now ousted, presumably less moderate politicians – showed that their parliamentary questions and speeches (the key activities for opposition MPs) were primarily focused on corruption and social policies, the issues that are the focal points of the left's criticisms of the government as well. The traditional culture war issues, on which Jobbik finds itself broadly on the same side as Fidesz and opposed to the left, were far less pronounced. Remarkably, Jobbik's criticisms of the government's public procurement and social policies were often indistinguishable from those of their colleagues on the left. In another clear step to reach out to leftwing voters, Jobbik even condemned the closure of the respected leftwing daily newspaper Népszabadság.



2.3 | Outlook on the Hungarian opposition in 2017

Following the invalid referendum on refugee quotas, the biggest mistake that the parties of the left could make is to assume that the refugee issue has lost its power over public opinion, and that their incoherent, often evasive response to the crisis will be sufficient if the issue once again moves to the fore. One of the key points repeated by commentators was that many of the 3.3 million who supported the government's position in the referendum are leftwing voters or potential leftwing voters who would be loath to back Fidesz in a general election. That is probably true, but it is very likely that however grudgingly, some of them would nevertheless back Fidesz if the refugee issue bounces back and the left's indecisiveness is seen as too risky.

For Jobbik, the challenge is different. Few people would doubt that Jobbik rejects immigration, but its leaders nevertheless realised the seriousness of the migrant problem too late and they have been lagging behind Fidesz on this issue ever since. In particular, Fidesz has the edge because they have actual experience in limiting the inflow of migrants, and despite being in power, they can't be suspected of being weak or prone to compromise on this issue. As an opposition party, Jobbik can't compete on the experience front, so its only option is to try to identify weaknesses in the government's handling of the issue.

With the campaign for 2018 effectively starting in the fall of 2017, the window for a leftwing primary is narrowing quickly, without a real agreement in sight. Even if the primary will indeed happen, however, numerous questions remain. The most important is

whether it should be an open primary, in which anyone can vote, or a closed primary, where a subset of the electorate can vote who have registered as leftwing supporters based on some criterion or criteria that still need to be determined. The biggest concern on the left is of course that Fidesz will mobilise enough of its own supporters to manipulate the outcome of the primaries in a way that serves its own electoral ends. If there is a way to do so without major PR damage to itself, it is almost certain that the governing party will try.

Following the endless debates about electoral cooperation on the left in 2013-2014, one can conclude that the leftwing primary has to be done soon or the idea should be forgotten. Regardless of whether a leftwing primary will take place in 2017 or not, it is safe to say that this issue will dominate the first months of 2017. Given the fact that none of the leftwing and liberal parties has managed to unite the vast majority of the potential voters of the left, cooperation in a way or another will be a must at the next parliamentary elections. The main questions of 2017 are the format and the participants of such cooperation, while the leftwing and liberal parties should also prepare the campaign and develop policy proposals.

While Fidesz is getting more radical, causing serious strategic difficulties to Jobbik, the radical right party seems determined

to stick to its more moderate tone, targeting disillusioned Fidesz voters and even leftwing supporters. The half-hearted denials of Jobbik's extreme nationalism are now far less important components of the efforts directed at repositioning the party than an emphasis on the bread and butter issues that Vona - correctly - perceives to be the core concern of the growing swathes of undecided voters who seem to be fed up with Fidesz. Unlike the left, which is deeply divided over the refugee issue, Jobbik also finds itself in alignment with an overwhelming majority of voters on the single most important challenge outside the "money" issues (i.e. corruption and economic/social policy). The main risk for the left in 2017 is that at least some of those who support the left without a strong commitment to liberalism, either out of tradition or because they share the perception that Fidesz's policies massively exacerbate inequality in Hungary, may decide that Jobbik is not only a palatable alternative, but also the only one that is politically coherent and united enough to challenge Viktor Orbán in 2018. However, given that the total support of the leftwing and liberal parties is significantly higher than that of Jobbik, it is still more likely that the left will be considered the main challenger of Fidesz at the next elections. If MSZP and DK could strengthen their positions among the traditional leftwing voters, and Együtt and Párbeszéd could reach out more effectively to the younger, green and liberal voters, then the left could surely start the 2018 electoral campaign from a better position than Jobbik.

3

Hungary's place in the world in 2016



3.1 | Is Hungary big enough for Orbán?

There is always a sense of excitement among journalists and political analysts before Prime Minister Viktor Orbán's annual speech at the Summer Open University of Bálványos, which is essentially a festival for ethnic Hungarian youth in Romania. This is one of the two recurring occasions each year (the other being the Kötcse event, a gathering of the rightwing elite in Hungary), when Orbán is likely to say something big, provocative or even outlandish. It is also an event that allows a rare – though carefully crafted – glimpse into the thought processes of Hungary's long-time ruler.

His speech at this event in 2014 might well become known as the ideologically defining speech of Orbán's long term in office. Appropriating a label that US political analyst Fareed Zakaria coined as a description of what westerners view as an undesirable political regime type, Orbán promised to turn Hungary into an illiberal democracy where the individual's interests would be subordinated to the needs of the nation. Even with widespread suspicion that Orbán does not have a detailed idea of what his illiberal democracy means in practice, commentators have since used the speech and the concept of illiberal democracy as the prism through which they evaluate much of what Orbán and his government are doing.

Orbán's I told you so

This year's speech offered less room for speculation, but it was provocative enough. Seizing on the endless stream of terror attacks and killing sprees in the West, Orbán struck a contrast between the fear that dominates public life in western Europe and the calm that prevails in Hungary. From Orbán's perspective, this is a clear

vindication of his anti-refugee stance and, by the same token, a repudiation of the German "Willkommenskultur", the willingness to welcome refugees with open arms, which Orbán might have been the first head of government in the EU to decry, emerging as an opinion leader on the European far-right in the process.

Orbán neatly connected this to his earlier ideas about the decline of the West, which – this is crucial to point out – started well before the refugee crisis and his current criticisms of the European Union. As the prime minister emphasised, Hungary and the broader region that follows the policy course he pioneered would become the new land of opportunity and peace that would surpass decadent, lazy and culturally weakened western Europe in every way. Its emphasis on openness and liberalism paves the way for western Europe's self-destruction, Orbán argues, while Hungary, which has resisted this temptation, stands strong amidst the crisis afflicting the continent.

Though Orbán did not expound on this, the logic he used to frame the current situation ties in neatly with the grand narratives he had previously used to frame his policies over the last years. First, there was the rhetoric of revolutionary overhaul, of creating an entirely new system in the aftermath of the 2010 election to replace the failed post-transition regime. Indeed, Fidesz used its constitutional majority for a vast overhaul of the political system. Then, around 2014, Fidesz politicians began talking about a phase of consolidation, though this was fairly short-lived and never became a major hit in the ruling party's communication. Nevertheless, the term was especially apt as it gave some hope to those who were broadly sympathetic to Fidesz but wanted the machinery of change to slow,

while for party stalwarts it simultaneously held out the prospect that in reality what it meant was that Fidesz would be consolidating its political and economic gains to take control of Hungary for 15-20 years, as Orbán had ominously declared in Kötse in 2009. Consolidation is then logically followed by stability and order, and especially in light of the stark contrast with the terror in the West, this is psychologically preferable to continuing upheaval in any case.

This was not the only level at which Orbán's speech meshed with his previous rhetoric. He also portrayed his stance on the refugee crisis as yet another instance of a brave maverick resisting the mainstream liberal dogma, standing up for the common man against the elites who pursue their own cosmopolitan project against the masses who are far less open to the immigration, cultural mixing, etc., that the latter project implies. Casting himself once again as the poor David battling a panoply of Goliaths, he said that someone who dares speak honestly about these issues must be willing to endure "stigmatisation [...] exclusion [...] and being exiled from the European mainstream." Thus, Orbán said, he was "choosing a manner of speech that's banned in Europe".

An all-out attack

This is classic populist fare and nothing new for Fidesz, but there is one noteworthy aspect. Even Fidesz's most ardent supporters would no longer deny that the governing party is in total control of Hungarian politics, and thus the underdog routine was wearing thin. Given its increasingly long term in government, Fidesz can no longer sell the idea that it is fighting the Hungarian establishment, which is why the international dimension is so crucial in terms of its communication. There are powerful establishment forces in the international arena that Orbán can continue to fight.

And the refugee crisis might have given this rhetorical tool a new lease on life, and it has, consequently, played an inestimable role in stabilising Fidesz's support despite the fact that by now the

vast majority of Hungarians perceive the government as corrupt. Orbán's speech also used the refugee crisis as evidence to buttress his general call for taking away competencies from Brussels and returning power to member states. The European Commission's alleged dictate of a quota against the opposition of member states – never mind that a large majority of member states adopted the quota –, said Orbán, showed that member states had a better understanding of problems and solutions on the ground than Brussels. According to Orbán, this was also manifest in the fact that ultimately member states solved the problem by closing their borders, while the EU dithered.

Citing the EU's failure to properly handle the refugee crisis, Orbán has emerged as a proponent of taking powers away from the European Union, and it is important to point out that this marks a eurosceptic shift in his position. Brussels has been the target of intense criticism by Orbán for years now, but for the most part his attacks were less specific and they focused on getting the EU to leave him alone. The specific goal of disempowering Brussels opens up a new dimension of his euroscepticism, and while the original goal – that is making sure that Brussels does not interfere with his policies – remains unchanged, the new, more comprehensive attack on Brussels may signal that he also pursues other, expanded objectives.

What's the goal?

It is important to note that even as Orbán espouses what is essentially a Europe of Nations position on the European Union, he still firmly rejects the idea of actually quitting the EU. Still, at the same time some of his most trusted lieutenants publicly toy with the idea of leaving. It seems extremely unlikely that the minister in the charge of the Prime Minister's Office, János Lázár, or the government spokesman Zoltán Kovács would dare make such declarations without approval from the boss. Thus, Fidesz appears to be in a phase of experimentation and is playing both sides of the

fence, pressuring the EU to change while it also testing the solidity of the public's support for the European Union. Few believe that Fidesz would want to leave the European Union while the latter is effectively funding Hungary, once funding levels drop after 2020 Orbán might well be tempted to get rid of the outside naggers if the public lets him get away with it.

Whether they will is of course another question. Public opinion surveys still show overwhelming support for EU membership, though it is far from clear how deep this support goes and, more importantly, whether the public also disagrees with Orbán that power should increasingly be taken away from Brussels and returned to member states. In any case, if it ever intends to leave the EU, or wishes at least to keep this option open, Fidesz is likely to lay the groundwork for such a decision long before it is actually publicly proposed, and it is entirely conceivable that this preparation is precisely what's at work in the government's current criticisms of Brussels.

When ambition is hemmed in

Orbán is known for strategically ambitious speeches that are vague on details. In a sense, his most recent speech at the Bálványos Open University was merely an extrapolation of earlier themes, such as his critiques of the EU, his attack on the liberal European elites and his rejection of political correctness. Yet in a sense it was more ambitious, as Orbán clearly wished to address issues that were relevant beyond Hungary. He is no longer just asking the EU in provocative ways to keep out of his affairs, he is now actively challenging the EU's leadership, its powers and its ideological

underpinnings. Similarly, he also staked out a clear position in the context of US domestic politics by supporting publicly Donald Trump, which implied some risks that even more powerful players would have been ordinarily careful to avoid.

The problem for Orbán appears to be that he has outgrown Hungary. Having amassed all the political and material fortunes one can hope for, he is no longer satisfied with being the big fish in a comparatively small pond. At this point, no one would dispute that, for better or worse, Orbán has become the defining political figure of post-transition Hungary. But at 53 he is still fairly young by political standards, and he has already been in power for longer than any other democratically elected prime minister before him. Since the lack of power associated with it makes the only theoretically higher office, the presidency, unattractive for an ambitious person, for Orbán there is nowhere left to advance in Hungary.

It has been long rumoured that Orbán is not interested in micro-managing domestic affairs, and that in reality his minister of the chancellery, János Lázár, is running much of the government. The recent creation of two sub-cabinets, an economic one led by the minister of economy, Mihály Varga, and one for general social policy, led by Lázár, makes this arrangement more public, as the sub-cabinet level is likely to effectively operate as the cabinet-level. This will provide Orbán with more room to build himself up as a European visionary and one of the leading populist voices on the continent. There is of course no obvious pathway to convert his growing visibility into a specific position, but as we noted previously, Orbán is still fairly young, and he has several terms left to exploit potential shifts and changes in European politics.



3.2 | Hungary's European relations – an overview

2016 was another active year in Hungarian foreign policy. In the following, we will review Hungary's external relations with some major European partners, starting with the EU, moving on to Germany and concluding with Hungary's central and eastern European regional allies, the Visegrád countries (V4).

Turning more into less - Orbán's EU policy

As we have noted above, Viktor Orbán is increasingly feeling that Hungary is too small for his ambitions. The EU on the other hand is one of the few institutions that is able and occasionally (rarely) willing to slow some of his more controversial domestic policies. This explains Orbán's recent initiative regarding European politics: a four point proposal to "reform" the EU. Most interestingly, the prime minister, who has been one of the loudest critics of Brussels' presumed overreach and its meddling in domestic politics, is seeking to establish himself as one of the most prominent advocates of cutting the EU's powers back to size, is now calling for a symbolically important expansion of European cooperation: the Hungarian PM is proposing the creation of an EU army.

Given his general claim that member states should be given more leeway to govern themselves and that the EU's powers have proliferated beyond the desirable level, there appears to be a contradiction here, especially since he is calling for joint institutions and policies in an area that is considered the most sacred vestige of nation-state power. With some caveats, the contradiction is

only seeming, however, for Orbán's proposals are fairly consistent. On the whole, he wishes to weaken the European Union wherever the EU's powers impede his own interests and policy goals, and he wants to expand the EU in the area where he feels joint action is necessary and beneficial. If all went according to Orbán's plans, the EU would be leaner and weaker in most areas where the Hungarian prime minister wishes to monopolise decision-making powers in his own hands, and slightly stronger in a few areas where he feels the benefits exceed the costs of ceding some power to the centre.

A new security structure

The latter is primarily the area of security policy, which is of course almost exclusively about keeping refugees out. During most of 2015 and 2016 Orbán faced a strong majority of governments in the EU that rejected his calls for sealing the EU off from refugees, which led to his unilateral decision to build a border fence and physically stopping many refugees from entering the EU through Hungary. In light of the majority view that wished to pursue a more permissive approach and sought to redistribute the refugee burden among the member states, Orbán argued that the EU's policies had failed and that only unilateral policies would work in managing the crisis. Public opinion in the EU turned sceptical very quickly, however, and political opinion in the EU also began to shift.

Thus Orbán now argues that the EU countries should pool their resources to jointly pursue the Hungarian policy of keeping refugees out (without a concomitant joint refugee policy, which Orbán wishes to reserve as a nation-state controlled policy area). The idea of a European army is not new and it is not very likely to succeed in the near future, but Orbán has little to lose. The proposal can be used to refute criticisms that he is anti-European while brandishing his credentials as an anti-refugee security hawk. Moreover, if the proposal would gain traction, Hungary stands to benefit, for essentially it would shift some of the costs of its expensive border protection on the community.

A glorified free trade zone

At the same time Orbán has also reiterated his call for weakening Brussels in most areas. He argues that the European Council and the European Commission should return to their original functions, which would make them little more than administrators of a free zone – and of course distributors of cohesion fund and other subsidies, which Orbán, whose family and friends have massively benefitted from these funds, continues to endorse enthusiastically. Orbán does not want the EU to encroach on Hungary's refugee rules, nor on its social and economic policies. Most importantly, he does not wish to be harangued about his "reforms" of the democratic institutional structure, which may well be his most important policy legacy in terms of ensconcing Fidesz in power for the 15-20 year period he has envisioned since 2009.

Orbán is also seeking to undermine the EU in more subtle ways. He has emerged as a champion of expanding the EU further, opening it up to Serbia and a host of other countries in the region. This is ingenious because it allows Orbán to curry favour with regional governments that aspire to EU membership, adds another layers to his claim to be EU-friendly, while at the same time the implementation of another round of expansion would add to the already massive problem that the European club faces from its inability to "digest" the countries that have joined over the last twelve years. Even in a best-case scenario, a 27 or 28-member European Union is extremely difficult to steer towards the consensus that more ambitious integration policies require. Furthermore, recent years have revealed several major chasms between member states, and these have paralysed the EU in many respects. The accession of further countries with similar interests as the new central and eastern European member states, and with similar flaws in their levels of democratic development, would render the scenario where the EU is reduced to a mere free trade zone considerably more likely.

Allies and enemies

Brexit presents Orbán with both challenges and opportunities. On the one hand, if the UK is really going to leave, it will mean the withdrawal of a powerful country that in many respects pursued similar policies towards the EU – at least since the Tories took over in 2010 – than the ones Orbán is proposing now. In fact, even if the process is slow and the UK remains a member for while longer, it is likely to have little influence on the further evolution of the EU; the Brexit decision has essentially sidelined the British government.

But the news is not all bad for Orbán. Eurosceptic populists are on the rise everywhere, and while electoral fortunes are notoriously hard to predict, a scenario where Orbán ends up with scores of allies over the next few years is hardly unimaginable. His celebrity status in European far-right and eurosceptic circles all but guarantees that he will play a leading role if these forces manage to form a powerful faction comprising several national governments. Moreover, while all indications are that the Brexit decision has shored up popular support for the European project in many member states, this enthusiasm may prove short-lived. In the meanwhile, the UK's decision to leave undermines the notion that the EU is an inevitable choice for European states. Certainly, it has emboldened anti-EU populists elsewhere, and the success of the latter can also indirectly benefit Orbán. He might well say that his reforms are a more palatable alternative to total disintegration.

No meaningful challenge from Brussels

2016 has also been remarkable in that despite the Hungarian government's near relentless castigation of the EU, including the use of vast amounts of taxpayer money to attack Brussels in the media and outdoor advertising, the open conflicts of previous years are on pause. The operative word is open, however. The EU is no longer challenging the authoritarian aspects of Orbán's rule, but they are still willing to challenge him on public policies. Even as they

are constantly being called out by Viktor Orbán, the EU's leading officials continue to ignore the provocations of the Hungarian PM. Though there is some indication that EU officials are finally learning that Orbán can be best pressured by leveraging the money spigot, there is no earnest attempt to comprehensively clamp down on corruption in Hungary. This makes the fight between Orbán and the EU very one-sided, and for now Orbán is not likely to face a meaningful challenge from Brussels.

Less tensions with Germany as well

Lately things have been quiet on the German front as well. Though there was every indication that even before the refugee crisis the German government was often unhappy with Orbán's authoritarian policies, his pro-Russian foreign policy orientation and his populism, for years both sides thought it wise to not voice their disagreements in public. Some high-level representatives of Chancellor Angela Merkel's coalition partner, the social democratic party SPD, sometimes criticised Orbán's anti-democratic practices, but the attacks were never sustained enough to cause inter-governmental tensions. With the refugee crisis, Fidesz threw caution into the wind and began to openly attack Merkel on a variety of platforms. This continues to date, though the intensity has somewhat diminished.

Still, it is difficult to fight with a far larger country who just ignores you, and Merkel and her government have not reacted at all to the verbal assaults emanating from the Hungarian capital. Of course, in the meanwhile relations have cooled considerably; Merkel doesn't just ignore the attacks from Hungary, she mostly ignores the country altogether. Yet it is also apparent that Angela Merkel is in a weaker position than she was before the refugee crisis, while both Orbán personally and his anti-refugee rhetoric are increasingly well-known and popular on the German right, where he is viewed as a hero of sorts. Crucially, those that revere Orbán include the sister party of Merkel's Christian Democratic Union (CDU), the major Bavarian party CSU (Christian Social Union). A comparison of the respective relations

between Merkel's CDU and Fidesz on the one hand (frozen), and CSU and Fidesz on the other (enthusiastic friendship) is a key indicator of the divide that characterises the German centre-right. Though Orbán is mainly a symbolic figure in this conflict, he is nevertheless not without impact on German public opinion.

A refugee driven alliance: Visegrád 4

The most important movement in Hungary's European relations occurred in the form of increasing coordination between the members of the Visegrad Group (V4), which comprises the Czech Republic, Poland and Slovakia, in addition to Hungary. The V4 has been around basically since regime transition in the early 1990s, and it has rested on the notion that the four member states share a historical connection that sets them apart from the other countries in the region, even those that like them share a legacy of communist dictatorship. Yet the cooperation has remained mostly superficial, for whatever the strength of the historical ties, their often divergent interests, frequent competition for investments, ideological incompatibilities and, occasionally, clashing nationalisms have often undermined deeper cooperation.

None of these basic sources of dissent have disappeared, but the emergence of the refugee crisis in 2015 generated an overriding issue that unites the V4 countries and trumps those factors that have weakened their cooperation. The V4's unanimous rejection of refugees and their willingness to endorse drastic measures to keep them out, along with a far-right and anti-Muslim rhetoric when it came to warning about the dangers of immigration, have allowed the V4 to present an unusually united front within the EU. They also played an instrumental role in undermining efforts at formulating a coherent joint refugee policy at the EU level. In addition to their emphatic rejection of refugees, the V4 are also increasingly alike in their euroscepticism. The Czechs, with the politically most moderate government among the four countries, have always been more eurosceptic than the other countries in the region, and while that may

not necessarily mesh with the majority view in their countries, the same holds for the nationalist rightwing governing parties in Poland and Hungary. Slovakian Premier Robert Fico has also criticised the EU in the wake of the refugee crisis and Brexit.

Still, it bears pointing out that for the time being V4 cooperation remains a very limited affair; apart from trying to thwart a joint EU refugee policy, these countries don't do much together and remain deeply divided on a number of issues. Thus far, discussions about a jointly-operated TV channel are among the rare palpable manifestations of V4 cooperation. Moreover, deep rifts remain. Thus for example the Polish and Hungarian governments, which are very close ideologically and pursue similar anti-democratic reforms, are at odds over their respective attitudes to Russia. Despite its authoritarian leanings, the Polish government remains staunchly anti-Putin, reflecting a resentment that probably runs deeper in Poland than even the hostility towards refugees. Orbán, by contrast, has shifted from sharing this hostility towards the Russian leader to becoming his potentially strongest ally among European heads of government. Their hostility towards refugees and rejection of EU interference unites Fidesz in Hungary and PiS in Poland, which may be sufficient to plaster over the contentious Putin issue. But the latter may yet come to the fore if the conflicts between the EU and NATO on the one hand and Russia on the other intensify in the future. Similarly, Fico and Orbán may be buddies right now, but the situation of the ethnic Hungarian minority in Slovakia will always be a potent source of friction between them, especially in light of Fico's nationalist outlook and the anti-Hungarian rhetoric of some of his allies.

What the V4 cooperation still lacks is a common vision and unity of purpose that binds these countries together in a way that supersedes conflicts and disagreements in other areas. For the time being, the V4 remains the alliance brought together by refugees. Orbán, who wishes to play a greater role at the EU level, has an interest in keeping the alliance together, but he will need more than refugees to do so in the long-term.

3.3 | In international politics, Orbán rises

Viktor Orbán is not loath to say unconventional things or make unusual bets. His quasi-endorsement of Donald J. Trump at the Bálványos summer camp was a risk that seemed to be going too far. Which is not to say that he did not have his reasons. After the comments that both Barack Obama and Bill Clinton had made about his policies, and Orbán's recollection of Hillary Clinton's tenure as secretary of state, the Hungarian prime minister had every reason to assume that a Clinton presidency would be a disaster for him. Some politicians might have hedged their bets in such a situation, but maybe Orbán figured he had little to lose, a Clinton White House would be very negative news for him anyway. Moreover, his endorsement of Trump was tepid, he merely said that for Hungary (meaning for Orbán and his circles) Trump would be a much better choice because of his laid back expectations on the issues that normally trigger conflicts between Orbán and US administrations, to wit his anti-democratic domestic practices and his friendship with Vladimir Putin.

That Trump was a much better choice for Orbán personally was indeed clear, but saying so explicitly risked offending a potential President Clinton. Even Orbán was backtracking as the election approached and Clinton was far ahead in the polls – a highly unusual thing for him to do. His spokesman said that Orbán had never actually endorsed Trump, which in a very formalistic sense was true.

Nevertheless, at the end of 2016 the American people, or at least the American people in large parts of the Rust Belt, have given Orbán the most humongous present imaginable. With the ouster of the Democratic administration in the US, he has been relieved

of his most important international opponent, a highly influential player that occasionally used its vast influence to nudge Orbán back from the brink, pressuring him to be slightly less repressive towards civil society and critical media, or to not go too far in rehabilitating controversial World War II or interwar figures. By contrast, the only expectation Trump has of Hungary – as a NATO partner – is to vastly increase defense spending, which, as it happens, was among the government's plans anyway. But that's not where Orbán's luck ends. He is also especially fortunate in that the Republican President-elect has strayed far from the traditional anti-Russian conservative foreign policy line, which would have been another type of disaster for Orbán because a John McCain-type of president, for example, would have savaged him over his ties to Putin.

A durable alliance?

Despite the fact that Trump was clearly the better choice for Orbán, a word of caution applies to what appears to be emerging as a very good relationship with Donald Trump. Let's first take a look at the bright side for Orbán. There has been much speculation in the Hungarian leftwing media about the question of just how friendly Trump was with Orbán, whether he really invited the Hungarian prime minister to the White House, etc. That misses the point. Right now, even the worst case scenario – namely that Trump is benignly uninterested in Orbán – is a great one for Orbán. It means that he won't be pressured for his domestic or foreign policies by the US. And it may well turn out that things are in fact much better for him, in other words it is conceivable that he will finally receive a real invite to the White House, which has eluded him thus far. But

even the minimum he can expect from Trump marks a sea change in Fidesz-US relations.

At the same time for both his domestic supporters and his international friends, Trump is a blank canvass on which they appear to be projecting their desires for the future course of US policy. Trump, for his part, appears too volatile in his preferences to reliably pin any long-term hopes on him. It is very unlikely that the President-elect will ever care about Orbán's domestic practices, and that's indeed a major and very likely long term plus for Fidesz. In foreign policy, however, things are more uncertain.

The Putin gamble

His friendship with Putin was Orbán's most important foreign policy bet. It was once the chief reason for his isolated position in the West, but now, with the election of Trump, it appears to have paid off. But Orbán can't cash his winning check yet, that will take years.

The President-elect has often expressed his respect to Putin as a leader, and clearly his election is a signal that some degree of softening in US-Russian relations is to be expected. But Trump never said that Putin was good for the US, his compliments were rooted in the notion that a tough authoritarian leader is good for the state – presumably any state, in fact, Hungary included. This could possibly lead to a long-term detente in the relations between the two major powers, if Trump decides that American interests are not

implicated in an expansion of Russia's sphere of interest in eastern Europe, for example.

But Trump's statements about Putin do not imply that he plans to be deferential to his Russian colleague if and when American and Russian interests do collide. Whatever Donald Trump may be, he probably won't be a pushover in a situation involving a conflict of interest, in fact the general risk is that he is more likely to lean towards unnecessary escalation than mainstream politicians are.

The thaw in American-Russian relations will make Orbán's life a lot easier, at least in the near future. But if US foreign policy clashes in with Putin's in the near future then Orbán may yet find that the screws that Trump's election has loosened will be tightened again. A situation where Trump cares about the state of Hungarian democracy or even corruption is highly unlikely to arise. Nevertheless, if the US under Trump will find the need to pressure Hungary again, they won't be choosy when it comes to the tools.

Orbán's high stakes gamble on Putin has paid off massively this year. He is now closer to the mainstream of European politics than ever since his election in 2010, and he hasn't had to compromise any of his anti-democratic domestic policies or controversial foreign policy commitments. The gamble remains a gamble, however, and Orbán still must pray that he won't be forced into a situation where he has to choose between East and West before a significant majority of the Hungarian public is willing to go down the eastern path with Fidesz.

3.4 | Outlook on Hungary's place in the world in 2017

For the time being, Orbán's foreign policy star rises and falls with the success of like-minded politicians across the globe, especially in Europe. As we have discussed in detail in the foregoing pages, 2016 has been his most successful foreign policy year to date; not only is he no longer a pariah in European politics, but his brand of politics has increasingly arrived in the mainstream. In substantial segments of the European political sphere, especially in eastern Europe, he is viewed as a model and leader of sorts. It is impossible to predict whether 2017 will be as gracious to the Hungarian prime minister as 2016 was, but we want to point to the factors that are most likely to determine the fate of Hungary's foreign policy standing next year.

The first is the electoral and subsequent governmental success of populist politicians. This does not necessarily imply an electoral victory, in many scenarios it is enough if their electoral performance effectively pressures mainstream politicians to shift in a direction that is favourable for Orbán. 2017 is not an election-heavy year in Europe, but there will be general elections at least in Germany, France, the Netherlands and the Czech Republic, maybe in Italy as well, along with some presidential elections that might matter. A shift towards the right and in a more pro-Putin direction in France would benefit Orbán, and the same is true for the Netherlands. Virtually any change in Germany that weakens Angela Merkel would also be a plus, though there is a caveat: a left-wing coalition might also likely include some politicians who are less tolerant of the Hungarian PM and might want to pressure him, though probably not at any price. Overall, with respect to the likely electoral shifts, most conceivable scenarios range from neutral at worst to significant improvement for Orbán.

The biggest risk for Orbán is the one that we have been emphasising for years: a further deterioration in the relations between Russia and the West would leave him in a very uncomfortable position. While this seems less likely now, major tensions could erupt over any number of sensitive and unpredictable situations, from Ukraine over the Baltics all the way to Syria. This problem is not limited to Russia, however. The rise in Orbán's prestige owes in large parts to the success of a broad array of like-minded leaders, including but not limited to Jaroslaw Kaczyinski in Poland, Robert Fico in Slovakia and most importantly, Donald Trump in the US. Like Orbán himself, these figures are often volatile in their short-range preferences and are not committed to long-term, ideologically-centred alliances. As long as their interests are aligned, these partners will strengthen Orbán. But their interests can also easily collide. It is impossible to predict what events or developments could bring about a clash between such self-centred players. What is predictable, however, is that while the relationship between Germany and France, for instance, was fundamentally stable even when the personal ideological/relations between their mainstream leaders were cooler, such basic stability will not apply in the dog eat dog world in which populists predominate.

His populist partners will not only dump Orbán in a matter of seconds when his friendship is no longer expedient, but they will also easily turn on him when a conflict is in their best interest. This risk is especially great with respect to Trump, who has no regional interest in Orbán nor any long-term ties to him. Orbán clearly subscribes to this worldview himself, and he believes fundamentally that all nations are only concerned about themselves.

Still, the odds point towards a good year for Orbán. The biggest prize would certainly be a real official invitation from Trump to the White House, an honour that has eluded Orbán thus far. This would give Orbán's foreign and domestic policy an imprimatur from the

most important western player and neutralise many criticisms of these policies by other international figures and institutions. Even without Trump's seal of approval, however, Orbán is likely to have another good year in 2017.

4

The Hungarian economy in 2016



4.1 | General overview of the Hungarian economy

The Hungarian economy in 2016 continued on the path that had been shaped in previous years. It can best be summarised in short as unsustainable macroeconomic stability based on tax reductions, austerity and a massive inflow of European Union development transfers.

Macroeconomic stability

Macroeconomic stability has been a cornerstone of Viktor Orbán's government. The key element of this philosophy has been the reduction of public debt, a problem that had burdened Hungary ever since economic transition, and had even lead to the country losing its policy autonomy in the form of an IMF bailout package in 2008-9, amidst the great global financial crisis. Hungary's sharply increasing, already high debt level, due to several years of extreme primary and secondary budget deficits had been the direct cause of why investors priced out Hungary from sustainable private sector debt refinancing back then. The issue of public debt had therefore always been in the focus of economic debates in Hungary. As a response, reducing public debt was enshrined in the new Basic Law of the country at the beginning of the administration, in 2011. With medium economic growth and low primary budget deficits, the debt to GDP ratio has indeed been edging downward from above 80% of GDP towards the 60% benchmark set. In 2016, it stood somewhere around 74% of GDP.

The complete picture is that the government has been involved in a debate about whether the loans of the state owned Eximbank should be counted as part of public debt. Also, public spending from

the previously nationalised private pension funds had contributed to reducing the debt to GDP, without satisfactory guarantees for future pension payments. This raises the concern that there is in fact a significant implicit public debt in the form of outstanding loans and future pension obligations that has been externalised from the figures presented to Eurostat.

The formal macroeconomic headline figures, however, have been convincing for international rating agencies, who advise investors not based on assessments of longer term sustainability but on short to mid-term investment prospects. The slow but sustained tendency of Hungarian public debt to decrease has been in sharp contrast with other countries worldwide, where the general tendency has been for public debt to increase since the beginning of the Great Recession in 2008. Hungary has now been upgraded by all major ratings agencies, out of its previous junk category. Such an elevation has clearly been one of the targets of government policy, in spite of previous political rhetoric on their part denigrating ratings agencies. Refinancing rates have accordingly decreased.

Further elements of sustained macroeconomic stability include the low inflation and interest rates, at points dipping into deflation. This is clearly one of the success stories of the new management of the Hungarian National Bank, headed by previous Fidesz economy minister György Matolcsy. The previous leadership of the central bank had maintained a policy of inflation targeting, which involves keeping interest rates high, at a cost of suppressing investment in the economy. Along with the funding for lending programme, this is one of the successful innovations implemented by National

Bank Chairman. His reputation based on achievements in these areas, however, has been greatly tarnished by the unusual role played by the National Bank in investments in property, paintings and other assets using exchange rate gains that Central Banks usually reserve for roles strictly related to monetary policy. There are also media reports about nepotism within the institution, as well as the Bank using taxpayers money to set up university departments and scholarships across the country that are meant to spread the 'unorthodox' economic philosophy of the Bank chairman himself.

It is likely, however, that Hungary's higher inflation rate relative to its Visegrád neighbourhood had been caused by constant increases in taxation, a fiscal cause that cannot be remedied by monetary policy. The new management decided to lower interest rates. Due to a discontinuation of tax increases, this has been a successful policy, which also has not resulted in the extreme depreciation of the national currency that sceptics had warned about. Inflation gradually subsided, and was as low as 0.4% in 2015, with similar levels continuing into 2016. It must be added, however, that the lower interest rates are largely a symbolic victory, since corporate lending rates are defined not by this headline interest rate, but by the vital and progressive funding for lending programme of the National Bank, guaranteeing artificially advantageous corporate funding rates at 2.5 percent by commercial banks. For a full picture we must also add that advantageous external conditions, namely carry trade from monetary expansion in the United States and the European Union, has also contributed towards favorable conditions for lowering interest rates.

However, the key element of macroeconomic stability has been low primary deficits, which is seen by investors to be in sharp contrast with the previous governments that had run excessive budget deficits for long years, without even a conscious countercyclical policy aim. Since taking office, the Orbán government has introduced massive cuts on the expenditure

side in order to achieve fiscal stability. These enormous cuts in vital human capital producing sectors such as education, retraining, healthcare and social policy, as well as in public infrastructure, will be analysed in the next section dealing with competitiveness. Here we only stress that restoring and maintaining a fragile macroeconomic stability by bleeding out the underlying contributors to human capital formation, growth and competitiveness, is not a sound policy. However, it has had the effect of allowing the excessive deficit procedure to be lifted by the European Commission. The return of growth in Hungary, mostly due to EU transfers and major foreign direct investment projects, has also helped in this respect.

Apart from high indebtedness, the inability to maintain growth was another defining characteristic of the Hungarian economy. There was a decade of considerable economic dynamism immediately after economic restructuring, starting from around 1997. This mostly had to do with the reconstruction effect of previously unused capacities coming online again. However, growth began to decline heavily even before the Great Recession, by around 2005. With the emergence of the global financial and economic crisis, Hungary suffered a devastating economic collapse in 2008–09. The subsequent IMF loans, and its austerity-based policy measures resulted in a massive drop of economic output. It is in contrast to these years that the return of medium level (2–4% annually) growth into the Hungarian economy after 2013 signaled an era of improved economic performance, creating the possibility for the elimination of fiscal imbalances, exit from the excessive deficit procedure, and eventually upgrading by ratings agencies.

GDP growth decreased to around 1.9% in the first half of 2016 after reaching 3.1% in 2015. Quarter to quarter the Hungarian economy suffered its first dip of -0.7% in the first quarter of 2016, but it then recovered with a 1% figure in the second quarter, as well as 0.2% figure for the third quarter. It is important to add that European Union transfer payments were in a temporary halt

during these months, which clearly had an effect on investments and output.

For the full year of 2016, the European Commission expects a GDP growth rate of 2.1%. This drop is mainly due to a gap in investments financed by European Union transfers, a key driver of growth in Hungary. Investment contracted by 16.5% in the first half of the year, after an expansion of 3.8% in 2015.

“Work-based society” – workfare regimes in Hungary

The growth of domestic demand accounts for much of the increase in GDP. Private consumption grew by 4.3%, underpinned by continued real wage growth and employment. Unemployment fell

to 4.9% in September 2016, which is a very low rate in comparison to the rest of the EU field. However, the Hungarian labour market is not without problems. Simultaneously, employment remains low. The employment rate peaked in 2008 at around 56%, followed by a slump due to economic collapse and austerity. After the change of government, the employment rate began to climb again, and reached almost the EU average at 64% according to official figures from the Central Statistical Office. However, much of this growth has been due to public works programmes, which at certain points employ as many as 200,000. It has been demonstrated that these miserably paid occupations, coordinated but unmonitored by the Ministry of the Interior, are highly inefficient as a conduit towards real jobs in the economy. Only a small minority of those involved gain permanent employment, mostly due to the lack of training during the period of public works occupation. Contrary to popular myths, they do not serve to initiate in the world of labour those

Table 1. Key indicators of the Hungarian economy, 2013–2016.

	2013	2014	2015	2016 forecast
GDP annual change	2.1	4.0	3.1	2.1
General government balance	-1.4	-2.2	-1.8	-2.6
General government gross debt	76.6	75.7	74.7	73.4
Harmonised index of consumer prices	1.7	0.0	0.1	0.4
Unemployment	10.2	7.7	6.8	5.1
Employment rate (without public works and labour abroad)	54%	56%	58%	n.a.
Net real wage growth, entire economy, y-o-y	4.0	3.8	4.1	7.5
Net inflow of EU resources %/GDP	5.7	5.8	6.9	n.a.

Source: Eurostat, European Commission, National Accounts

who had never held a job, as most participants had been employed before. Above all, they are a drain on the public coffers, rather than a way of creating taxpaying jobs. In neighbouring Slovakia they are officially not considered part of the employment rate. In Hungary, without the public works programmes the employment rate would be reduced to around 60% from the above mentioned 64%.

A further reducing effect has been the increasing labour migration out of the country, mainly to the United Kingdom, Germany and Austria. This accounts for a further two percentage points of employment, reducing the effective domestic employment rate to around 58%. While with the total figures Hungary has almost managed to be in line with the EU average, with these reduced figures it simply managed to catch up with the rest of the Central and Eastern European pack. This group, however, with the single exception of the Czech Republic, had employment rates way below the EU average, due to its low wage, low productivity model of capitalism.

Thus we can say that overall there has been some job creation in recent years in the Hungarian economy, raising the employment rate from the previous high of 56% to around 58%. Most of this can be accounted for by the massive (6-7%/GDP) inflow of European Union cohesion transfers in the economy, much of which flows into the labour intensive construction sector. There have also been new employment opportunities created in the large scale foreign direct investment projects of mainly automotive investors.

Public works programmes are financed effectively from the same budget that had been eliminated in the active labour market policy chapter of the budget. This is a major problem not only for those involved in the scheme, but also for business owners, who find it hard to fill a list of vacant positions that now total around 80,000. Retraining schemes have been limited to the extreme. Polls amongst business leaders now report that they see the lack of availability of skilled labour as the number one bottleneck in the Hungarian economy. The situation is especially acute in

hospitality, the automotive sector, as well as in the Western part of the country, where many have jobs in neighboring Austria.

Growth and stability based on massive EU transfers

In order to complete the picture about macroeconomic stability, the issue of European Union transfers must be mentioned. With the single exception of the Central Hungary region that encompasses Budapest, all other Hungarian regions are below the European Union's threshold for development transfers. The member state as a whole is also eligible for support. As a consequence, the country receives generous transfers from net contributor member states each year. On average, eastern net beneficiaries receive about 2-2.5% of their GDP each year from this source. The distribution of these transfers is not even, however. In some years certain economies are able to absorb less, in others more. For reasons that had to do with its economic collapse, as well as poor administrative capacity, at the beginning of the 2007-2013 programming period Hungary was unable to absorb much of the resources it was receiving from the Union. This meant that a lot of these resources were left over for later years. The new government of Viktor Orbán centralised the administration of these resources, which suddenly put the country at the forefront of absorption. It also gave a sizeable boost to economic growth. A net inflow of two to three times the average, at 6-7% of GDP, is a massive boost to economic output even through its net demand effect. The Orbán government was therefore in a very favourable situation, given that its predecessor had left it such a vast amount of untapped investment resources in the vaults.

The year 2016 has been a transitory year in terms of EU transfers. Structural and cohesion fund regulations allow for transfers to be spent up to three years after the end of a programming period. In this case this means that there were left over payments in 2014

and 2015, with little left over for 2016. The new programming period has started from 2014 onwards, and the government is planning to once again make use of its centralised administrative structures to spend EU transfers at the beginning of the programming period than at the end. This had been temporarily jeopardised by the dispute that erupted in 2016 between the

European Commission and the Hungarian government about the administration of the resources, with Brussels voicing critique about guarantees for independence in the individual operational programmes. As a consequence, Hungary was unable to draw down EU transfers from Brussels during most of the year.

4.2 | The trends behind the numbers: decreasing competitiveness

As it should be obvious from the above, the Hungarian economy can be characterised by a stable macro picture, which has been attained over the course of the Orbán government, taking over after a very unstable period. In light of this, it is perhaps not surprising that the Hungarian public was somewhat shocked by the outcome of the 2016 World Economic Forum Competitiveness List. On this listing, the country has slipped six places, becoming only the 69th most competitive economy in the world, with 138 countries surveyed, or the 25th in an EU of 28 member states. It fell behind less developed economies of the region, such as Bulgaria (#50), Romania (#62) and Macedonia (#68). The best performing countries in the region were Estonia (#30) and the Czech Republic (#31).

How does a country, whose macroeconomic stability is seemingly outstanding in an international comparison, mark so poorly on measures of competitiveness? This is a very complex question, one that requires considering the structural underpinnings of the economy. The issue of competitiveness is very much debated in the economics literature, with some leading authors even questioning whether it is a concept that can be applied at all to states, rather than to firms. Many competitiveness listings are based on a by and large neoliberal agenda. This is also true of the WEF list, which presumes, for instance, that flexible labour markets or capital market rather than bank based financing make an economy more competitive. There is also a massive blindspot in the case of the role played by economies in the global system. Some countries that are



featured in prominent positions on the list (such as Switzerland, Luxembourg, Singapore or the United Kingdom) are centres of offshore finance and commodity trading that prosper by exploiting the resources of other, often less developed states. It must also be stressed that only 40% of the indicators are aggregate data, while some 60% come from company surveys, and therefore reflect the opinions of the business sector, which provides a certain bias.

However, although we must remain critical, it would be a mistake to disregard the WEF list as irrelevant. It is the most comprehensive such survey, its competitors are either limited in scope (World Bank Doing Business) or too narrow (Institute for Management Development). Although the points given for certain criteria, as well as their weights in the overall score might be subjective and questionable, the analysis contains criteria that are highly relevant, and indeed capture important elements of competitiveness. Thus we would advise that the overall rankings are much less relevant than the message the analysis sends about problem areas.

Opaque institutions and decision-making

There are a few areas where Hungary scores amongst the worst in the world. These include primarily institutions and innovation, both of them valid criticisms.

As far as institutions are concerned, the deepest problems are the extreme lack of transparency in government decision-making, with enterprises close to the government receive highly preferential, unfair treatment. With an almost two-thirds majority in Parliament, in practice, the government is not curtailed in its accountability, and decisions are often classified for reasons of national security. The media abounds with accounts of favourable treatment, in sectors as widely apart as agricultural land, banking, the gas sector, retail, construction, media and so on. There are also problems with property rights and corporate ethic. Examples include the casino sector or small tobacco shops. In both cases the government

revoked licenses of previous owners all over the country and redistributed them to clients of the governing party. This creates uncertainties amongst entrepreneurs looking to invest.

The making of government policy is also erratic. At the beginning of its first term, the Orbán government still had a long-term economic programme. Since then, economic governance has taken on a rather spontaneous character. An announcement by the Prime Minister, often on weekends, would be followed up by urgent codification, and the bill would be rushed through Parliament within days, without proper debate. Social partners frequently protest the lack of consultation. There is a distinct lack of preparatory, evidence-based policy studies to back up proposals or outline their forecasted effects. Monitoring and posterior evaluation are almost non-existent. An example is the sudden appearance of a drastic cut in the corporate tax rate for large corporations from 19% to 9% from 2017. This unexpected move would make the Hungarian rate the lowest in all of the EU. It was announced, however, by the Prime Minister so spontaneously, that it did not even feature in the official plans for next year's wage and tax plans. Another examples would be a set of so-called "extraordinary taxes" on various sectors, which were intended to be one off items for a given year's budget, but have since become permanent fixtures of the revenue side of the budget.

Weak innovation

As far as innovation is concerned, the government is not adequately encouraging domestic first hand innovation and the adoption of new technologies from abroad. After decades of depreciation in quality, Hungarian universities and research institutions are still above the global average, although far from the global elite. Their linkages to the business sector are weak. In this respect the government has been constructive in raising Hungary's expenditure on research, development and innovation from 0.9 percent of GDP to 1.3, a respectable rate compared to a neighbourhood of low

innovators, although there is still room for further expansion to reach the level of leading innovative nations. However, at the same time, the operational expenditure of the educational sector has continued to decrease. The previous Socialist-Liberal coalition had reduced expenditure on education from 5.69% to 4.75% of GDP in the years leading up to the 2010 change of government. The Fidesz government continued this trend, to 3.93% in 2013. There was a slight increase to 4.3% in 2014, but this is still far away from the European Union average, and Hungary would most likely have to spend higher than that, closer to the northwestern European 6-7%. Many universities in Hungary are effectively bankrupt, as was the Klebersberg Centre for the Management of Primary Schools. If an educational institution cannot finance competitive wages, basic research, libraries, publication and research equipment, than it is of no use for the private sector as a partner. The government's policy statements emphasize the importance of applied research at universities and research institutes. This seems to be based on the misunderstanding that the sector can respond directly to the needs of the surrounding business environment without a stable basic research base. This is definitely not the case in countries where the university sector has strong linkages to industry, such as the US or the UK.

The elements that the competitiveness report criticizes most are higher education and vocational training, both of which are

extremely important in a global economy characterised by skill and knowledge based competition. Naturally, input indicators such as financing cannot capture the entire reality of the national knowledge production system. In fact, Hungarian teachers perform miraculously well compared to their salaries. According to the OECD, only teachers in Slovakia and the Czech Republic earn less on purchasing power parity (adjusted to prices) than in Hungary. Relative to these extremely low levels, the output indicators of the Hungarian (and Slovak, Czech) educational systems are by far the best in the OECD. This is not enough, however, to make these countries competitive: they would need better output indicators, which would require higher levels of investment.

Naturally, as a consequence of low levels of investment in the RDI sector, the output indicators are also low. Hungary scores very poorly on per capita patents, standards and other widely recognised indicators of innovative capacity. Indicators that pulled the index up included all of the macroeconomic figures already discussed that are related to macroeconomic stability. It is also worth mentioning that the net savings of households compared to GDP were featured in the report as positive.

4.3 | Outlook on the Hungarian economy in 2017

Economic growth is forecasted at 2.1% by the European Commission for the year 2016. Major determinants include the slowing down of EU cohesion policy transfers at the beginning of 2016, which is expected to pick up from 2017 onwards. This will show up in improved investment figures. The government is planning to absorb the EU transfers for the new programming period in the first half of the seven years, which means that the demand boost from that source will continue to be significant in the coming years, as it was in the 2013-15 period. Save for an outside shock, this will ensure a moderate level of sustained growth.

The consumption component of economic growth will not continue, but will increase. Contrary to some earlier views, which did not see domestic consumption as a possible driver of economic growth (mainly referring to the import content of consumption), in recent years this factor has been significant. The Hungarian government announced at the end of 2016 its plans to implement a momentous increase in wages. The statutory minimum wage will be increased by 15% in 2017, and a further 8% in 2018. There would be further wage increases in certain sectors of state employment, such as social care. This is badly needed, as Hungarian wages had fallen behind badly in recent years. The increase in the minimum wage is expected to push up the wages of the majority of employees who earn just above it at present. The wage growth in median incomes, observed as an outcome of labour shortage in a long list of sectors, is also expected to continue. The government is unwilling to move away from the dead end policy of public works and towards efficient retraining schemes. As a consequence the outflow of skilled labour towards Western Europe is not being replaced by freshly trained employees formerly seeking employment, as in

successful northwestern European economies. The outcome is a severe shortage of skilled labour, which, combined with the gradual self-empowerment of trade unions, leads to successful strikes and a rise in wages higher up the income scale. This trend is expected to continue in coming years, as the government shows no sign of relenting on its insistence on the failed public works programme. All in all, consumption is likely to increase as a consequence of rising wages, which will add a further boost to economic growth. Some analysts are worried about low value added firms being priced out of the market by the wage increases at a dangerous rate, but we do not share their concern. No empirical studies preceded the wage agreements.

Another major announcement from the government at the end of 2016 was the dramatic lowering of the Corporate Income Tax from 19% for large corporations and 10% for small and medium sized companies, to 9% for all. This would put Hungary not only at the bottom of the corporate tax rate list in the entire EU, but also at one of the lowest rates worldwide. Some have even dubbed this bold move 'turning Hungary into a tax haven'. The government estimates that it will leave around 145bn HUF with corporations, another way of saying that a massive hole will be blown in the budget. The expectation is a Lafferite one, namely that this low rate will boost economic activity, which will result in higher revenues in the longer run. Such a Lafferite logic has already failed spectacularly after the government lowered all personal income tax rates to a flat 16% rate in 2011. This resulted in a hole of about 500bn HUF in the budget annually, which failed to pay for itself even in the longer run, and has also failed to produce the employment miracle expected from it. Personal income tax revenues in 2015, the latest year available,

have still not reached the levels previous to the 2011 introduction of the low flat tax rate. The immense losses on the revenue side have been offset by cuts to the competitiveness enhancing sectors on the expenditure side, as well as the spending of the enormous nationalised private pension funds savings. There is a strong suspicion that the lowering of the corporate tax rate will necessitate further cuts on the expenditure side to state subsystems that are

already bled dry. Unfortunately, due to the vast adjustments in the tax system, it will be almost impossible to evaluate the independent effects of the wage increases retrospectively.

All in all, save for an external shock such as the collapse of the eurozone due to the Deutsche Bank and Italian banking sector crises, Hungary will continue on a stable but fragile path.

5

The Hungarian society in 2016

5.1 | Another Fidesz offensive to restructure the media



Fidesz's media policy rests on two pillars. For one, the governing party is continuously expanding its media empire by creating new vehicles or taking over previously independent/opposition-aligned media outlets. The second pillar is the use of legal and business instruments to suppress opposition media, primarily by making the latter economically unviable. Though the consolidation of the Hungarian media landscape into an overwhelmingly pro-government propaganda machine has been an ongoing process for years now, 2016 has seen one of the most aggressive expansions of the pro-Fidesz empire (see Table 2). Even more importantly, years of work expended on gradually undermining leftwing media appear to have borne fruit as large segments of what remain of a previously substantial leftwing press empire have been visibly disintegrating at the same time.

The most significant story in this regard is the sudden shuttering of Hungary's leading broadsheet, Népszabadság. The paper's newsroom had just planned to move, and the journalists had their boxes packed and were ready to start working at the new office, when on the morning of 8 October they were informed – by courier service or by news in other media – that their newspaper had been suspended and they were barred from entering their offices.

A traditional player with growing investigative clout

Népszabadság was once the newspaper of the Hungarian communist party, but like the party itself it transitioned into

democratic politics first by changing its self-branding to "Socialist" newspaper. A few years after regime transition it abandoned ideological labels altogether, though within the polarised Hungarian system the newsroom remained leftwing. Over the years, it added a large number of young journalists for whom the communist era was mostly history. Népszabadság had been economically struggling for some time, as its once huge base of subscribers (800,000 at the time of transition) had shrunk to a few ten thousand, but this was part of a general market trend rather than the newspaper's own unique situation. Népszabadság remained the largest political daily, far ahead of its rightwing rivals, Magyar Idők, Magyar Hírlap and Magyar Nemzet (which recently shifted out of the government camp after its owner clashed publicly with the prime minister).

More importantly, the newspaper had been adding experienced investigative journalists to its staff during 2016, uncovering a growing number of government scandals. Just a few days before it was closed down, Népszabadság broke a scandal involving Antal Rogán, who is essentially the minister for government communication. Rogán and his family using a helicopter to attend a friend's wedding in the countryside. The story was embarrassing for the minister because of the immense price tag -- estimated at about 5,000 euros in a country where the average net salary is 500 -- and because Rogán first denied it, only admitting the event once he was told that there were photographs. Moreover, even after his first admission the minister claimed that the trip was only one-way (which was also likely untrue) and added other details that were revealed to be false.

The Népszabadság coup

Much remains mysterious about what happened at Népszabadság, but the political motivation behind the decision to close the newspaper is readily apparent. At the time Népszabadság was owned by an Austrian businessman, Heinrich Pecina, and his company Vienna Capital Partners (VCP) through their Hungarian subsidiary Mediaworks. In its official statements Mediaworks cited business reasons and Népszabadság's losses as the reason for closing the newspaper, but these hardly explained why the decision had to be implemented without prior announcement and why the publisher also shut off access to the online archive, for example. Media market experts immediately speculated that pro-government business circles had made Pecina a generous offer to buy the Mediaworks portfolio of newspapers (including several regional and some thematic newspapers) but made the transaction contingent on him closing Népszabadság to make the political connection less apparent. Though the Austrian businessman denied these speculations, three weeks later it was indeed announced that Mediaworks had been sold to pro-government business interests.

The survivors

This leaves a single leftwing daily newspaper in the market, Népszava with a few thousand subscribers. Incidentally, this mirrors the situation in the radio and television markets, where two outlets survive at the fringes (ATV in television and Klubrádió in the radio segment). Even more so than Népszabadság, Népszava, the country's oldest socialist daily, has been constantly struggling with funding.

After the Népszabadság scandal, there was quick movement in the market to consolidate the situation of Népszava. In December, Hungary's oldest daily newspaper was sold to a company owned by former MSZP politician and party treasurer László Puch. According to reports by investigative journalism site atlatszo.hu, Népszava had

narrowly averted absorption by a Fidesz-connected media interest. Népszava's previous owner agreed in October to sell the newspaper to Liechtenstein-based company 21st Century Invest AG, but did not go through with the deal. The agreement was broken after it turned out that 21st Century's lawyer in Hungary is also the lawyer to András Tombor, a businessman close to the prime minister and his informal chief adviser, Árpád Habony. Following László Puch's quick move to take over Népszava, it was announced that the newspaper would be integrated with a leftwing weekly, Vasárnapi Hírek. The hope is that the integration of the two newsrooms will yield synergies that allow them to cut costs, but it is unclear how that will affect Népszava's staff and editorial outlook (there is no major difference between the politics of the two newspapers).

Financial troubles

Other opposition outlets continue to struggle with financial viability. The only opposition radio station, Klubrádió, is perennially in financial trouble and survives only thanks to periodic cash infusions from donation drives. It also saw its influence greatly diminished when the government stripped it of its rural frequencies; the radio can only broadcast in Budapest now, which is where the opposition is strongest anyway. A little while ago the media authority was on the verge of taking away Klubrádió's remaining frequency, and it was rumoured that this was only averted thanks to international pressure.

Financial troubles also plague the leftwing weekly 168óra. It was recently taken over by a company with ties to Hungary's Jewish ultra-orthodox Chabad community, and this has made some on the left uneasy. While the mainstream Jewish organisations are not openly political, they, along with the Jewish community overall, hew to the left politically and when they foray into the political sphere -- on issues such as the commemoration of World War II events, for example, -- they tend to be critical of the Orbán government. The Chabad congregation, by contrast, is keen on nurturing friendly ties to the Orbán government. Though 168óra's owners have thus

far kept their pledge of staying out of editorial affairs, journalists complain that they are far less scrupulous when it comes to paying the staff. Payments are regularly delayed, and the staff are still worried about the survival of the newspaper.

It is also worth pointing out that most of the media that tenuously survive on the left -- foremost Népszava, Klubrádió and 168óra -- are geared towards the media consumption needs of an elderly, mostly Budapest-based audience. There are few opposition print publications that appeal beyond this typical leftwing demographic. Through its online edition, its aggressive recruitment of young staff and national reputation, Népszabadság was increasingly capable of reaching beyond this segment (the weeklies HVG and Magyar

Narancs also have a more mixed audience), though admittedly its financial difficulties left some doubt as to whether the market would be enough to support its activities -- especially in an environment where the government puts massive pressure on commercial advertisers to avoid opposition publications.

Rightwing media on the march

In the meanwhile, the government is also active in consolidating its hold over media that address the rightwing and politically uncommitted public. Major progress has been made especially in the context of the latter, with the takeover and streamlining of

Table 2. Major changes in the ownership structure of the Hungarian media in 2016.

Title of media product	Type of media	Political orientation of new owner
TV2	National TV channel	Rightwing
Class FM	National radio channel	Lost its frequency
Origo.hu	Online newsportal	Rightwing
Népszabadság	National daily newspaper	Closed by new rightwing owner
Világgazdaság	National daily newspaper	Rightwing
Heves Megyei Hírlap	Regional daily newspaper	Rightwing
Új Dunántúli Napló	Regional daily newspaper	Rightwing
24 óra	Regional daily newspaper	Rightwing
Somogyi Hírlap	Regional daily newspaper	Rightwing
Tolnai Népszerűség	Regional daily newspaper	Rightwing
Új Néplap	Regional daily newspaper	Rightwing
Békés Megyei Hírlap	Regional daily newspaper	Rightwing
Petőfi Népe	Regional daily newspaper	Rightwing
Napló	Regional daily newspaper	Rightwing
Fejér Megyei Hírlap	Regional daily newspaper	Rightwing
Vas Népe	Regional daily newspaper	Rightwing
Zalai Hírlap	Regional daily newspaper	Rightwing
Figyelő	National weekly newspaper	Rightwing
Népszava	National daily newspaper	Leftwing
Vasárnapi Hírek	National weekly newspaper	Leftwing
Szabad Föld	National weekly newspaper	Leftwing

Source: Own collection

Hungary's second largest commercial television channel, TV2, and the leading newsportal origo.hu. Origo.hu was "consolidated" into the rightwing media empire after it published reports that were damaging to Fidesz and Orbán's chancellery. Large segments of the newsroom left at the time, making Fidesz's job a lot easier once a company with close ties to the governing party, New Wave Media, took over origo.hu from its previous owner, the Deutsche Telekom-owned Hungarian Telekom.

TV2 in turn was bought by Andy Vajna, the American film producer turned government's film commissioner, who is increasingly emerging as a vital component of the new Fidesz oligarchy. Neither outlet has become quite as propagandistic in tone as the public media or the government's quasi-official newspaper, Magyar Idők, but their reporting has gone from roughly neutral to clearly biased, which is apparent in both, the issues they report about (or don't) and also in the way they report them. Crucially, in the case of origo.hu this has not been accompanied by a loss of readers, which means Fidesz media have captured a new audience.

Hungary has reached another new milestone in November, as only state-run radio channels broadcast nationally, after that the frequency license of Class FM, Hungary's only nationwide commercial radio station – owned by Fidesz oligarch-in-exile Lajos Simicska – expired and was not renewed by the government. In December, the march of the rightwing press continued: the prestigious economic weekly, Figyelő was bought by Viktor Orbán's former adviser and government historian Mária Schmidt.

The central bank gets involved

New Wave Media was also at the centre of a major media scandal, when it turned out that it had received huge subsidies from the central bank's controversial subsidy scheme, even though a businessman connected to the company, Tamás Szemerey, is a first cousin of the bank's president, Viktor Orbán's economic guru György

Matolcsy (Szemerey holds no official position at the publishing company, but journalists have reported interactions with him in which he acted as if he were the owner). The central bank claimed somewhat implausibly that Mr Matolcsy has so many cousins that he couldn't be expected to keep track of them all. Though it was certainly no leftwing outlet, VS.hu was by all appearances an unusually independent portal. After the revelations, however, the origo.hu scenario repeated itself again: much of the staff (some of whom had transferred from origo.hu in the first place) resigned and left.

The takeover of Népszabadság's publisher Mediaworks also allows Fidesz to make substantial headway in the local newspaper market, for the Austrian-owned company controls several regional newspapers with a total readership of around 1 million. Other takeovers of regional newspapers by Fidesz-affiliated media companies are also under preparation. Media experts assess that the role of regional newspapers in information is underrated, and correspondingly there is speculation that this might have been an even greater incentive in the Mediaworks deal than the silencing of Népszabadság. In the radio market, Fidesz has massively monopolised information already by driving many local providers out of the market and providing "free", centrally-created news services for many of the remaining players which are legally required to broadcast news but have no budget to actually produce them.

A big stick softens

Generally, Fidesz has a tendency to rule the media it controls with a heavy hand. Orbán and his party apparently genuinely believe the prime minister's previous dictum that Hungarians want to be governed by a strong hand, and the reporting of media controlled by Fidesz often behave in fairly predictable ways, disseminating template-like biased reporting, which is most distinctly manifest in the political coverage of news by the public media outlets.

But with the growth of the Fidesz media empire there is also a greater willingness to give some pro-government outlets slightly greater latitude in terms of the scope of their bias and the style in which they report. Fidesz wants to control a growing slice of the media market, and it is aware that as it moves more deeply into terrains where the media consumers are not committed Fidesz voters, it must tread more lightly to reach or retain consumers. To some extent, even previously there was a division of labour between a wide array of dogmatically biased outlets and two – the weekly *Heti Válasz* and the online portal *Mandiner.hu* – that enjoyed some leeway. This division of labour is becoming increasingly characteristic throughout the full spectrum of Fidesz-aligned media, in which the main uniting feature is -- apart from a basic commitment to the governing party -- that investigative reporting is only performed against the left or, more recently, *Jobbik*.

While much of the griping about the Fidesz media empire focuses on the most blatantly partisan outlets, the overall structure is in a sense more revealing due to its sophistication. Rather than making all news items uniform across all platforms, Fidesz's main ambition now is to cover as wide a segment of the market as possible, as well as to make sure that no serious investigative journalism takes place

and that major scandals are either ignored or misreported; slight criticism is occasionally allowed, though it remains rare.

The big question for now is what will happen to the other major player in the online market, origo.hu's chief rival index.hu. Though it's not the chief locus of great investigative reports, the newsroom is fiercely critical of the government -- while it is also anything but friendly to the opposition parties. At this point, it is second probably only to Hungary's main commercial television channel RTL Klub in terms of the audience size it reaches as a critical media outlet. If Index.hu were taken over, that would be Fidesz's greatest media coup to date. While it is certainly not a foregone conclusion, there are indications that this may happen. Index is owned by the CEMP group, which remains the last major business holding controlled by the Hungarian business mogul Zoltán Spéder, who once had close ties to major Fidesz figures but has ran afoul the governing party recently, with the result that he was forced to sell most of his businesses. Many took it as an ominous warning sign that a valuable asset of the CEMP media empire, the subscription-based business portal *Portfolio.hu*, was recently removed from the control of the CEMP group, which may signal the owner's fear that a takeover of CEMP is imminent.

5.2 | Education protests running out of steam

When large protests broke out in the education sector in the beginning of 2016, the government seemed to follow a familiar strategy. Despite initial attempts at dismissing the protests as liberal and foreign-funded artificial dissatisfaction, the government has ceded some ground to the protesters and appeared willing to talk about changes in its controversial approach to education. Yet the change in attitude was always likely to be tactical and driven by a desire to split the protesters, in the hope that the government can simply ride out yet another protest movement. This strategy was likely to pay off, as the parliamentary opposition still lacks a successful strategy for channelling the support behind the protests into the political arena, while the protesters do not show signs of having a long-term strategy, either.

Theoretically, few public policy areas ought to be as liable to drive a wedge between Fidesz and voters as health and education. Government party loyalists are willing to overlook or rationalise a great many transgressions whose repercussions seem abstract to them. Even corruption, which voters near universally abhor (though not necessarily with equal intensity), often fails to get a real rise out of them because most manifestations of corruption are distant from their everyday experience.

Schools and hospitals, however, are very concrete personal experiences, and people do tend to get agitated when they receive poor care at hospitals or when they perceive that schools hurt the future of their offspring. These areas are massively underfunded and the quality of their service is dismal. Hence, we wrote a year



ago in our publication *Hungarian Politics in 2015*, the “great danger is not that these systems will fail in a spectacular manner, but that they do so in less ostensible ways that ruin the education of a generation and the health of several, without any chance of serious change.”

From a sour mood...

Reports about local grumbling concerning education had been picked up by the media for years. Especially Fidesz’s often insensitive meddling in local affairs proved controversial, and in several instances this manifested itself in the replacement of popular schools headmasters, sometimes with decades of experience behind them, with politically favoured appointees who were at times near uniformly rejected by students, parents and the faculty. School closures, the failure to cover running costs and the centralisation and ideological coordination of textbooks also came in for especially strong criticisms. The creation of a centralised national system for coordinating all schools and managing their funds, the notorious Klebelsberg Institution Maintenance Centre (KLIK in Hungarian) came to epitomise the problems, as it combined excessive interference with massive incompetence, including repeated failures to ensure that schools had enough money to cover basic necessities, not to mention more ambitious investments.

...to national protests

It was difficult to tell what – if anything – could trigger widespread protests, and what actually did was slightly surprising. An open letter by the Herman Ottó Grammar School in the north-eastern industrial town of Miskolc, published on 5 January 2016, offered a comprehensive litany of the educational problems in Hungary. The school had good reason to grow frustrated: teachers complain that the plaster is crumbling from the walls, many classrooms are not heated properly and the gym does not work, to mention but a

few of the issues afflicting the school. Public support for the letter spread like wildfire, which is explained more by its timeliness than its elegance. Within a month, 30,000 individuals had signed the open letter, and 700 schools across the country also expressed their support. Several smaller to mid-sized demonstrations followed at the end of January and in early February (in Miskolc alone thousands took to the street, an unusually high number outside Budapest), and, as for the peak of the protest series, huge demonstrations were held before Parliament on 13 February and 15 March, along with smaller demonstrations across the country.

The government initially ignored the issue (at least in public), probably in the hopes that it would quickly fizzle out, as previous manifestations of public frustration had. Then it proceeded to denigrate the protest movement, arguing that they lacked actual social support and were incited and funded by foreign interests driven by a desire to undermine democratic governance, specifically George Soros. Orbán’s consigliere, the Minister of the Prime Minister’s Office (one of the two), János Lázár, went into attack mode, saying that if teachers did not like their employer (i.e. the KLIK) then they had the chance to register this preference on election day. Instead of protesting, Lázár argued, teachers should get back to teaching, for students’ performance has been dropping continuously since 2002, “and [teachers] can’t pretend that this has nothing to do with them.” Pro-government media went into investigative mode and identified individuals among the visible leading figures of the protest movement who had even the most remote ties to opposition parties, arguing that there was no genuine dissatisfaction, just politically incited harping about a few normal flaws.

Rule by division

The tone changed unusually quickly, however. Near the end of January, barely three weeks after the open letter was first published, the government declared its willingness to talk to

protesters, setting up an education roundtable. In early February the prime minister also fired the junior minister responsible for education (education is not a cabinet level portfolio in Hungary), who was virtually unknown in public and had stayed quiet while the protests were going on. Though this marked a willingness to react to the public’s frustration, given the junior minister’s “prominence” Orbán could have just as well fired the department’s janitor.

As for the roundtable, some changes were announced immediately (e.g. an end to pay delays), but this did little to quell the protests. The educational organisations represented at the roundtable had mixed reactions. The National Faculty of Pedagogues, a puppet union of sorts set up by law and filled with pro-government figures, was predictably enthusiastic, noting the government’s openness to talk about any issue and stressing some forward-pointing changes. More interestingly, one of its independent rivals, the Democratic Union of Pedagogues also remarked that the state representatives did not say no to discussing even the most “delicate” issues. The other major teacher’s union refused to attend the roundtable, and that was to some extent understandable: most of those invited were representatives of state institutions or staunchly rightwing NGOs.

Fidesz is of course an expert in dividing the opposition. It might seem that the opposition has never had much need of outside help when it came to internal strife, but Fidesz and its media has always done their best to raise issues that they knew would set opposition figures against each other. Lauding the constructive stance of certain players and emphasising the (generally tenuous) party affiliation of others is part of the same game.

When is it time to party?

The other problem that plagued the education reform movement was the perennial question of how to relate to opposition parties. The latter were of course quick to that they back the protesters.

Jobbik expressed its full support for the demands of the teachers, even as there were some subtle signs that overall the movement hews to the left. On account of the latter, siding with the protesters was an even more obvious choice for the leftwing and liberal parties, which enthusiastically embraced the movement.

The NGOs have not returned the favour. No politicians were allowed to speak at the major demonstrations, and no party logos were on display, neither on the stage nor in the crowd (at least not prominently). That is not to say that the crowd was apolitical: there was massive chanting impugning Fidesz and calling on Orbán to leave, but without support for any particular opposition formation to replace him.

Civil initiatives and NGOs tend to disdain association with politicians, and when the latter try to join their activities as partners, they are often accused of trying to hijack legitimate movements. This is of course a somewhat scurrilous charge in a democratic polity. What else should an opposition party be doing than trying to line up behind a social movement that fights for policies that it has advocated? And, whatever the weaknesses of the left in Hungary, its previous criticisms of the government’s education policies do in fact coincide with large parts of the education movement’s agenda. However, most of the left-wing opposition is so discredited outside its core group of supporters that NGOs are loath to associate with them in public for fear that it might discredit their cause.

Education protest movement collapsed

It was always clear that unless Fidesz keeps insulting vast segments of the population who have some level of sympathy for the protests, the energy behind the protests will fade over time, as all similar movements have in the past. The original calculation of the education protest movement “Tanítanék” was that following the summer break they would come back with a new wave of demonstrations. However, by September, Tanítanék lost their

leader, István Pukli, and the movement has not recovered from this loss since then.

In an interview with Magyar Nemzet, Pukli announced that he was leaving the teachers' protest movement he helped to found early 2016. He would have wanted to limit the activities of the movement to the sphere of education, while other leading personalities got increasingly involved with other contentious issues as well. Their decision, which pushed Mr Pukli to resign from the movement, was to take a pro-migrant position in the heat of the anti-migrant referendum campaign. Pukli said he does not want to become the 'Messiah' of the Left. He also disappointed leftwing voters by saying that "the goal is not the removal of the Orbán regime, only that they should realize and correct their mistakes."

OECD's PISA survey paints grim picture

Despite the fact that the education protest movement collapsed, the mess that is the Hungarian education system will stay with us, and the price for the obvious failures in this area is already very high. In December 2016, OECD released the most recent Programme for International Student Assessment (PISA) results,

showing a dramatic decline in the scores of Hungarian teenagers and an especially grim picture of just how poorly children from socio-economically disadvantaged backgrounds fare at school. Hungarian teenagers fared much worse in the sciences and reading comprehension/literacy than they did in 2012, while math scores were unchanged. Hungary is well below the average of OECD countries in all three categories. Hungary's PISA score has been declining since 2009, but the current drop is more dramatic than ever before. More troubling for Hungary, however, is that unlike in most OECD countries, Hungarian public education has completely failed to integrate children from disadvantaged backgrounds. Schools with a higher concentration of children from disadvantaged backgrounds fared much worse than schools where students come from more affluent families.

The Orbán government is spending less on public education than almost any other developed state – and as the PISA results show, the consequences are clear. The fact that Minister of the Prime Minister's Office János Lázár said in November that "the most that can be given to students is to raise them as good Christians and good Hungarians" was indicative of how one of the government's most powerful ministers sees the state's role in public education.

5.3 | Corruption back in public focus

Few would deny that there is an incessant stream of corruption allegations against the government; what is subject to intense debates, however, is how much corruption there is and how much it matters. On the left and some segments of the far-right there is a widespread perception that corruption is all-pervasive in political decision-making and has reached hitherto unseen proportions. This is supported by a growing body of investigative reporting that shows staggering amount of public contracts awarded to government cronies (including many relatives of high-ranking officials) and inexplicable increases in the assets of many high-level Fidesz politicians. The latter accumulate money well beyond their official salaries despite the fact that in light of the workload that their official responsibilities imply one would think they have little time to nurture their private businesses.

A 2016 survey by the polling institute Publicus suggests, however, that Fidesz voters in particular – and these are by far the biggest chunk of politically engaged voters – are sceptical about the notion that the present government is more rapacious in misappropriating public funds than its predecessors. Only eight percent of those who would vote for Fidesz believe that the level of corruption has risen since Fidesz took power in 2010, while 73% of MSZP voters believe this to be the case. Interestingly, Jobbik falls somewhere in the middle: while more than twice as many (25%) Jobbik voters believe that corruption is worse now than it was before Fidesz was voted into office in 2010 (11% hold the opposite view), the majority of Jobbik voters (55%) assessed that the level of corruption is unchanged.

To some extent, the figures for Fidesz are misleading, as many potential voters who likely share the negative assessment of

Fidesz's handling of public money have already joined the ranks of the undecideds or inactive voters, though recent polling data also suggests that they have not actually realigned themselves yet, since the other parties' level of support remains basically unchanged. It is unlikely that many would accept the proposition that Fidesz is deeply corrupt and maintain their loyalty to the governing party. Such a cynical attitude exists in segments of the elite, however, who argue that Fidesz's corruption is motivated by a regrettable but necessary realism, specifically the need to buttress its power for a long time against the forces that would hurt Hungary's national interests.

The survey also suggests that though the public may be concerned about corruption, they do not view it as a priority. When asked to list their top three policy concerns, only 13% of voters mentioned corruption, which put the issue in sixth place behind poverty (43%), unemployment (30%), healthcare (29%), education (21%) and refugees (17%). Furthermore, 73% of respondents stated flat-out that there are far more important problems than corruption. Incidentally, apart from the concern about refugees, which appears diminished, none of these issues is particularly favourable for Fidesz. Nevertheless, the numbers seem to suggest that corruption is certainly not going to be enough to bring Fidesz down.

Moreover, the survey also provides evidence that the public is so inundated with news about corruption that it can no longer absorb the information: 69% indicated that they cannot keep track of all the scandals. This plays into the government's hands, since its strategy appears to be to extract Hungarian and EU public funds from a vast array of sources simultaneously, with the result that neither the press nor the opposition can follow everything, while many of the news

items that are actually published are just too technical and/or too convoluted to follow.

The National Bank

A prime example of the latter is the scandals surrounding the Hungarian National Bank (MNB), which is led by the architect of Orbán's economic policy, György Matolcsy. The central bank has been on an unprecedented spending spree recently, buying real estate and art, among other things, even as critics charged that it often overpays for the properties it acquires. It is also funding a wide array of academic and business ventures, along with a variety of foundations that are used to disburse funds. A news portal that is critical of the government, 444.hu, reported already in 2014 that the five educational foundations operated by the MNB had more money at their disposal that year (200 billion HUF) than the entire Hungarian higher education system (roughly 140 billion HUF).

The uncontrolled purchases by the central bank have elicited strong criticisms, on two grounds. First, there is a suspicion of corruption, especially when funds were awarded to companies owned by businesspersons who have ties to Fidesz. Second, regardless of suspicions about potential misappropriation of public funds, some critics have also voiced reservations about the bank's spending on the grounds that it is problematic policy-wise.

For Fidesz, however, the main problem with the present scenario is that information on the central bank's spending must be made accessible to the public, which often resulted in unfavourable reporting on suspicious dealings. The MNB had previously attempted to deny sharing information in response to freedom of information requests, but Hungary's high court, the Kúria, ruled that it cannot withhold such financial information from the public.

To stop the information leakage, Fidesz decided that the funds handled by the MNB foundations do not constitute public money.

In defending the relevant bill, Fidesz's parliamentary leader Lajos Kósa explained at a news conference that it does not make sense to consider money given by the MNB to foundations as public money, because by definition the money handled by a foundation cannot be public money. This may not make perfect sense logically, but makes for an excellent statute when one has a majority to pass it. Incidentally, the MNB bill followed on the heels of another law passed a few weeks before, which removed the finances of the postal services from public scrutiny. Citing concerns about the constitutionality of the bills, President János Áder asked the Constitutional Court to review both, and it turned out that at least as far as the national bank is concerned, the Court shares Áder's concerns, so Fidesz had to amend the law.

What's Orbán's?

Still, the de facto classification of large segments of the MNB's financial operations issue is typical of many cases which are suspected of involving corruption. The details are intricate, the pathways whereby money is allegedly diverted is too complex to easily pinpoint the beneficiaries, and the public is likely to remain in the dark as to whether and how the central bank misappropriates public funds. Fidesz is facing a considerably more problematic issue, however, given recent opposition investigations into the wealth of Prime Minister Viktor Orbán.

Even as many Fidesz politicians have been personally connected to wealth they are unlikely to have amassed legally, one of the persistent mysteries is whether the prime minister has himself benefitted from what appears to be pervasive corruption in his government, and, if that is indeed the case, how much money and other assets he has accumulated. Viktor Orbán's wealth has been the subject of considerable speculation for a long time now, but all his own annual financial report purports to show is that he is not extremely rich himself. There are considerable real estate assets in his wife's name, however, but she is still not super wealthy,

unlike a growing number of oligarchs with close ties to the Fidesz government and even several government officials. Orbán's father and brother are businesspersons, however, and as private persons they are not required to declare their assets, which are presumed to be substantial. Public contracts played a major role in that.

A more recent development provided some insight into Orbán's informal assets. The whole story started innocuously enough, with Orbán posing for a photo with a dog to endorse a rally protesting animal abuse. The story accompanying the photo was that Orbán's dog, Nárcisz, had been himself the victim of physical abuse, which apparently made the issue personal for Orbán. This led many in the media to ask: What dog? No one had previously heard about Orbán's dog, and some journalists set out to find Nárcisz. It turned out that the canine does not actually live with the Orbán family, but investigative reporters found out that he is guarding a large estate held by the real estate company whose owner is Győző Orbán, Orbán's father.

It was already previously reported – and this is unconfirmed – that the Orbán family uses the estate, along with an allegedly luxurious residence, as a dacha of sorts. At the same time Lőrinc Mészáros, one of the country's richest oligarchs whose wealth has increased exponentially since Fidesz took over, rents the compound from Orbán's father. What he uses it for is unclear, however. Now some claim that what is going on here is that Mészáros' companies receive an inordinate amount of money from public contracts, and he pays his "contribution" in return by paying rent for a property he neither uses nor needs, for example. While this may sound plausible, it is important to point is that this is merely speculation. All we know for sure is that Orbán and Mészáros are close friends and that the companies of the latter did in fact receive lots of money from the state, though that is not evidence in and ought itself of impropriety or even a quid pro quo. In any case, purely theoretically, it would be one model for "laundering" taxpayer cash and making it part of a dynastic fortune.

Though the revelations are not new – recently deceased investigative reporter Krisztina Ferenczi had revealed many details about the financial operations of the Orbán empire –, Nárcisz-gate has given them a new life. It was obvious that the increased media/opposition attention hit a sore spot, since Péter Juhász, the leading anti-corruption crusader on the left, was immediately massively counterattacked in pro-government media after seeking information on the issue. In the meanwhile, the local government in the municipality where the property is located began to deny the media's access to public land registry information, arguing that there was too much demand.

Impersonal corruption

Among the best news for Fidesz is that for most people, the term corruption is not something that brings particular politicians to mind but an impersonal phenomenon that has pervaded all segments of government. While many consider that the political class is universally corrupt, this image attaches to very few people specifically. Rendering corruption personal, by showing who is behind it and how they benefit, would be one of the best ways to target popular frustration about corruption; this could move it from being an abstract concern to something that can be remedied by removing specific people from public life. This may be one of the reasons why Fidesz becomes especially testy when particular politicians, especially Viktor Orbán, are targeted.

Showing that Orbán has enriched himself personally could also do away with a widespread perception among rightwing voters that while there is corruption going on in Fidesz, this is against the wishes of the prime minister, who simply cannot singularly rein in all dubious figures in a large party. Orbán has always been careful about cultivating an image that is distinct from his party's, and Fidesz's popularity rests to a considerably greater degree on Orbán's personal appeal than vice versa. So even if large parts of the public accept that there is corruption in the governing party, this need not necessarily implicate the prime minister; and for many Fidesz voters it does not.

5.4 | Outlook on the Hungarian society in 2017



Under the surface of Fidesz propaganda, there is a growing discontent in Hungary, mostly in relation to social issues. As a study published in November 2016 by FES, Policy Solutions and Závecz Research showed, dissatisfied voters are in the majority (61%) and consider issues that have an impact on their general existence to be the most pressing. The quality of healthcare, unemployment and increasing poverty were ranked among the three most important challenges. Therefore, it is clear that growing social tensions and the poor quality of public services will remain the biggest risks for the government in 2017. Education and healthcare have been the weakest points at the policy level for several years, along with increasing poverty and growing inequalities. If the opposition wants to have a chance of success at the 2018 elections, its best hope can be to concentrate all its resources on building up a comprehensive narrative, based on more solidarity, social justice and equality, thereby providing an alternative to the clear failures of the Fidesz government with regard to these issues. What will be the defining issue of 2017? This is the key question, which will almost certainly determine the outcome of the 2018 general election. Should the opposition parties manage to make Hungarian politics about the performance of the government in the social sphere and in relation to public services, Fidesz could be faced with some difficult months ahead.

However, dominating the political agenda seems to be more difficult than ever for the opposition. Fidesz has managed to completely rebuild its media empire in the last 18 months, such that it is now more powerful than it was before the Orbán-Simicska clash. While we could argue a year ago that the Fidesz media was far from enjoying its best days, this is no longer true. The acquisition of

Hungary's second-biggest TV channel, TV2, and the leading online portal Origo.hu were vital in strengthening Fidesz's media portfolio. Moreover, it should be mentioned that Fidesz has also increased its share of the tabloid media, as well as significantly in the regional/local newspapers market.

The influence of the latter should not be underestimated. In rural Hungary, regional newspapers can still reach more people than any national newspapers, or even online news sites. Given that the smallest communities maintain the most unfavourable views on the direction of the country, it might be of crucial importance that businesspeople close to the governing party will have much greater control on what news can reach those who live in these areas. The importance of regional newspapers is also explained by the fact that the majority of dissatisfied voters cannot be reached through the internet. Frequent internet users are more satisfied with current developments than those who either rarely or never turn to the internet. As a consequence, it seems that, by buying the majority of regional newspapers, the government has made a big step towards stopping the flow of unfavourable news to those parts of the country where dissatisfaction with the direction of the country is strongest. 2017 will be the test year when the full effects of the takeover of regional newspapers can be evaluated.

Although the frequent corruption scandals are surely an electoral risk for the government, the political developments of the last few years suggest that corruption alone as an issue is not enough for the opposition to win elections. If economic conditions are healthy, as they were at election time in 2014, or if the government is able to successfully exploit an issue that overrides other concerns, as

was the case with the refugee crisis in 2015, then the public is less interested in corruption, with the media coverage tending to reflect this at the same time. Nevertheless, some observers may also underestimate the debilitating impact that pervasive news about corruption has on the public. Corruption may not have been enough to win elections in Hungary; however, even in the best case scenario for Fidesz, it does in all probability weaken loyalty towards a party, which is considered to be corrupt in ways that existing surveys may not capture. While, for many voters, it may not be enough to switch allegiance to another party, it may drive them to abstain and even lower the threshold where frustrations about other issues lead voters to realign themselves.

Fidesz's safest bet for re-election is by cutting off large segments of the public from the incessant stream of news about corruption. Some assume that, in the age of the internet, such an endeavour will prove fruitless, which may well be true in the context of younger voters. Large segments of the population receive their (often very limited) information from traditional news sources, however. Since Fidesz is unlikely to crack down on corruption, attempting to control the flow of information about it may be its best bet. However, even with a more dominant position in the media, the real risk for Fidesz remains the same: the poor living conditions and the everyday experience with public services of the majority of Hungarians.

Conclusion

In many respects, the situation at the end of 2016 is very similar to the one we observed at the end of last year. Fidesz is still riding high and the impact of the refugee issue continues to dominate the public's assessment of the government. However, we also mused last year that Fidesz's success would hinge in large part on its ability to keep the refugee issue at the centre of the public agenda, and there are signs that despite the intense efforts of government propaganda and help by the pro-government media, public interest is waning in the absence of actual refugees. The fact that the government failed to mobilise sufficient voters to make its anti-migrant referendum valid – and it wasn't a close miss – is one such indication.

The refugee issue is still crucial for the governing party both because the public trusts it to handle it better than the opposition and because it deflects attention from other areas where the government's performance is seen as less than stellar. Therefore, 2017 harbours the great risk for the government that the inconvenient issues, that is rampant corruption, the desolate state of health and education, and growing inequality will be noted by the public. One thing needs to be clear, however: Fidesz's lead in the polls at this point is greater than that of any governing party at this stage in the election cycle, even its own edge in the comparable period four years ago, which ended in an impressive victory. If economic growth is solid in 2017 and 2018, Fidesz will likely cruise back into office even if the refugee issue remains stagnant during the remainder of the term.

All the more so because the refugee question also served Fidesz in improving its electoral position by means unrelated to political competition traditionally understood in liberal democracies. The government's anti-immigration rhetoric was a giant smoke-screen

not only to hide unremitting private expropriation of public funds, but also an unprecedented assault on media pluralism and press freedom. Since taking power in 2010, Fidesz's has relentlessly expanded its positions in the Hungarian media market, attacking a financially vulnerable segment of the economy from a variety of angles, including the acquisition of media outlets; by driving advertisers away from opposition and independent media outlets; and a variety of regulatory instruments, starting with licences, over selectively employed anti-trust regulation all the way to advertising rules and taxation.

Fidesz's media positions are greatly helped by the fact that financial viability is not a consideration that its media lieutenants are burdened with. Their task is to gain market share at any price, and not to produce profits or even sustainable business organisations. The issue took on a new urgency after Orbán's highly publicised split with oligarch Lajos Simicska, one of the leading media tycoons in Hungary. In the messy divorce, Simicska took several of the right's flagship publications with him, which led to a renewed bout of aggression in Fidesz's media expansion. The last two years saw spectacular advances in Fidesz's efforts at compensating the loss of the Simicska media outlets. In the meanwhile, virtually all leftwing and liberal media are struggling financially and several are owned by shadowy investors – like Népszabadság had been – whose intentions are unclear. These are potential time bombs, as is the situation of Hungary's most influential online newsportal, Index.hu, whose owner is under massive business and legal pressure from the government.

Fidesz is clearly not relying on the refugee issue alone to carry it to victory in 2018, but it is also aware that most public policy

areas are not painting a rosy picture of its governance. Its re-election strategy rests on two pillars. For one, it aims to consolidate its voting base (primarily with its tax and housing policies) and reduce the dissatisfaction in other social groups with well-targeted economic measures (lower VAT for food, raising the minimum wage). Second, it hopes to dominate public discourse as much as possible with its media strategy. Given that large segments of the public still mostly inform themselves from a limited range of sources, this strategy might work.

There are three major issues that will likely define 2017. For one, there is the question of the economy and its trajectory going into 2018. If the Hungarian and the international environment look stable and offer even modest growth, then Fidesz will be relaxed about its re-election prospects. A similar situation may arise if the refugee issue will be consistently in the headlines again (due to actual developments in other European countries rather than mere propaganda). The latter would in fact be the safest scenario for a government that has little to offer outside fear-mongering. However, if Fidesz would feel that it is in trouble, it could probably handle the challenge only in one way: by finding enemies and

undermining any rule that could potentially be used to bring the party down. Fidesz has always been good at finding enemies, and in 2017, we expect the governing party to complement its strategy based on anti-immigration messages and well-targeted economic measures with further attacks on “Brussels”, “liberals” and NGOs, among others.

Although the opposition will be an active player in shaping how these developments are perceived and it will try to offer alternative narratives regardless of how these play out, the reality is that its abilities are also limited – by its own division and dearth of popular personnel; by Fidesz’s extreme dominance of the media; and by developments that politicians in the opposition generally have no control over, such as the economy. However, the key question for the opposition in 2017 is whether they are able to offer a comprehensive social narrative as an alternative to the failures of the government in education, healthcare, poverty and inequalities, or not. If the opposition parties can achieve that 2017 will be a year about the social situation in Hungary and the poor state of public services, then the race at the 2018 general elections could be more open than it seems at the end of 2016.

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**FRIEDRICH
EBERT
STIFTUNG**

Büro Budapest
H-1056 Budapest, Fővám tér 2-3., Hungary
Telephone: +36-1-461-60-11
E-mail: fesbp@fesbp.hu
Website: www.fesbp.hu

POLICYSOLUTIONS 

H-1065 Budapest, Révay utca 10., Hungary
B-1000, Brussels, Square Ambiorix 10, Belgium
Telephone: +36-1-474-87-48 | +32-2-899-90-08
E-mail: info@policysolutions.eu
Website: www.policysolutions.eu



