



Hungarian Politics

in 2018



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Editor	András Bíró-Nagy Co-director, Policy Solutions, Research Fellow, Hungarian Academy of Sciences (MTA TK PTI)
Main author	Gábor Győri Senior Analyst, Policy Solutions
Contributing authors	András Bíró-Nagy, Miklós Sebők Senior Research Fellow, Hungarian Academy of Sciences (MTA TK PTI)
Design	Ferling Adrienn Kovács
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Introduction

Policy Solutions has a long history of providing international audiences with in-depth analyses of Hungarian political life. Thanks to the support of the Friedrich-Ebert-Stiftung (FES), for the fifth time we herewith present an annual review of Hungarian politics. This is a comprehensive overview of recent developments, events and trends in Hungary in 2018, and an outlook on what topics we expect to dominate Hungarian politics in 2019, the year of European and local elections.

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 2018, be it the parliamentary election and the keys to Orbán's success, the state of the Hungarian opposition, major developments in foreign policy, the main economic trends or the increasing pressure on the civil society, academic freedom and independent media. 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 the main reasons behind the re-election of Viktor Orbán's Fidesz party and the policy priorities of the fourth Orbán government. 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 battles at the European scene, and Hungary's foreign policy in a global context. In the fourth section, we take a detailed look at how Fidesz's policies have shaped the economy, and special attention is paid to the controversial "slave law". Finally, some key developments of the Hungarian society – changes in the media landscape, culture war, the Stop Soros bill and CEU's departure – are discussed. All of the sections conclude with a brief analysis of the issues which may come to the fore in 2019.

The views expressed in this publication are not necessarily those of the Friedrich-Ebert-Stiftung.

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**The Hungarian
government
in 2018**



1.1 | Hungarian elections 2018: Why Orbán won

On 8 April 2018, Hungarian Prime Minister Viktor Orbán was re-elected to a third consecutive term after his right-wing Fidesz party won 49 percent of the vote, enough for a two-thirds supermajority in parliament (see Table 1). It was a decisive win for Orbán, who in recent years has clashed publicly with the European Union, becoming for many a symbol of illiberal nationalism now rising throughout the West.

Orbán's victory is a product of several political factors, but three stand out: the systematic weakening of Hungary's democratic system (this results in unfair advantages to the governing party), the success of Orbán's anti-migration platform, and the fragmentation of the opposition.

Backsliding away

The first ingredient in Fidesz's electoral dominance is its rewriting of the rules of Hungarian democracy. The party began its current string of victories in 2010, when Hungarians' disillusionment with the Socialist government – and more generally with the effects of the postcommunist transition and the 2008/9 financial crisis – allowed Fidesz to capture a constitutional supermajority, which it used to adopt a new constitution, change the country's electoral laws, and assert government control over independent media, as well as making other, less conspicuous changes. In Hungary, the general discontent with the political system has allowed Fidesz to implement these radical changes without provoking effective public opposition.

Table 1. 2018 Hungarian parliamentary election results

Party	European political affiliation	Votes (party lists)	Vote share	Seats	Share of seats
Fidesz-KDNP	EPP	2,824,551	49.27%	133	66.83%
Jobbik - Movement for a Better Hungary	NI	1,092,806	19.06%	26	13.07%
Hungarian Socialist Party & Dialogue for Hungary (MSZP & Párbeszéd)	S&D-G/EFA	682,701	11.91%	20	10.05%
Politics Can Be Different (LMP)	G/EFA	404,429	7.06%	8	4.02%
Democratic Coalition (DK)	S&D	308,161	5.38%	9	4.52%
Momentum Movement	ALDE	175,229	3.06%	0	0
Hungarian Two-tailed Dog Party	NI	99,414	1.73%	0	0

Source: National Election Office – valasztas.hu

Since his party's victory in 2014, moreover, Orbán has become even more radical. That year, he openly professed his desire to build an "illiberal state" and became more authoritarian in terms of both policy and rhetoric. In 2017, he escalated his war on nongovernmental organisations with a bill targeting foreign-funded NGOs and adopted another controversial law that aimed to force out Hungary's best university, the Central European University, from the country. And in a major speech during the 2018 campaign, he promised to hold his opponents "morally, politically, and legally accountable" after the elections – a threat that had to be taken seriously given the experience of the past few years.

Such policies and rhetoric have begun to undermine Hungary's democracy. Four years ago, the Organization for Security and Cooperation in Europe concluded that the country's elections were free but not fair – voters could vote for whomever they chose, but the playing field was tilted in favor of the government. The same assessment applies to the 2018 elections. Voters were offered a diverse choice of parties and candidates, but a number of factors gave the ruling party unfair advantages. As in 2014, the recent election was characterised by campaign regulations that clearly favored Fidesz, biased media coverage, and a blurring of the line between the ruling political party and the state (state funded party propaganda campaigns, State Audit Office fines on opposition parties, etc.).

Migration matters

Another clear lesson of Hungary's election is that migration was a winning issue for Orbán. Indeed, Orbán was so convinced that his tough stance would be enough to win that Fidesz campaigned exclusively on its opposition to immigration – the party did not draw up an election platform, made no economic or social promises, and did not participate in any debates.

Since the European migrant crisis began in 2015, migration has trumped all other issues in Hungary – in this respect, Orbán's 2015 decision to close his country's border and his continued defiance of EU requests to accept refugees have both been politically popular. Migration has proven to be an effective tool in mobilizing voters, primarily in rural areas and in cities other than Budapest. Orbán has successfully persuaded his base that only he and his government can protect the country against the "Muslim invasion" and the pernicious influence of outsiders, including Brussels, the Hungarian-born US billionaire George Soros, Western liberals, and, most recently, the United Nations.

Although surveys suggest that Hungarians are aware of some of the downsides of Orbán's rule – an Ipsos MORI poll shows that 72 percent of Hungarians are displeased with the country's health care system, and according to Transparency International's Corruption Perceptions Index, Hungary ranks second to last in the EU in terms of corruption – for many the fear of migrants overrides other concerns. Since 2015, Orbán has accordingly placed migration at the top of his agenda, skillfully exploiting his party's vast media empire in the process. This empire includes all of the country's public media, which essentially operate as an extension of the ruling party's communications division. Orbán has spent millions of euros in public money on spreading his propaganda using so-called national consultations – effectively expensive, taxpayer-funded push polls, in which survey questionnaires with manipulative questions were mailed to each household in Hungary, accompanied by public information (in reality, propaganda) campaigns in the mass media.

The experience of the last few years shows that these national consultations have had a big impact on public discourse and attitudes. One clear effect is that 49 percent of Hungary's voters apparently feared immigration more than they cared about corruption scandals and the other problems in their everyday lives. And since businessmen close to the prime minister have acquired large parts of the Hungarian media, Fidesz has practically monopolized the flow of information to the uncommitted and uninformed. Today, opposition

voices have very little ability to reach those rural voters who do not use the internet. This also contributes to Hungary's increasing urban-rural divide and thus to the enormous success of the government's anti-migration propaganda in the countryside.

A fractured opposition

The third major factor behind Orbán's victory is his own success in uniting the right at a time when the opposition is weak and divided. Orbán has held his camp together for more than 15 years, using both economic and cultural nationalism to cement support from the more than two million voters who constitute the Fidesz base. In 2009, Orbán laid out a vision in which Fidesz could remain in power for 15 to 20 years if it was able to establish itself as the "central political force," with the opposition divided into left-wing and far-right blocs. After the collapse of the Socialist Party and the rise of the far-right Jobbik during the 2006–10 term of parliament, Orbán's prophecy came true, and Fidesz became the only major party in the Hungarian political landscape.

Not only is the country's opposition divided between the left and the far right, but the left itself is highly fragmented, meaning there is no single center-left party comparable to Fidesz's position on the center-right. Hungary's left-wing and liberal opposition parties learned nothing from their 2014 fiasco, in which their failure to coordinate allowed Fidesz to win another supermajority, and this year they cooperated even less than at the last elections. For most of the 2018 campaign – and despite huge pressure from the majority of Hungarian citizens who wanted change – left-wing and liberal parties competed with each other over who would dominate the left in the future, rather than working together to replace Fidesz.

A clear indication of this division was the lack of an overarching electoral list that included all left-wing and liberal parties. These parties should have focused all their energies on offering a joint alternative to Orbán's illiberal regime; instead, there was an intense

competition between the Socialists (MSZP-P), the left-liberal Democratic Coalition (DK), and the Greens (LMP) for the leading position on the left. These parties joined forces only in a small minority of the country's single-member constituencies, meaning that in many districts where a united opposition had a chance to win, the opposition vote was split among multiple candidates. Although Fidesz's majority was never in doubt, the party's ability to win another supermajority did indeed hinge on the left's lack of electoral coordination. Fidesz was therefore able to win two-thirds of the seats in parliament despite receiving less than 50 percent of the vote.

False hopes

After the elections, many in the opposition were left with the question of why they had clung to the illusion that the outcome could be different. There were two rational reasons for this misplaced optimism. For one, there was the overwhelming opposition victory in the Fidesz bastion of Hódmezővásárhely a few weeks before the national election. It appears to have been a mix of a protest vote, a soft and especially inconsequential warning for Fidesz to ease up on the corruption, combined with an appreciation for the fact that the opposition managed to unite behind an independent candidate whose politics broadly reflected the preferences of the right-wing town.

The other reason that gave the opposition misplaced hope was an apparent surge in voter interest in the election. The correct assumption was that a low turnout was a definite indication of a Fidesz victory since the governing party's base is highly committed and will always turn out, while opposition voters, lacking a candidate with a likely perspective of succeeding Orbán and sensing that Fidesz was heavily favoured to win, would stay a home. It was reasonable to assume that only a high turnout election held out any prospect of a successful performance of the opposition. Yet already during the day there were indications that higher turnout would not be limited to the areas where the demographics favoured the opposition, be

it of the Jobbik or the leftwing variety. Some of the most hardcore Fidesz regions registered the highest surges in voter participation, while Budapest voters on average saw lower rates of growth (from a higher base, however). A similar dynamic prevailed at the end of the day. It is still fair to say that a lower turnout election would have been even worse for the opposition, but it is also apparent that the general idea that the stakes were high mobilised both sides, government supporters and sceptics alike.

What has proved largely a failure was the anticipation of tactical voting in the absence of official withdrawals by the nominating parties. The tacit hope on both the left and the far-right had been that they do not need to withdraw too many candidates in each other's favour (which was also vital in terms of funding, as campaign support depends on the number of candidates that a party fields), in the end voters would figure out which opposition candidate to support. For the most part, that did not even work well enough within the broad centre-left, not to mention between Jobbik and the left. Given Fidesz's overall level of support, successful tactical voting – this was the most unpredictable aspect of the 2018 elections – would not have been enough to turn the election, but it would have put a lot of seats into play and would thus have easily removed the possibility of another two-thirds majority. However, the big lesson for the opposition parties is that they cannot rely on tactical voting instead of withdrawing candidates in each other's favour.





Nemzeti Konzultáció 2018

A CSALÁDOK VÉDELMEÉRŐL

...g Kormányra hivatalba lépése óta kiemelten fontosnak tartja a gyermekek családjainak védelmét és támogatását. Ezért vezettük be a gyermekek után fizetendő gyermekjuttatást, és emeltük kétszeresére 2010-hez képest a családoknak jutó gyermekjuttatást. Most lehetőségünk van arra, hogy további intézkedésekkel támogassuk a családokat.

Özönsen a jövőről, kérjük, töltsse ki az alábbi kérdőívet!

Magyarország jelentős problémája a népességfogyás. A brüsszeli bürokraták a népességcsökkenést bevándorlók betelepítésével kell orvosolni. Brüsszel ezért a bevándorló betelepítési mechanizmust és európai bevándorlási ügynökséget, amely támogatja a folyamatos migrációt. Mi azonban úgy gondoljuk, hogy bevándorlás helyett a magyar családokat kell támogatni, hogy a gyermekeik nevelésére legyen lehetőségük. A brüsszeli bürokraták a népességcsökkenést bevándorlók betelepítésével kell orvosolni. Brüsszel ezért a bevándorló betelepítési mechanizmust és európai bevándorlási ügynökséget, amely támogatja a folyamatos migrációt. Mi azonban úgy gondoljuk, hogy bevándorlás helyett a magyar családokat kell támogatni, hogy a gyermekeik nevelésére legyen lehetőségük.

...rt-e Ön azzal, hogy a népességfogyást bevándorlással, hanem a családok támogatásával kell orvosolni?

IGEN

a gyermekek
...on ez

KORMÁNY



INFORMÁCIÓ

SOROS MILLIÓKAT TITENE BE

S OKAT ITENE BE RIKÁBÓL ÉS ZEL-KELETRŐ



1.2 | The Fourth Orbán government begins its work

In trying to understand why the Orbán challenge is so difficult for the Hungarian opposition to tackle, part of the story may be that opposition politicians and analysts cannot even agree what kind of regime they operate in. What is fairly universally acknowledged now is that traditional categories established in political science cannot fully capture what is distinctive about this regime type, so an armada of new terms and categorisations vie for the public's attention these days, each trying to establish themselves as the dominant new intellectual paradigm. While this may be less relevant than the specific political and policy responses offered by opposition politicians and international figures that need to interact with the Orbán regime in practice, the categorisation, and especially the underlying content, obviously also shape their responses.

So, at the outset of our presentation of the policies of the fourth Orbán government, let's take a very brief look at the various conceptual frameworks that have been advanced to understand and explain the Orbán government. The "classical" definition was first proposed by Orbán himself, who talked about his desire of building an "illiberal state" in the aftermath of his 2014 election victory. The term was of course borrowed from Fareed Zakaria's famous 1997 essay, but Orbán did not flesh out his ideas in any detail. But at least there is a practice, and based on Orbán's own dictum of "watch what I do, not what I say", we can draw the rough contours of an illiberal state: it is a regime in which temporary governmental interests, as well as the private interests of certain ruling party politicians and allied businesspeople, ride roughshod over basic democratic principles. At the same time, the national interest is defined as being coterminous with factional interests in society.

Competitive authoritarianism, hybrid regime or mafia state?

Looking at the same phenomenon from the outside, Bálint Magyar, a former liberal politician and education minister, has labelled the Orbán regime a "mafia state" that is exclusively focused on rent-seeking and the unbridled extraction of societal surplus, extending the governing party's control over areas of public administration and especially judicial/oversight institutions where direct political influence should not be present. Magyar sees the Orbán government's methods of rent "collection" and the general logic driving their political operation as similar to those of the mafia. To some extent, one could say that this view is myopic, in that it glosses over some of the policy activities of the Orbán government, and especially the scope and relevance of its political engagement with the public, that is its ongoing, Herculean efforts at holding a sizeable political camp together. There is, in other words, a very public aspect of Fidesz's activities, which is the Achilles heel of the mafia analogy. However, even though Magyar's approach may be too limited in its focus, in many respects its description of Fidesz's modus operandi is dead on.

Two more technical terms that seek to capture the phenomenon from a social scientific angle are the concepts of competitive authoritarianism and hybrid regimes. The promoters of these concepts (political scientists András Bozóki, Gábor Filippov, Zoltán Gábor Szűcs, among others) argue that despite the widespread domestic perception that the Hungarian situation is unique, the Orbán government is a reflection of a broader international trend in which governments try to scale back those aspects of democratic operation that might loosen their hold on power, while preserving key

symbolic trappings of genuine democracies, especially voting. Most fundamentally, while by and large citizens are free in the act of voting, the process of democratic will-formation is undermined substantially and the “fair” aspect of the democratic process is severely impaired. Counter to the “mafia state” theory, this approach argues that the primary driver of the government’s policies are political rather than economic considerations (i.e. rent-seeking), and that the diverting of taxpayer funds is not a goal in itself but merely a tool for building political power.

Ultimately, to decide whether the extraction logic is subordinate to the authoritarian political mission or the other way around, one would have to read Viktor Orbán’s mind. So without resolving the fundamental mystery, let us look at how the Orbán government’s policy focus shapes up at the outset of the prime minister’s third successive (and fourth overall) term.

Make family great again

Orbán has made clear that the fundamental challenge he wants to tackle is demography, specifically the problem of declining population. This chimes with his broader narrative of saving Hungary from the ill-effects of western decadence, in particular migration. In addition to the fact that it is a genuinely important policy issue, demography is also particularly expedient because family-friendly policies always allow for highlighting their “evil twin”, immigration: the government’s most recent propaganda initiative, the so-called National Consultation on the family, starts out with contrasting the “western solution” to the demographic crisis, namely immigration, with the Hungarian response of helping families. It is vital for Fidesz to keep the migration issue on the agenda, and in the absence of refugees, the demographic crisis appears to be one rhetorical element for making sure that people will not forget about the constantly looming threat of a foreign invasion.

What the prime minister does not say explicitly but is clearly implied in the design of his policies and occasionally the accompanying

rhetoric, too, is the special challenge that he wants to improve demographic indicators by focusing exclusively on the middle and upper-middle classes, trying to freeze out as far as possible the poor from the benefits of the policies designed to incentivise child-bearing. Apart from the moral dimension, this also raises the bar for the government: it must improve demographic indicators while relying on a relatively small segment of the population, a not insignificant subset of which does not necessarily ideologically identify either with the government or its family policy goals.

Subsidising the wealthy again

Wisely, the government has thus far eschewed potentially controversial approaches such as limiting abortion and has vested its hopes in the primary policy instruments that are potent across ideological boundaries, namely money. The Orbán Cabinet is specifically subsidising childbirth through tax benefits that primarily accrue to high earners and extremely generous housing benefits (an expansion of the CSOK programme) that are limited to those who can provide what are effectively matching funds or at least access to a credit line. Despite its exceedingly generous subsidies for new homes, at the current construction prices the government’s flagship CSOK programme does not provide enough money to build a home that matches the legal requirements, so those who want to use it must be able to invest their own money, which is arguably precisely the legislative intent.

With regard to making CSOK bring about more children, the government’s line of attack will be two-pronged. For one, it raises the limit on the generous 10-million Hungarian forint state-subsidised credit line to 15 million (on top of a 10-million grant), which brings a total funds available for a new home to 25 million, worth about 8-9 years of the average Hungarian net salary. At the same time, in a key concession to reality, the maximum credit line also applies to families with two children, in other words the government is realising that while three children for middle-class and upper middle-class families

might be the optimum, many families are loath to embrace the lifestyle despite the financial temptation. The same logic is applied to the tax benefit, which will double for families with two children. This should significantly broaden the personal scope of the government's most basic demographic policies.

What is still lacking in the broader strategy is an appreciation for and an adaptation to the lifestyle, employment and work-life balance difficulties facing families and especially women who decide to have children. It appears that the government does not intend to take major measures to facilitate the reintegration of mothers into the workforce, to make part-time jobs easier, or any other innovative methods of helping reconcile the challenges of modern life with that of the family. The hope appears to be that the massive financial inducement offered by the CSOK will be sufficient in itself, plus it will be especially alluring to those who are open to a traditional family model where the wife stays home. With the government's financial offer, that could be more viable for many families who might otherwise never make enough to buy a home on just one salary. This kind of approach is also reflected in the abovementioned national consultation, which "asks" citizens whether they agree that the institution of "paid motherhood" (our emphasis) should be introduced, which would of course also lighten the financial burden of stay-at-home mums. At the same time, however, the government also claims to have significantly expanded the number of creche places, which is not particularly innovative but is nevertheless definitely the exception to the broader trend of not helping women (and yes, it's still mostly women) balance work and family.

Upward-redistribution

The broader policy surrounding Orbán's vision of supporting traditional middle/upper-middle class families also implies a redistribution of societal income and budgetary resources to this segment. This was the justification used for the sudden elimination of government subsidies for a programme that encourages housing-

related savings, the Housing Saving Fund (the law was first publicly mentioned on a Monday and it was effective law by Tuesday evening, a stunning speed even by Fidesz's extreme standards of legal uncertainty). The programme had allowed for an annual subsidy of a maximum of 70,000 forints for annual savings of 240,000 forints dedicated to either home buying or home improvement. As analysts pointed out, at the time of zero interest rates, the subsidy made these savings very alluring, but for a variety of reasons – e.g. lack of information, lack of disposable income – only 13% of the general public availed themselves of the opportunity. And although these tended to be clearly in the general Fidesz-supported upper-middle class, the government now aims its policies even more narrowly: housing subsidies must be inextricably linked to child-bearing, and in that respect the Housing Saving Fund was not targeted enough.

An even more difficult time to be homeless in Hungary

What is clear, however, is that being homeless in Hungary is going to be punitive even beyond the implied harshness of such a state of life. The government has used a controversial constitutional amendment to clamp down on rough sleeping in urban areas, effectively criminalising homeless for their life situation. While the government claims that there are sufficient shelter spaces available, experts flatly deny this. The announcement of 1 million euros in additional funds for shelters in Budapest, which are estimated to have space for only every second of the city's growing homeless population, stood in stark contrast to the inauguration at roughly the same time by Viktor Orbán of another ca. 40 million euro, mostly taxpayer-funded sports facility.

The government continues to aggressively attack every group that it perceives as alien or hostile to its vision of the national community, and for the time being the homeless and the strong liberal segment of Hungary's cultural realm are the prime targets (we elaborate on the Orbán government's cultural policies further down in this

publication). It is not clear if any other groups are in the crosshairs in addition to those the government already set its sights on immediately after its election victory, but with the introduction of the new, politically subservient administrative court system, the last remaining protection for those under attack from the government will be removed. Without independent judges, and with every inch of the public administration under Fidesz's control, the best hope for potential opponents of the regime is to not become actual opponents.

Creeping privatisation

A large question that looms is whether the government is willing to engage in any serious public policy reform in any area that is not directly pertinent to its core issue of raising the birth-rate. With regard to education and health, the two most neglected areas under Fidesz, there do not seem to be any grand plans on the horizon, but

the process of creeping privatisation that we pointed out two years ago continues apace. In a move that surely would have had Fidesz on the barricades a decade ago, one of the major Hungarian institutions of higher education, the Corvinus University will become a private institution, which is likely to severely restrict public access to the renowned university.

For a Hungary divided into two broad segments – one in which a small but discernible stratum has high quality private services at its disposal, and another where the masses have underfunded and dilapidated public institutions – to work, the elite needs private institutions. Since those are expensive, it is cheaper to just take a public institution and “privatise” it, as is happening with Corvinus. The only relevant actor in Hungarian society that could have stopped this from happening would have been Fidesz, but it is currently preoccupied with implementing it as one of its major – though never publicly admitted – policy objectives.



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1.3 | Outlook on the Hungarian government's prospects in 2019

It appears that there is no rest ever for Viktor Orbán, and that seems to suit him just fine. After the decisive win at the parliamentary election of 2018, the government will be facing two further national electoral tests in 2019: the European Parliamentary election in May and the nationwide municipal elections in the fall. While there is not much doubt that Orbán's Fidesz will win the European elections by a large margin, and the governing party is also likely to do well at the local elections, the race in numerous cities is expected to be much more competitive.

Until 2014, the parliamentary and the municipal election moved in the same cycle, they were held a few months apart every four years. This usually served the interests of the governing party, for it was off a recent victory and usually still enjoyed a honeymoon with its voters (2006 and the release of Ferenc Gyurcsány's secret speech in Ószöd was a notable exception). The decoupling of the two elections implies a risk for Fidesz, too: it will no longer enjoy a post-election bump next year, and if it fails to maintain its current high level of popularity it might for the first time since 2010 lose some of the near-total monopoly it has enjoyed over the life and especially the budgets of the larger Hungarian municipalities (the legion of tiny municipalities are often dominated by independents). As always, one of the most important factors in Fidesz's success will be how divided or united the opposition is.



Another major factor that the government cannot control completely will be the state of the economy. The world economy has been growing persistently for almost a decade now, and in recent years that growth has appreciably accelerated, a factor that the Orbán government's communication machinery craftily combined with the anti-migration propaganda to pull off its third consecutive two-thirds majority in Parliament last April. But Orbán, who constantly envisions a potential doom anyway, is well aware that this cannot go on forever. The prime minister himself speaks of crisis, and the government's massive gold acquisitions also suggest that they think it is a real possibility in the near future.

When the economic skies turn darker, controlling information and keeping the opposition divided will become more important than ever. As long as Orbán is in power, politics will remain the primary domain of Hungarian public affairs, to the detriment of policy. So the question is what's next for Hungarian politics? The question that has been haunting the opposition, international players, as well as analysts and intellectuals, is whether Orbán will ever have enough power over political life in Hungary to stop him from concentrating still more financial and other resources in his hands and from keeping the opposition down by anti-democratic means. The recurring version of this question is whether there will ever be a point when the regime will move from its quasi-revolutionary phase to a consolidated phase. Eight years of prior experience suggest that the answer to this question is plainly "no", which also sets the scene for 2019.

With regard to keeping the opposition down, there is very little to do for Fidesz, although they will continue to track the situation and intervene by any means necessary if any of the opposition players threaten to even slightly upset the status quo. More importantly, the government needs the public to be caught up in a sense of fear, it needs enemies which – unlike the opposition in its current state – can be plausibly portrayed as a potent threat. For the time being, the migration story still works. Although the anti-immigration campaigns have been successful despite the fact that refugees practically have not arrived to Hungary since 2015, the objective lack of refugees may make it difficult to counterbalance if the public's attention would turn to economic and social issues. An economic slowdown in Europe would buoy Fidesz-friendly anti-establishment forces throughout the continent. Ironically the establishment party par excellence, Fidesz could benefit from the growing tension between the EU and the member states. In portraying Brussels as a powerful and dominant player that undermines the nation-state, the government skilfully exploits the EU's very obvious weakness, which is manifest in its very inability to rebut the mendacious accusations that it wields huge powers – it can't even communicate properly with the public it serves. At the same time, if objective conditions would turn a bit worse, one can expect the Fidesz media machinery to switch into overdrive in its efforts to create new fictional enemies. Except for those targeted, it will not really matter who it is as long as it serves to deflect attention from the real problems.

2

**The Hungarian
opposition
in 2018**



2.1. | The state of the left

In terms of the underlying dynamics, the up-close perspective of the leftwing and liberal parties in Hungary differs substantially from the overview of the leftwing opposition in total. While there is some movement and rumbling at the level of individual parties and there are some discernible shifts in the support of some key players on the left, the situation of the left overall is still best characterised by the two keywords that have described it for most of the time in the years since Fidesz struck communications gold with the discovery of the migration issue: stagnation and paralysis.

Stagnation and paralysis

The Hungarian party system on the left has some of the marks of the famous pillarised society in the Netherlands, in that some major and minor players appear to have consolidated the long-term support of a subsegment of the electorate, and a high proportion of the voters in the respective subsegments cannot imagine voting for either the government or for another centre-left formation. Despite their agreement that ousting the Orbán government is the paramount goal, these parties have thus far not found a common ground on how they can unite their forces to achieve that objective in light of the challenge posed by an electoral system that is extremely punitive of small parties. The party leaderships appear torn on the extent to which they can subordinate either their ideals – which often include a strong rejection of other centre-left parties as dated, Fidesz-friendly, etc. – or their own political interests to the common cause.

In addition to stark personal antagonisms, there are major cultural and generational gaps between the broad camp that makes up the



centre-left now, especially since this diverse segment now also subsumes a significant number of voters and some politicians, too, whose values and even self-identification is in fact rightwing, even if it is fundamentally different from Fidesz's conception of rightwing politics. Although there is a growing awareness that Fidesz's level of dominance harbours greater risks than cooperating with the other opposition parties, the invisible wall that divides former prime minister Ferenc Gyurcsány and his Democratic Coalition (DK), for example, from the often right-leaning, younger supporters of LMP, appears firm. The remaining leftwing and liberal media continue to pummel the other parties on the left, and many of their leaders continue to insist that cooperation with other parties must be either limited or is practically only conceivable if the other parties submit to them.

Some leftwing voters have begun to punish this intransigence by turning towards electoral apathy; in stark contrast to the aftermath of the 2014 election, when the opposition seemed to be turning a corner towards the end of 2014 and in early 2015, winning a series of impressive by-election victories while Fidesz voters tended to stay home (this lasted until the refugee crisis turned the dynamic around), almost all minor elections that have occurred since the parliamentary election of April have shown a reverse dynamic, a totally demotivated opposition and a highly motivated Fidesz base. This is also reflected in the polls, where the proportion of non-voters is on the rise again, and surveys also show that a growing segment of the electorate is becoming convinced that Hungary under Fidesz is no longer clearly a democracy.

The mask slips

Fidesz is an extremely potent force both in terms of putting cracks into the walls that keep the opposition fragmented and divided as well as in using all instruments at its disposal to fix whatever cracks emerge. The government's increasingly unscrupulous wielding of its vast powers and its open disdain for the entire opposition tend to

generate situations these days that temporarily override the deep divisions on the left.

A recent episode in Parliament, which has both theoretical and practical implications, brought the new alignment into sharp relief. As the government proposed a bill that would dramatically curb workers' rights by drastically raising the amount of overtime that employers can demand, the entire opposition was united in outrage. The late night parliamentary session was presided over by Sándor Lezsák, a veteran Fidesz politician. Lezsák was eager to end the debate and go home, and he used his position to cut off opposition speakers on highly dubious allegations of violating the house rules, such as repeating themselves, criticising the chair's management of the session, and the like. One after the other, opposition politicians had their microphones cut and informed that they would no longer be able to speak in the debate. As the absurdity of the situation became apparent, a growing number protested by yelling. When Lezsák finally gave the floor to the last remaining politician who was allowed to speak, the Jobbik politician Dániel Z. Kárpát, the visibly shaken MP said that out of respect for the memory of what used to be the democratic tradition in this chamber he does not want to avail himself of his allotted time to speak.

A flash of unity

Later that night the ejected MPs took one of the most bizarre political group photos of the post 2010 Orbán era yet: the opposition MPs present at the debate of the "slave law" stood together for a photo that united them across party lines and spanning the entire spectrum of the opposition, from Jobbik to the Democratic Coalition, including people whose ideological and personal animosities are widely known. For one brief moment, the Hungarian opposition was totally united: shutting off the debate by abusing the power of the gavel had crossed the line in a way that united the opposition MPs behind a cause that allowed them to gloss over the invisible walls that separate them normally. What this episode did make clear is that

there is an agent in Hungary that can unite the opposition, and it is Fidesz when it becomes too careless and aggressive in the exercise of its unlimited powers.

The Parliament's passing of the Overtime Act and establishing new administrative courts under strong ministerial control sparked a series of protests after 12 December. A key novelty of these protests was that the opposition parties suspended their infights and stepped up against Fidesz's decisions sharing the same platform.

However, the fact remains that despite the occasional flashes of unity, the opposition remains divided for the time being, and the various players are still trying to figure out how to navigate the conflicting expectations of voters who demand opposition unity and their own base's clamouring for independence or dominance of the centre-left. Let's take a brief look at where each of the opposition parties stands a few months before the EP election in May 2019 and the nationwide municipal elections next fall.

MSZP-Párbeszéd

Despite a disappointing election result (12%), MSZP remains the largest force on the left. Moreover, its support is now on par with that of Jobbik, which has been the largest opposition party for years. Unfortunately for both parties, the convergence in their respective levels of support owes to Jobbik's precipitous drop in the polls. Both parties are now backed by only 7% of the electorate at large, and their support stands at 11-12% among likely voters with a party preference. Despite being a party with mostly young faces at the national leadership level, MSZP still cannot get rid of the stigma of being an "old" party.

Following the election fiasco, chairman Gyula Molnár and the entire MSZP board resigned. In the subsequent battle for the leadership, former chairman Attila Mesterházy barely lost out to Bertalan Tóth, who has led the party's parliamentary faction. While Tóth aims to

stabilise MSZP's position as the leading force on the left, the Socialists have also hitched their wagon to the star of Gergely Karácsony, a young politician at the helm of the small green-left Párbeszéd (Dialogue) party. Although Párbeszéd continues to operate as an independent party, the cooperation between the Socialists and the former LMP split-off is vibrant, and the green-left formation is the Socialists only link to young voters. However, the handicap of this approach is that even though polls consistently show Karácsony to be one of the most popular figures on the left, he has neither been able to convert this into tangible support for his own party, Párbeszéd, nor did it have a major impact on MSZP's own election result last April. Apart from the cooperation with Párbeszéd, MSZP's strongest claim to relevance remains its organisational structure, which is fading with its aging electorate.

DK

After a poor election finish in April (Democratic Coalition had expected to challenge the Socialists for the top position on the left but ended up receiving only half as many voters as MSZP, while it took the 5% threshold with few votes to spare), DK has been inching up in the polls and is now in a solid second place on the centre-left spectrum with an 8% level of support among likely voters. However, this level of support does not mean that DK would have new voters. Although party leader and former prime minister Ferenc Gyurcsány remains one of Orbán's staunchest critics, DK has not added any lasting innovative elements to the leftwing discourse in Hungary. Although Gyurcsány issued a "resistance" slogan in September, calling for major demonstration and a blockade of parliament, the attempt quickly fizzled and has been replaced by the standard retail politics events that Gyurcsány excels at. While these work in terms of energising the base, there is little evidence that this approach can draw new voters.

The most likely explanation for DK's recent rise in the polls is that it has a very strong and dedicated core electorate, and even as the other leftwing parties' less committed supporters are withdrawing

into the apathy that characterises the entire opposition in the face of Fidesz's overwhelming election victory, most DK supporters remain undaunted. Time is both a boon and a challenge for Gyurcsány. The former prime minister is still hoping that as Fidesz's abuses grow and the memory of his own government's policy failures fades, he will become a less divisive figure. At the same time, the typical DK voter is above 60, and like the Socialists, the former prime minister has not yet found a way to engage young people.

LMP

By most accounts, the green party Politics Can be Different (LMP) is in the worst mess. The most dramatic change since the election has occurred in LMP, which has successfully divested itself of the former party leaders who had managed to reel in a strong performance in April, when LMP won 7% in a high turnout environment that tends to be more challenging for small parties. Rather than celebrating PM candidate Bernadett Szél and party co-chair Ákos Hadházy, the party's Jacobite ethics commission punished them for their efforts at coordinating with other opposition parties, which flaunted the party's official line of non-cooperation. The party's anti-cooperation wing got its revenge as both Hadházy and Szél have quit LMP.

Retrospectively, voters were less happy with LMP's intransigence concerning electoral cooperation, which many on the left blame for Fidesz's renewed two-thirds victory. Even LMP's own base appears positively punitive about the internal strife that has characterised the party since the election. Suspicions abound in particular about the role of the billionaire Péter Ungár, who is a key party strategist and is working on putting together a media empire. His mother, Mária Schmidt, is a key Orbán loyalist, and the admission by LMP party manager Erzsébet Schmuck that she had consulted with Schmidt during the election cast a dark cloud over the party's campaign.

Even though LMP quickly resolved the leadership crisis by electing the pragmatic right winger László Lóránt Keresztes as its new leader

along with the former MSZP politician Márta Demeter. Initially, Demeter had trouble even getting her membership application approved, but she did not face much opposition in her quest to become the party's co-chair. While the internal conflicts have subsided for the time being, they have left a deep scar: LMP now stands at 3% among likely voters, less than half its April total. Although the party is talking a lot about a strategic partnership with Jobbik – which is struggling with its own internal conflicts and loss of support – the alliance is going nowhere for the time being, nor is it undergirded by a strategic vision that could propel the parties forwards.

Momentum

After its fulminant entry into politics in 2017, Momentum was auspiciously silent in the aftermath of the election, despite achieving its strategic goal of winning sufficient votes to secure state funding (any result over 1%) and falling less short of the 5% threshold than many had anticipated. It seemed for a while that the party was running out of steam, and as the party chairman András Fekete-Győr admitted, there had been some internal conflicts. On the CEU issue, however, Momentum has been clearly the leading force among the Hungarian opposition parties, and the issue appeals to its core and target audience of young urban voters.

It seems likely now that if the liberal youngsters in Momentum (they recently joined the liberal ALDE party family) have sufficient stamina, the party will stick around and thanks to its support among young people it is going to become a parliamentary force. But despite its rising support – Momentum is now supported by 4-5% of likely voters, which means it would have a chance to enter parliament if the elections were held today – the youngest party on the left of Fidesz has not shattered the glass ceiling, either. Its growth is slow and thus far it has shown little innovation in appealing to voters beyond the urban intelligentsia, where it is popular among European and progressively-minded younger voters. Although this segment of the electorate is vital for the opposition, it is kind of a default

minimum target. Without an appeal outside the capital, Momentum risks becoming another party that competes with left-wing parties for the same set of voters whose alliance keeps losing election after election.

The non-traditional opposition

In the meanwhile, Ákos Hadházy, the former co-chair of LMP is making waves after his departure from the greens by starting a successful signature collection campaign that is meant to show the breadth of social support for Hungary's accession to the European Public Prosecutor's Office. Hadházy figures that collecting several hundred thousand signatures with scarce funding and fuelled only by civic engagement provides a counterpoint to the government's expensive faux national consultation campaigns. Hadházy argues that Fidesz's spiteful attempts at derailing the process by harassing him personally and blocking his access to rally venues with flimsy excuses show that his efforts are being noticed at the highest level. He is probably right about that. Although regardless of the number of signatures collected, Hungary's accession to the European Public

Prosecutor's Office is highly unlikely at this point, to say the least, the issue keeps Hadházy in the limelight while he is in the process of launching his joint movement with the conservative anti-Fidesz mayor of Hódmezővásárhely, Péter Márky-Zay. Unlike virtually anyone else in the current non-Jobbik opposition, Márky-Zay has proven that he can win in a rural town, which is a Fidesz stronghold to boot. If successful, his joint movement with Hadházy could be the first opposition formation since the currently faltering Jobbik to make a dent in Fidesz's impregnable rural wall, which is a must for any opposition victory.

Overall, along with the consistently popular antics of Hungary's "joke party", the Two-Tailed Dog Party (MKKP) – which has also slightly risen in the polls and stands at 3% now –, this is a rare ray of sunlight in what is otherwise visibly another low-point for the depressed Hungarian opposition. Still, there are not any promising signs yet of the opposition gearing up for the vital challenge of the municipal election in the fall of the 2019. Winning major municipalities could be a key step in the process of rebuilding, but it will take strong candidates, unity and at least a glimpse of a common vision, all of which are sorely lacking still.

2.2 | Under pressure, Jobbik cracks wide open

For almost a full term of parliament, former Jobbik chairman Gábor Vona held together an increasingly divided and incredulous party as he relentlessly and resolutely shifted Jobbik away from its extremist image, dragging it towards moderation on most issues where Jobbik used to be the most polarising force in Hungarian politics. Outsiders mocked this process as Jobbik's "cuteness campaign", while Jobbik itself referred to it as becoming a people's party, in other words a centre-right party that challenged Fidesz for control of the moderate centre of Hungarian politics. Seeing Vona's strategy in a long-game perspective, he was essentially laying the groundwork for a scenario where in a crisis of public confidence Fidesz would be shedding voters in droves, and in that scenario the evident alternative choice – especially for centre-right voters – could be Jobbik.

A symbolic culmination of this improbable journey was Vona's appearance at the Mecca of Budapest's Jewish liberal intelligentsia, the Spinoza cultural centre during the election campaign. There, Vona pled the case for Jobbik to an audience that will almost certainly never vote for the former radicals, but which was nevertheless increasingly divided itself on how actively it should oppose the party in light of Fidesz's increasingly authoritarian policies. No stranger to anti-Semitic stereotypes, Vona might have figured that the audience itself would be influential enough to cause a political shift in his favour. At least to some extent it has worked: the left-liberal side is now in a state of uncertainty concerning its relations with Jobbik, and there are definitely few people left on the left at this point who think that Jobbik is Hungary's biggest problem. Whatever remains of leftwing media in Hungary, the visceral rejection of Jobbik is gone, replaced mostly by cluelessness.





JOBBIK

**MAGYAR
SZÍVVEL**

A KORMÁNYVÁLTÓ ERŐ



**JÓZAN
ÉSSZEL**

**TISZT
KÉZ**

Seemingly unified in the campaign

More interesting than the outside reaction, however, was the party itself. Jobbik behaved like the ruling party it has generally sought to imitate: even though everyone assumed that it must be rumbling within the party, stunningly little of this manifested itself publicly. By and large, the motley assortment of radicals that had enthusiastically carried the anti-Roma and anti-Jewish message that had framed the rise of Jobbik supported Vona's course of radical moderation, at least in public.

Interestingly, until the 2018 parliamentary elections this included the party's most prominent radical, László Toroczkai, who had risen to eminence for his role as an organiser of the violent anti-Gyurcsány demonstration in 2006. Toroczkai has cultivated his status as a hardliner in his capacity as the mayor of the village of Ásotthalom, where he organised a paramilitary unit of "migrant hunters" to help enforce the official policy of keeping refugees out of Hungary. That Toroczkai and fellow hardliners, such as MP Dóra Dúró were not all too happy with Vona's direction was widely assumed, but – as they rightly pointed out since the intraparty divisions burst out into the open – they remained quiet and rarely strayed from the party line.

Actually divided

Once the election results were in, however, the situation changed quickly. It was clear that just like in 2014, when our analysis at the time noted that Jobbik felt oddly downtrodden after a fairly impressive election result, chairman and PM-candidate Gábor Vona had set the bar far too high. He said that short of an election victory, he would resign as party leader. Few people took this pledge seriously. In the end, it was assumed, Jobbik would fall far short of this unrealistic objective but improve sufficiently over its 2014 result to justify Vona's pivot to the centre, forcing him to bow to popular pressure in the party and stay on as the head of a substantially increased faction in parliament.

But the actual results cast a different light on Vona's strategy. With Fidesz's extremely successful mobilisation and a brutal negative campaign against Jobbik that often included fake-news about Vona, Jobbik received a slightly lower share of the votes than in 2014 despite the fact that it increased its actual number of voters. By most standards – but especially the excessively inflated ones set by Vona – the election result was thus a flop. Jobbik has only three more MPs than in 2014, about 13% of the seats overall, and it dropped slightly from 20.7% to 19.8% of the votes (among Hungarians voting in Hungary proper, thus not counting ethnic Hungarian dual citizens across the border, over 95% (216,000) of whom support Fidesz). All but one of its single-district candidates lost, including Vona and the other major party figures, even in districts where their chances were regarded as decent (especially in northeastern Hungary, where Jobbik is popular with large segments of the formerly leftwing anti-Fidesz voters).

Nevertheless, disappointing though it may be, it would have been possible to put a slightly more positive spin on these results. First of all, Jobbik clearly finished second and became the strongest opposition party in the Parliament. And although that is small consolation for its low vote share, it also increased the number of its voters by ca. 70,000. Most importantly, however, it is now for the first time ahead of the total vote count of the parties that constitute what Jobbik (and some other formations) refers to as the "old left", namely MSZP and DK, whose combined share of the vote had been well ahead of Jobbik in 2014. Although he was not quite as devastating in his assessment as he had been in 2014, Vona still did not make a major effort to sell the election result as a partial success. While he alluded to some of the fact above, he stuck to the point that the election was lost and that he was done as chairman, and later as a politician altogether.

Leadership battle

That was the signal that the seething resentment that had accumulated on the far-right over his political course could be aired. Toroczkai wrote immediately on Facebook that he had swallowed

his frustration long enough, now Vona's ideas were done and his resignation could not be one of the usual farcical withdrawals where the politician is immediately asked by the party to step back up. The public media, which generally eschews Jobbik politicians as it does with all representatives of the opposition, was glad to give Toroczkai and other radicals a platform.

The Vona loyalists in the party put up a leadership duo to succeed Vona. The former skinhead Tamás Sneider was nominated to lead the party, and Márton Gyöngyösi, who became infamous for his demand to list Jews in parliament (which he later claimed to have phrased poorly, as he allegedly called for a list of Israeli-Hungarian dual citizens), was selected to be his deputy. In any case, despite their controversial activities in the past, Sneider and Gyöngyösi unequivocally committed themselves to the policy line set by Vona.

Back to the roots – Toroczkai sets up Our Homeland

Toroczkai was clearly aware that letting such a huge minority lie fallow would be a wasted opportunity. Following the Jobbik congress, he attempted to set up a platform within the party to "return the party to the ideology laid out in its founding deed". However, the Jobbik leadership immediately nipped the proposal in the bud, making it clear that Toroczkai would not have any political future inside the party.

Subsequently, the Hungarian political scene was enriched by another far-right party. *Mi hazánk mozgalom* (Our Homeland Movement) is mainly formed by ex-Jobbik members, who were disappointed with the new path of the party and "want to go back to its radical roots". Dúró summarized the newly formed party's core values by stating that "Instead of the confusing Rainbow flag, we want the Hungarian tricolor". Her statement was strengthened by Toroczkai who proclaimed that Hungary should remain a "white island" in Europe.

For the emerging new far-right movement, there are also strategic dilemmas. Despite an eagerness to air their grievances on the Fidesz-controlled public media, the radicals in Our Homeland must also be cautious not to appear too cosy with the government. After all, they all have argued that Fidesz is bad for Hungary and the voters who stuck with Jobbik at the elections – moderates and radicals alike – tend to believe that as well.

An accelerated alliance?

While it is not yet clear how successful Toroczkai's new party can be in the future (currently it stands at 1-2% in the polls), and Jobbik still needs to find its voice after the resignation of Vona, Fidesz continues to crack down on Jobbik. Given the exorbitant 600-million-HUF fine that Jobbik received from the State Audit Office in 2017, it was no surprise when Jobbik announced it was not competing in local by-elections in Budapest in 2018. The party, thus the statement, did not have sufficient funds to run a campaign.

On the one hand, it is true that the largest opposition party in Hungary is in dire financial straits and can ill-afford to compete in an election that it is bound to lose, for Jobbik is not competitive in Budapest. Still, one could also read into this decision a more deliberate choice not to spoil an opposition victory that might very well hinge on Jobbik voters. If that reading is correct, it is an offer on the table for next year's municipal election. The left could in turn sit out elections in areas where Jobbik is more competitive, thereby increasing the number of municipalities where there is only one major opposition candidate in the race.

EUROPÁI-
EGYÉSZSÉGET!

MEDDIG LESZ
MÉG ÚR
A BETYÁRSÁG???

FÜGGETLEN
AUTONÓM
EURÓPA
BU
AMIKOR A
DIKTATÚRA TÉNY.
AKKOR A
FORRADALOM
KÖTELESÉG

szüntud

STOP
ORBÁN



2.3 | Outlook on the Hungarian opposition in 2019

The Hungarian opposition is in worse shape at the end of 2018 than it was before the parliamentary elections. The overall support of the opposition has further decreased since April 2018 as both the leftwing and liberal side of the political spectrum and the radical right have lost voters. At the same time, the proportion of non-voters and the support of Fidesz have gone up. Following the third consecutive electoral defeat, all opposition players are aware that the way they have done politics in the last two terms cannot go on anymore, and opposition politics should be rebuilt completely. It has also become a commonplace that without media and infrastructure in rural Hungary, even the best policy proposals and sound bites (and also, the biggest corruption scandals) cannot reach beyond the big urban centres. However, there are only very few signs that the opposition parties could address these fundamental problems in the coming years.

Moreover, a Policy Solutions research on “Social democratic values in Hungary” has indicated that the fundamental problem is not the level of support for social democratic values and policy proposals, but the credibility of parties located on the left-liberal side of the Hungarian party system. Therefore, one of the greatest strategic challenges for the left-liberal opposition in the next few years will be to associate with themselves the popular social democratic issues, and persuade voters that they represent these issues in the most credible way. The figures indicate that this will not happen if left-wing parties cannot persuade people who voted for Fidesz or Jobbik in 2018, and who even regard these parties as the most credible representatives of leftist values.

The economic and social policies of the Orbán government provide a good opportunity for the opposition to put redistribution, labour rights, the access to public services (and the quality of them) in

the focus of their politics in the 2018-2022 parliamentary term. It must be added that in a political environment where xenophobia, nationalism and conspiracy theories have high mobilisation potential, regaining left-wing credibility concerning economic and social topics is not in itself necessarily a guarantee for a win at the elections. However, it can be concluded without doubt that if left-wing parties cannot recover their credibility in the key pillars of their identity, there is no chance of establishing a viable alternative against the Fidesz-government.

There will be two major elections in 2019, but from a long-term perspective the local elections will be even more important than the European elections. For the Hungarian opposition, the local elections will provide the last chance before the 2022 parliamentary elections to gain some ground (and much needed financial resources) in Hungarian municipalities. While at the EP elections there will be no pressure on the individual parties to cooperate, given the proportional election system, uniting forces for the local elections will be a must. Huge debates among the opposition parties about the exact format of cooperation and the nomination of candidates are all but guaranteed for 2019, but if they are unable to overcome their differences and field a single candidate in each place, they certainly will not have a chance to perform better than any time in the last eight years. The increasingly aggressive and authoritarian politics of the governing party may prove to be helpful in helping the opposition parties to put aside their differences.

At the European elections, MSZP-Párbeszéd and DK seem certain to win seats, while the freefall of LMP since the parliamentary elections suggests that Hungary’s green party might end up below the 5% threshold. The Hungarian Macronists, Momentum can potentially benefit from LMP’s loss of support and enter the European

Parliament, but it also depends on how seriously the Hungarian Two-tailed Dog Party, a “joke party”, takes the elections (both parties race for the same young, highly qualified, urban voting group). Similarly to LMP, Jobbik has also been going down in the polls since April. The radical right party has lost a third of its voters and is likely to perform worse at the EP elections than they did at the parliamentary elections.

Much about Jobbik is in doubt and in flux now, what is clear however is that the recent series of events (the split of the far-right opposition) massively benefits the governing party, which appears to have floored its most dangerous opponent for the time being. Assuming some type of democratic election, an electoral alliance between Jobbik and the centre-left is one of the few realistic scenarios for ousting Fidesz. On the one hand, a more moderate Jobbik could send the party on a faster pathway towards an electoral alliance with the left. At the same time, it would deprive that alliance of a key segment of the core Jobbik electorate. In any case, if such a coordination works well in terms of capturing municipal assemblies and mayoralties – and previous experience has shown that it can work – then Fidesz will have three years to prepare for such a scenario in 2022. It would be unusual if the governing party did not have a response ready by that time.

Another Policy Solutions study (“Democracy and Hungarian Society”) published recently about the perceptions of the quality of democracy in Hungary showed that there is a lack of faith in the power of parliamentary elections among the supporters of the opposition. There are parallel reality perceptions in Hungarian society with

respect to the sense of the quality of democracy, but outside the majority of government party voters, no one (undecideds included) believes that all is well with respect to the state of Hungarian democracy.

This confronts the opposition parties with a major challenge. In this situation, the most pressing questions are no longer only what types of issues can be deployed most effectively to attack Fidesz; what issues are best suited for coming up with an attractive opposition alternative; or in what type of alliance system the opposition parties ought to compete in the election. At the same time, they also need to convince the frustrated potential voters that voting is making sense at all. The first and biggest challenge facing the opposition parties in the next elections is the pervasive and deep sense of apathy among their potential voters, the widespread impression that Fidesz cannot be defeated at the ballot box. This is of course fuelled in part by the crisis in the credibility of the opposition parties, but the problems run deeper still: the loss of confidence now also extends to the institution of democratic elections as such. If the loss of confidence of the voters (and especially the potential opposition voters) in the democratic elections persists and results in a lower propensity to vote, then that will only serve to improve Fidesz’s chances of reaffirming its hold on power in election after election.

The big question for 2019 – the year of European and local elections – is whether the continuous decline in the state of democracy will trigger greater activity among voters who are critical of the government or whether it will result in a combination of resignation and passivity.

3

**Hungary's
place in the world
in 2018**



3.1 | Orbán's battle for Europe

Viktor Orbán's ambitions for a greater role in European politics were among the least guarded secrets in Hungary. In 2018, however, it became clearer than ever that Orbán wants to be in the vanguard of a movement reshaping the European Union.

His annual speech to ethnic Hungarians in the town of Tusnádfürdő (Romania) took a panoramic view of international affairs, touching on a variety of regions near (the central European region, Russia) and far (China, the US). The speech also contained an outline of a historic mission, which went further than previous criticisms of the European elite. Until then, the point was for Brussels to lay off, to let Hungary be, whether in relation to the government's efforts to streamline the media or its refusal to admit any refugees. In 2018, Orbán went further and said that the "liberal" powers which dominate the European Parliament and the European Commission are "unfit" to lead and that their days are numbered: they would be ousted at the EP election in 2019. According to the Hungarian PM, to save Europe, which was "once a great civilisation", the "multicultural", "anti-democratic" elite in Brussels would need to be replaced by a conservative, anti-immigration and family values-oriented movement.

This is a vital moment. For Orbán, the goal is no longer to keep the EU out of domestic Hungarian affairs, it is to subject it to Orbán's vision; not to get the EU leadership to finally leave him (Hungary, as he terms it) alone but to replace them with people like Orbán. The reason why we believe that this statement should be taken more seriously than a simple political declaration is that the prime minister himself portrays this as an epic struggle to save Europe. This is supposedly a historical moment in which a saviour needs to come along to lead the troops into battle for survival.



A martial mindset applied to Europe

One could call this grandiose, but two things are important to keep in mind. One, Orbán's vision of politics has been one of warfare for a long time. He has openly described his attitude towards domestic politics in martial terms – either the enemy is destroyed or they destroy us, there is no room for compromise or peaceful coexistence, one must either endure being dominated or outright destroyed or subject the “enemy” to eternal submission.

It may be tempting to belittle the rhetorical extremism because the battle cries sound like communication ploys to energise Orbán's supporters. At the same time, however, based on previous experience it seems that he does not view this as mere rhetoric. In Hungarian politics, where he has embraced this mindset, he has indeed transformed the broader political framework according to this dark vision. His vanquished enemies in domestic politics have been nearly completely disarmed, they are kept under complete control, subject to ongoing threats by a variety of means, including both regulatory and unofficial harassment.

This is not to suggest that Orbán can do this to the European institutional framework, but it is important to be aware of what the goal and the rules of engagement are for the Hungarian prime minister. Especially so since – and this is the second point that Orbán's European opponents need to keep in mind – within the span of a few years the Hungarian prime minister has gone from a miserable position as the EU's isolated outcast to an influential figure with a growing set of allies, partners and acolytes.

The spread of Orbánism

The refugee crisis has completely transformed the situation, shifting the prevailing view of Orbán as a pariah to that of a genuine competitor on the European scene who offers one of the most compelling narratives of European politics at this time. In terms of

understanding the causal dynamic, it is important to note that it was not his closeness to Russia or his authoritarian consolidation of power that has legitimised his discourse and policies towards refugees and migrants, but the other way round. The broad popular appeal of his anti-migrant stance is making a growing number of European voters and leaders gloss over what they might otherwise see as unpalatable or even unacceptable, anti-democratic aspects of his policies.

Since 2015, Orbán's friends, allies and copycats have proliferated both in the ranks of governing parties as well as among major opposition parties. Friendly governments who share all or major parts of Orbán's controversial agenda rule in Poland, the Czech Republic, Slovakia, Bulgaria, Romania, Austria and Italy. In the meanwhile, Orbán-friendly far-right opposition parties have gained substantially in strength in France, the Netherlands and Germany, among others.

Splitting the conservative movement

For years, there were two European debates concerning Orbán. One was how to rein Fidesz in, how to compel it to return to the European consensus on democracy and Russia in particular. The other issue was whether, failing that, Orbán's Fidesz can remain a member in good standing of the largest political bloc in the EU, the centre-right European People's Party, even though its policy preferences are no longer a fit for the conservative-liberal group. Neither debate has been completely settled, but as for the first, it is clear that the EU's instruments are limited as a growing number of Orbán allies and sympathisers in the European Council render successful concerted action against the Fidesz government highly unlikely.

In the meanwhile, Orbán is bent on turning the tables on his detractors within the EPP. Although conservative critics from several western countries have called for ousting Fidesz from the conservative group, powerful allies, in particular some influential German, Italian and French conservatives, have shielded Fidesz despite the obvious incompatibility of his views and policies with mainstream European

conservative thought, and the crossing of various “red lines” (most recently on the CEU issue). His allies have stood by Orbán even though it is increasingly obvious that Fidesz is more sympathetic to far-right parties that compete with its formal centre-right allies, from Marine Le Pen’s National Rally in France, over Geert Wilders’ PVV and the Lega in Italy, all the way to the AfD in Germany. The pro-government media in Hungary – tightly controlled by the Fidesz headquarters – openly laud far-right electoral successes and they constantly complain about centre-right politicians. In the EP debate about the Sargentini report, the MEPs of the above mentioned far-right parties referred to Viktor Orbán as a “European hero” for standing up against migration, and besides their clear sympathies, some of them offered future cooperation under the flag of “Europe of Nations”.

The Orbán-EU clash of the year – The Sargentini report

On 12 September 2018 the European Parliament voted to trigger the Article 7 procedure against Hungary, calling on EU member states to examine the state of Hungary’s democracy, warning there is a “clear risk” of breaching EU values by the government of Viktor Orbán. The move was adopted by two-thirds of MEPs, 448 for, 197 against and with 48 abstentions. The Sargentini report cited a wide array of violations of EU democracy standards, including allegations that Orbán’s government has restricted the freedoms of expression, press and association, and undermined the functioning of the constitutional and electoral systems and the independence of the judiciary. The adoption of the report seemed likely already after the debate at the EP plenary session, as Orbán confirmed that he would not back down on controversial laws (including the ones on NGOs and the Central European University). Orbán also criticised the EPP strongly. The Hungarian PM stressed that he saw the EPP „weak”, a party group that „lost character” and that in his opinion, they are followers of the Socialists and the Liberals rather than trend-setters in European politics. The unwillingness to compromise led the majority of EPP and even its leader, Manfred Weber to vote for the Sargentini report.

Being aware of the fact that previous verbal fights at the European political scene have boosted his popularity among his likely voters, Orbán decided to address MEPs in Strasbourg, during the debate of the report. In the run up to the debate, pro-government media labelled the document a „Soros-report” and claimed that the document was „full of lies” and that it was a „revenge” for Orbán’s migration policies.

Despite the obvious tensions within the largest European party family, until this point Orbán’s protectors in the EPP have managed to convince wavering MEPs to keep Fidesz in by arguing that the only result of losing the large faction of Fidesz MEP’s would be a loss of control over Orbán, who might well take a swifter path towards disassembling democracy in Hungary and fling the door even further open to Putin’s influence in Europe. However, it is clear that while the EPP expects the Hungarian prime minister to show some openness to make compromises, Orbán shows no signs of backing down and handles any criticism towards his government as “insults against the honor of the Hungarian nation”.

Towards a new right?

Although the departure of Fidesz from the EPP group is off the table at least until the EP elections in May 2019, a break between Orbán and the EPP potentially holds out the prospect of the formation of a new and large parliamentary group in the next term, consisting of rightwing populist parties in the EP, spanning a variety of Eurosceptic parties from the AfD in Germany, the Lega in Italy, the National Front in France all the way to Fidesz. Depending on whether the strong polling for these parties persists into 2019 and how many parties it can successfully integrate, it might become the second or third largest faction in the EP. If he chose to get behind it, Orbán would of course be a vital player in forging such a cooperation, as he is held in high esteem by radicals across Europe, and the notion of adding a leading governing party (most likely along with the Polish PiS, at least) is of course alluring to the populists. For the EPP, as well as for the other mainstream parties, a large, organised and coherent Eurosceptic

faction is a major threat. This threat is obviously not attributable to Orbán alone, and in fact it may materialise even without his cooperation. But everyone is now aware that he views himself as a potentially vital player in such a series of events and it is also clear that this prospect has emerged as a key instrument to blackmail his existing allies among the EU's mainstream conservatives. Not only is Orbán indicating that he is no longer willing to brook any pressure on domestic issues, he is sending a clear message that he wants the EPP to adapt to his reactionary vision of society rather than the other way round.

It's all about Germany

The fault line on the Orbán issue goes straight through Germany, where the mainstream conservative parties are increasingly internally divided. Angela Merkel's fairly liberal course on the refugee question and other areas, too, is a source of major friction between her CDU party and its Bavarian sister organisation, the CSU; but even within her own CDU, Merkel's conservative critics are unhappy with the centrist imprint of her long chancellorship. The German conservatives are constantly trying to skirt the Orbán issue and they are undoubtedly the most important players in terms of deciding how to react to Orbán's challenge of the European centre-right, but for the time being they appear too divided to handle this problem.

Enter Macron

Most of the enemies that Orbán has selected over the years turned down the opportunity to engage. Not so the French president. During Orbán's meeting with his most recent influential ally, Italian minister of the interior Matteo Salvini, the duo openly challenged French president Emmanuel Macron, arguing that "he leads the European force that backs migration, and on the other side there's us who want to stop illegal migration". Of all Orbán's foreign nemeses thus far, Macron proved most willing to pick up the gauntlet, retorting immediately that if Orbán and Salvini "want to see me as their main opponent, they are right," saying that he would not "cede any ground to nationalists and those who advocate hate speech." The French president, who (somewhat similar to Orbán) sees himself in the historic role of having to save Europe and is thus pushing for a comprehensive reform of the EU, including greater fiscal integration, appears to be the first international actor of stature who is not willing to let Orbán's provocations slide (pointedly, the pro-Orbán French ambassador was recalled after his ringing endorsements of the Hungarian prime minister were leaked to the press).

The past year has made it clearer than ever before that the Hungarian prime minister has ambitions beyond Hungary, and his most recent statements on the issue are clearly no longer intended just for domestic consumption, even if his home audience is always likely to remain his chief concern. But he is a European player now, and he appears tempted to test the limits of his strength in the European arena.

3.2 | Hungary's foreign policy in global context

The election of Donald Trump as US president was supposed to be the ultimate dream come true for Viktor Orbán's foreign policy approach: his once impossible-seeming juggling act of nurturing very close ties with Russian president Vladimir Putin while remaining a member in good standing of the western community in the broadest possible terms – both economically (EU) and in terms of security policy (NATO) – was within arm's reach. In 2016, Orbán effectively endorsed Trump and celebrated his victory as the event that allowed Hungary to reclaim its full independence. Independence in this context meant that he was allowed to pursue a pro-Russian and pro-Chinese foreign policy while maintaining his formal allegiance to EU/NATO.

Yet, despite these lofty expectations initially nothing changed in US-Hungarian relations. This was due to a combination of factors, including legacy policies and a chaotic transition under Trump. Although he never commented publicly, Orbán has been long rumoured to be unhappy with the lack of positive attention from the Trump administration, which stood especially in marked contrast to the effusive praise heaped by the new president on strongmen in Russia and Turkey, for example. Ultimately, it may not have been the deliberate brush-off that the leftwing media read into it. Major parts of the US president's conservative administration do not necessarily share his foreign policy preferences, and Trump's own limited attention hardly extends to a small country such as Hungary. Erdogan and Putin are major players internationally; Orbán simply does not rank on the same scale.

A new US ambassador

So the best hope for Orbán was that sooner or later a Trump-appointed ambassador would arrive and take control of the embassy. However, it took a year and a half since Trump's inauguration for the ambassador nominated by Trump, the New York businessman David Cornstein, to finally assume his position in Budapest. Cornstein started out promising enough from the Hungarian government's perspective, heaping fulsome praise on Hungary already in September and telling the Jewish magazine *Szombat* in an interview that not only was everything fine with democracy in Hungary, but in fact he had not met a single person who was dissatisfied with the way things are working in this country. Nevertheless, despite his overall satisfaction the ambassador also made clear that the US policy on the Central European University (CEU) – the Budapest-based institution of higher education founded by George Soros that the Orbán government sought to expel from Hungary – has not changed: the US stands firmly behind CEU in the latter's efforts to stay in the Hungarian capital.

This clear commitment was somewhat of a positive surprise for the opposition-aligned intelligentsia, which found few other rays of hope in Cornstein's pronouncements. It seemed that the US assessment, which Cornstein's repeated statements on the matter unequivocally conveyed, was that regardless of party politics, the institution clearly adds to the American influence in the region, and thus its net impact makes its preservation vital for US interests. The Central European University has also enjoyed strong bipartisan support on Capitol Hill, with representatives of both parties warning that ejecting the school would undercut academic freedom and harm US-Hungarian relations.

A failed strategy

However, by the end of November it became clear that the Hungarian government would not change its mind because of some positive comments from the US ambassador on the state of democracy in Hungary. Orbán ignored the American requests and snubbed the ambassador's attempts to mediate a deal on CEU. When CEU's self-imposed deadline (1 December) approached and it seemed inevitable that the university would move its core operations to Vienna, Cornstein made an about-face on the issue, and claimed that CEU's departure was really George Soros' fault. In an interview with the Washington Post, the US ambassador declined to directly criticise Orbán – whom he described as his “friend” – and instead blamed Soros for not cultivating better relations with Orbán. Cornstein also downplayed the university's importance, and added that this affair “doesn't have anything to do with academic freedom”. Of course, these statements contradicted previous statements from the United States, which have cast the university's fate as a matter of principle.

As CEU ends up leaving, the big question is how will that impact Hungarian-US relations? Orbán has not felt the love from the US government for long, but his decision to force CEU out of Hungary suggests that he would not mind losing it again quickly. Orbán's behaviour has also been a strong indicator of how emboldened and self-confident the Hungarian PM has become after his third consecutive election victory. He has apparently realised that the current ability and willingness of western powers to interfere with him are rather small. This is also underlined by the fact that the Hungarian government has ignored another US request when it extradited weapon smugglers to Russia instead of the US after they were captured with the help of American drug crime officers, according to a report by the Direkt36 investigative site.

The trajectory of US ambassadors serving in Hungary during Orbán's government has been one of high hopes and praise morphing into disappointment and recriminations after a while. This was the case with both Colleen Bell and her predecessor Eleni Kounalakis, who

both started out with an eagerness to understand and accommodate Orbán if at all possible, and ended up deeply disappointed and highly critical of his government. Yet Bell and Kounalakis were at the same time appointees of a Democratic administration whose foreign policy was deeply inimical to Orbán's domestic and international agenda. This kind of incompatibility between the respective policies of the Hungarian and US policy no longer prevails, at least for the time being.

Still, both Trump and Orbán are politicians who are governed far more by momentary interests than by long-term commitments of any kind, and as a result the future trajectory of their relationships will always depend on temporary factors rather than considerations involving strategy or principle. What's more – and this is not necessarily a situation that's unique to the Orbán government but a general characteristic of Hungarian foreign policy – to a substantial extent it will depend on a variety of factors that are outside of Orbán's control. If Trump and Putin end up being at odds about some issue, however, then the point when Orbán has to choose between its western allies and Russia might finally arrive.

Openly committed to the East now

What is less difficult to predict these days is which side Viktor Orbán would choose in the event of such a tension. The Hungarian prime minister has openly hitched his wagon to Putin, and he has made clear that Hungary wants even stronger links with the East, primarily with Russia but also other authoritarian non-western regimes, especially Turkey and China. Given Hungary's economic integration in western economic and security structures, this clearly runs counter to the country's strategic interests, but Orbán's private interests, to which national policies are increasingly subordinated, will override the concerns about turning against the West.

As the threat of losing EU funds after 2020 is increasingly likely, there can be an economic explanation of the turn towards eastern powers. When it comes to new external sources for money, given



their economic size and proven interest to invest in the region, Russia, China and Turkey are the best targets. However, it can be also argued that reaching out to the “strongmen” is an instrument to raise Orbán's profile. The fact that he has been doing this against the wishes and policies of the EU and the US, and has been able to do so unpunished, could be seen as a major strategy to raise his weight on the international stage.

Orbán's political alliance with Putin is as deep and as opaque as ever. Even though they skipped the “tradition” of meeting early in the year in 2018 – no doubt also to avoid burdening Orbán's re-election campaign with the Russia issue, which does not quite sit right even with a segment of the pro-Fidesz base – they met twice after the general elections. As usual, the Hungarian public has not been apprised of what they discussed and it would be pointless to speculate. Apart from energy cooperation, and in particular the Paks nuclear plant expansion, neither the bilateral economic ties nor any other major policy aspects show major signs of improvement. What remains intense are business ties between some oligarchs associated with the Orbán government and Russian businesses, as well as the entanglement of Fidesz officials in the visa scheme that has given many wealthy foreigners access to EU residency, including shady characters in Russia who probably enjoy the backing of the Putin administration.

What is becoming more apparent is that the Hungarian government is willing to make certain foreign policy decisions even if they come at the price of losing credibility in the eyes of EU and NATO partners. A prime example has been the case of former Macedonian prime minister Nikola Gruevski, convicted for corruption in his country, who has been given asylum by the Hungarian authorities after he had managed to escape through several countries in the Western Balkans with the help of Hungarian diplomats. Since the official Western Balkans policy of Hungary has been the support of Euro-Atlantic integration of these countries for decades, the Hungarian government's decision to help out the fellow strongman of the Hungarian PM is impossible to be explained on the basis of Hungarian foreign policy

interests. The fact that Hungary has been blocking Ukraine's Euro-Atlantic integration because of a dispute over Ukraine's controversial education law also raises questions among Hungary's NATO allies. As long as the West can or will not make Orbán a more attractive offer or will not find ways of pressuring him more effectively, Hungary's strategic commitment to the East will prevail.

It must be also added that Orbán's strategy to reach out to the ethnic Hungarian minorities of neighbouring countries is apparently fulfilling a number of political functions. Besides reducing the shortage on the Hungarian labour market and providing the governing party with loyal new voters, this strategy has created from scratch a remarkable political leverage towards the US, NATO and EU as well, particularly when it comes to relationships with Ukraine. Reaching out to the ethnic Hungarian communities also goes down well with nationalist voters, and has provided an advantage to Fidesz over Jobbik for many years.

Loving Erdogan, too

This is also manifest in Orbán's assiduous courting of fellow strongman Recep Tayyip Erdogan, the president of Turkey. Although this messes with his general approach to foreign policy goals, the specific interests at stake are even less apparent than with respect to Russia. According to Hungarian newspapers, Orbán was the first to congratulate Erdogan on his election victory, and along with the prime minister of Bulgaria, Orbán was the only EU leader who attended Erdogan's inauguration in July. In October, Orbán welcomed the Turkish president with pomp and circumstances, though their meeting yielded few concrete results.

Nevertheless, apart from the similarities in their approach towards governing, especially with respect to suppressing dissent and capturing independent institutions, these politicians are also being pulled together by their desire to forge new alliances in an international environment that has left them at odds with their

nations' traditional partners. As Erdogan's aggressively assertive foreign policy is making him increasingly isolated, at this moment new partners are more urgent for him than for Orbán, who has successfully shed his pariah status in the EU and has become somewhat of a celebrity among central and eastern Europeans as well as on western Europe's far-right.

Like Putin, Erdogan benefits from a foot in the door in Europe, and increasingly any friend with whom there are no grounds for conflict. Yet, even though Orbán fits the bill, he is not particularly relevant to Turkey's global aspirations, and despite Orbán's friendly overtures, the Hungarian partnership is unlikely to play a significant role in Turkish foreign policy.

A willing ally for everyone who's powerful?

Finally, as part of his eastern opening the Hungarian prime minister is also aggressively courting the People's Republic of China, still trying to cast Hungary as China's economic and diplomatic bridgehead in the European Union, much the same role that Orbán already plays for Russia. The Hungarian prime minister's rhetoric also indicates

that while his political ties to Russia may be stronger – owing also to Russia's more direct influence and interest in the region – the Chinese economic model is more relevant for his vision of Hungary's future. He has lauded the Asian attitude towards work and his view of economic growth is rooted in the idea of Hungary serving as an assembly line of western high-tech products, especially automobiles.

Orbán understands that the Chinese government is sensitive to international criticisms – as authoritarian regimes tend to be in general, only more so. Just in April the Hungarian government effectively vetoed a joint statement by the EU protesting China's Silk Road project because the latter "runs counter to the EU agenda for liberalizing trade and pushes the balance of power in favour of subsidized Chinese companies." Ultimately, the statement was adopted at the ambassadorial level, where 27 of the 28 EU ambassadors accredited to Beijing signed it, while their Hungarian colleague refused. This is a reflection of Orbán's self-understanding as a partner who asks no question as long as bilateral dealings are mutually beneficial. The isolation of Hungary on this issue highlights that there are situations when Orbán's international approach is too controversial even in countries whose leaders broadly sympathise with his views.

3.3 | Outlook on Hungary's place in the world 2019

There are indications that 2019 could become a genuine watershed moment for Fidesz's foreign policy and Hungary's western integration. In 2018, Viktor Orbán made clearer than ever before that he has made Hungary a part of an informal but firm alliance around Russia. As far as Hungary's formal western allies are concerned, Orbán has also emphatically made clear that he supports far-right movements in their countries that challenge the political status quo, their countries' position vis-à-vis the European Union. Some of these parties also share Orbán's dubious understanding of democracy.

In a continuous tug of war, Orbán and the mainstream conservative European People's Party are trying to ascertain if they mutually have a place for another. Although both sides have agreed that they will put the controversial issues – most importantly that of Fidesz's EPP membership – off for the time being, in reality this is a concession only by the EPP. Orbán has not flinched in ignoring the “red line” previously set by the EPP's parliamentary leader and candidate to the lead the European Commission, Manfred Weber, who said that the party group would tolerate neither the expulsion of the Central European University from Hungary nor the legally enshrined harassment of NGOs, both of which are happening nevertheless.

The European elections in May 2019 will decide which way this plays out. It is up to European voters to shuffle the deck that will decide the hand each player will be dealt in the difficult bargaining situation that will follow from the EP election. For the EPP, the situation will not be easy: without Orbán the EPP will lose a painful number of MEPs, but with Orbán in its ranks the EPP candidate will have an extremely hard time winning the support of the other mainstream parties to

lead the European Commission. Fidesz's anti-democracy course will thus likely emerge as a serious impediment in the way of Manfred Weber's, and hence the EPP's ambitions.

At the same time, it is important not to lose sight of the fact that these are tactical manoeuvres in a game where the strategic long-term positions have been clearly staked out already. Orbán seems to have subordinated Hungary's foreign policy interests to Russia's foreign policy objectives, and whatever specific role Fidesz plays in the European Parliament and the EPP is far less consequential than this decision. That the Russian president prefers a weak and divided Europe is fairly obvious at this point, but what specific moves this long-term preference takes in any given situation, and how this interacts with Orbán's own needs and preferences, is just too complex to anticipate at this point.

With the US's strategic attention shifting decisively towards China – a shift that began already under Obama but has become especially pronounced under Donald Trump – the Russian government's efforts at reasserting its traditional influence over the central European region seem to run into American forbearance for now. The more important question for Hungary than the EP issue is how Orbán plans to position Hungary vis-à-vis the European project in general, and whether he is in fact trying to gradually open the door to leave the EU in the event that the outside pressure on his illiberal regime becomes too much to bear. Thus, to understand the foreign policy milestone ahead, what we need to track continuously in addition to Orbán's tactical games among European political groups are his domestic moves, the way the propaganda is used to win the hearts and minds of Hungarians for and against foreign partners and allies.

4

**The Hungarian
economy
in 2018**

4.1 | General overview of the Hungarian economy

The uptick in economic activity which had started in the previous year continued in 2018. While the driving force behind earlier expansions was the influx of EU development funds, this was now partly replaced by construction, commerce and tourism. The adjustment in growth structure was also coupled with a departure from earlier predictions for the macroeconomic trajectory of the country. Hungary began to show the signs of an overheating economy with historically low unemployment, a steadily growing inflation rate and a U-turn in the external balance. At the same time, the fully-fledged economic regime of Viktor Orbán has also started to show some signs of vulnerability: labour shortages, the unequal distribution of the benefits of growth and new policy proposals aimed at curbing workers' rights raised social tensions.

Peaking growth on soaring investment and real wage expansion

In 2018, real GDP growth reached a year-on-year level of 4.3% according to estimates by the European Commission (see Table 2). This rate of economic expansion was the best performance of the preceding 13 years and was most probably the peak of an upward cycle of three years. Growth data also surpassed past estimations and put Hungary in the top five of EU-28 growth, albeit still behind Poland and Latvia in the CEE region.

Expansion was spurred on by services, as well as commerce, catering and tourism (which grew by a combined 6.9% over the previous year).





The level of investment and construction activity also sped up in this period. All this constituted a re-alignment in terms of growth structure vis-à-vis previous years. Incoming EU funds – or, in most cases, their advances financed by the state budget – were still major growth factors, especially when it comes to construction. In fact, the government was on track to spend its entire EU allowance for the 2014-2020 fiscal cycle by the spring of 2019.

However, as a new development, household consumption also stepped up in 2018 and became another major driver for growth. The surge in household demand (4.7% increase over the previous year) was both funded by increasing real income, close to an annualized 12% between January and September in 2018, and more appetite for loans. Rising wages were closely intertwined with historically low unemployment rates and the development of labour shortages in many sectors (see below).

Consumer prices were also affected by the surge in salaries primarily due to gradual increases in the minimum wage (and its wider economic effects) as well as labour shortages. The inflation rate reached 3% by the end of 2018, up from 2.4% the year before. The year-on-year figure in October 2018 reached 3.8% and was one of

the highest in the EU-28. Price increases were expected to continue with multiple factors contributing to the trend. Hungarians forked out one of the most in the EU for gasoline as a ratio of average income. Food, alcohol and tobacco also drove up the price level (with the help of record levels of VAT and excise duties). But core inflation also followed suit, and passed 2.0% for the first time in years.

Besides inflation, the external balance also showed signs of a reversal of long-standing macroeconomic trends. While a healthier global economy pulled up export figures in most bilateral relations, the slowing of the German economy limited growth potential in this respect. At the same time, the increase in domestic purchasing power strengthened imports with a growth in volume twice the size of that of exports. These combined trends led to a significant drop in the surplus of trade balance and dragged down GDP growth by 1.7% on a yearly basis (GDP is the sum of consumption, investment, government spending and net export – the first three components expanded on a yearly basis). This reversal of fortunes in external economic ties is highlighted by the fact that in late 2017 the EU Commission had expected a current account balance of 3.3 for 2018 as a percentage of GDP, whereas the actual figure turned out to be closer to 1.2 with a negative outlook.

Table 2. Key indicators of the Hungarian economy (2017-2020)

Indicators	2017	2018	2019	2020
GDP growth (% , yoy)	4,1	4,3	3,4	2,6
Inflation (% , yoy)	2,4	3,0	3,3	3,0
Unemployment (%)	4,2	3,6	3,3	3,2
Public budget balance (% of GDP)	-2,2	-2,4	-1,9	-1,8
Gross public debt (% of GDP)	73,3	72,9	70,3	68,6
Current account balance (% of GDP)	3,0	1,2	-0,0	0,3

Source: European Commission

Despite its macroeconomic repositioning, Hungary largely held on to its position on various competitiveness rankings. The business climate generally friendly to FDI led Hungary to regain its previous places on at least some rankings after sliding back in 2017. On the annual list of the Institute for Management Development (IMD), Hungary gained 5 places and was placed 47th out of 63 countries (in 2016 it had held the position of 46). It was still considerably behind the Czech Republic (29th), Poland (34th) and even trailed Russia (45th). On the refigured World Economic Forum list Hungary retained its 48th place out of 140 countries. Although its score slightly improved (to reach 64.3) it lagged all other Visegrad 4 countries all the same. In sum, Hungary may have reached the zenith of the business cycle in 2018 and trends are expected to deteriorate in terms of growth, inflation and external balance (see more on this in the Outlook section).

A fiscal policy subjugated to the development model

The general government deficit remained tightly under control in 2018 despite multiple expansionary elements in the budget. During the year the government ran a cash-flow deficit exceeding the original estimates which was mainly due to advance payments for EU structural funds. The public budget balance ended up around 2.3-2.4% of GDP, still below the EU-mandated limit of 3% and with an outlook for more deficit reduction in 2019. This type of fiscal restraint has become a hallmark of the Orbán government's ruling since 2010 and is in line with the general characteristics of Orbán's economic regime.

The primary audience for the government's macroeconomic policy is not 'Brussels' or the IMF, but international investors and multinational corporations. It is with their interest in mind that policy is set in return for implicit support and – more often, than not: heavily subsidized – job creation. And it is with their interest in mind that Hungary has been moving steadily towards a lower taxation and lower spending on social integration and further away from the social democratic ideal of high human capital investments. The high level of infrastructure

spending is also in line with this strategy of economic development (besides obvious reasons related to the financing of a Fidesz-aligned domestic oligarchy).

Government communication boasted of the fact that the centralization rate dropped to 38.4% of GDP with the overall biggest tax cut in the EU. Nevertheless, Eurostat data shows that this rate is still comfortably above the 40% threshold and the country is positioned in the top third of EU countries in terms of both government expenditure and revenues. But one does not have to read between the lines to see that the ambition is for the adoption of the economic model of Ireland: a low tax, low welfare set-up tooled towards manufacturing and the export of manufactured goods. And this goal was served by a range of concrete policy decisions from a record low corporate tax rate to repressive labour regulations (see below). At the same time, despite government rhetoric claiming otherwise, Hungarian small and middle sized companies remained in a state of low growth, productivity and propensity to innovate according to the OECD.

Tax policy is a key instrument in the policy mix of Fidesz. The social contributions for employers were further decreased by 2.5 percentage point, with an almost similar cut envisaged for 2019. While this was beneficial from the point of view of the tax wedge (the overall tax level of employment), it was also a step towards defunding future pensions and one which sanctioned the elimination of mandatory employer contributions toward health care. A surcharge tax on personal incomes, a tax on financial sector companies and most fringe benefits were eliminated, while tax breaks for new investments were extended. Besides a VAT cut for milk, these initiatives mostly benefitted employers. Meanwhile, spending cuts and/or underinvestment in most social services from pensions to health care, education and social policy cemented a chronic crisis and, in some cases, led to outright emergencies (see below).

Tax cuts and the active support of multinational corporations resulted in no substantial reduction in the general government

deficit in an economy which most probably reached the high point of its growth. This short-sighted, pro-cyclical policy stance provoked disapproval by the European Commission. Experts in Brussels criticised the government for missing the opportunity in a period of above-trend growth to address longer term policy challenges, such as the aging of the population, the unsustainability of the pension system and anomalies in health care. As a result of pro-cyclical policies the structural budget balance, which also takes into account the effects of the business cycle, was estimated to deteriorate further and closing in on 4% of GDP. This figure prompted the Commission to recommend a fiscal adjustment of at least 1% of GDP.

In the final analysis, expansionary fiscal policy and the pre-financing of EU transfers only allowed for a modest reduction in the debt-to-GDP ratio in 2018, from 73.3% to 72.9%. Having said that, given a taming of stimulus, the persistence of high nominal growth and the stabilisation of the exchange rate, the debt ratio is projected to decline at a more accelerated speed. One of the other outstanding risks to Hungarian sovereign debt was also partly neutralized in 2018. A Russian-backed extension of the Soviet-era Paks power station had been financed by an EUR 12.5 billion loan provided by Moscow. While the project experienced major setbacks and the deadline for completion was pushed back multiple times, a part sum amounting to EUR 78.2 million of the potentially toxic loan was swapped for other, cheaper sources of international financing, according to government sources. This may be followed by further similar manoeuvres. Moreover, it is still unclear, why the government had agreed to above-market rate interest and fees for the project with its Russian partners.

Because of the aforementioned questions surrounding a genuinely robust economic growth, such as its sustainability and multiple risk factors, international credit rating agencies were mainly left unimpressed with the government's performance. Moody's, one of the big three, retained its "Baa3" level categorization for Hungarian sovereign debt and, defying expectations, it also did not change its

"stable" outlook. The other two major agencies (Fitch, Standard & Poor's) also kept Hungarian state debt just above junk evaluation, with BBB- in both cases (i.e. on the lowest level of investment grade). The only difference is that they assigned a „positive“ outlook to their analysis, anticipating a potential upgrade in 2019. Furthermore, just as in 2017, Hungary still lagged behind almost all other Central Eastern European countries (with the exception of Romania and Croatia), and was in class within itself in the Visegrad countries with its non-medium level investment grade.

Free money and the re-emergence of financial imbalances

The year 2018 is best understood as a bonus year for the monetary policy strategy of György Matolcsy, the governor of the central bank since 2013. Over the year macroeconomic reality changed markedly (think inflation and the current account) yet the overall policy stance remained the same. Inflation, now temporarily surpassing the target rate of 3%, became a more acute challenge than deflation. The forint continued to lose value vis-à-vis the euro. And Brexit was just one of a slew of factors having an adverse influence on the current account. Yet the headline policy rate closed the year just under 1% – a historically low level it had been held at since May 2016.

Nevertheless, multiple signs pointed toward, in MNB parlance, a "normalisation" of monetary policy in the making. While keeping the main policy rate low remained a sacrosanct tenet of Matolcsynomics, level-headed analysts expected a rate hike cycle to begin in 2019 at the latest. At the same time, many other expansionary features of the monetary policy mix were cut back (including a heavily subsidized lending programme called Funding for Growth Scheme which was supplanted by a more timid Market-Based Lending Scheme). These signalled that the era of (almost) free money may be over.

The protracted honeymoon period of dovish monetary policy was enabled by the both systematic and lucky elimination of external

risk factors. Government debt was purposefully restructured in a way that allowed for domestic savings and forint-denominated bonds to finance the deficit. In this, the weight of foreign exchange-based bonds in state debt-management was reduced from almost 50% to around 20%. At the same time, a low international interest-rate environment and less mark-up on Hungarian debt over German debt allowed for reduced interest rate payments to bond holders.

The element of luck also played a facilitating role in maintaining the expansionary policy stance. International investors mostly ignored dubious loans related to a proposed Belgrade-Budapest railway, the extension of the Paks nuclear plant, and the large-scale manipulation of debt statistics via the quasi-governmental EXIMBANK in their country risk assessments (this latter had been unveiled by the Eurostat and the figures were duly corrected). Neither made, despite

a brief scare in July, the historically low EUR-HUF exchange rate financial markets rethink their valuation of Hungarian interest rate policy.

More importantly, the developments of new financial imbalances were not spotted on the radar by most onlookers. A particular concern was the housing market. The phenomenon, which in some newspaper report was called “loan mania”, was spurred on by multiple factors. Real wage growth, new subsidies for families with children, the introduction of “consumer-friendly” home loan products and a low stock of new real estate on the market all contributed. In 2017, Budapest was fifth on a global list of housing price increases, and in 2018 new sales in the inner city of the capital broke a record. While the development of a full-blown asset bubble was still not an immediate threat, it became clear that a new cycle had started in household indebtedness.

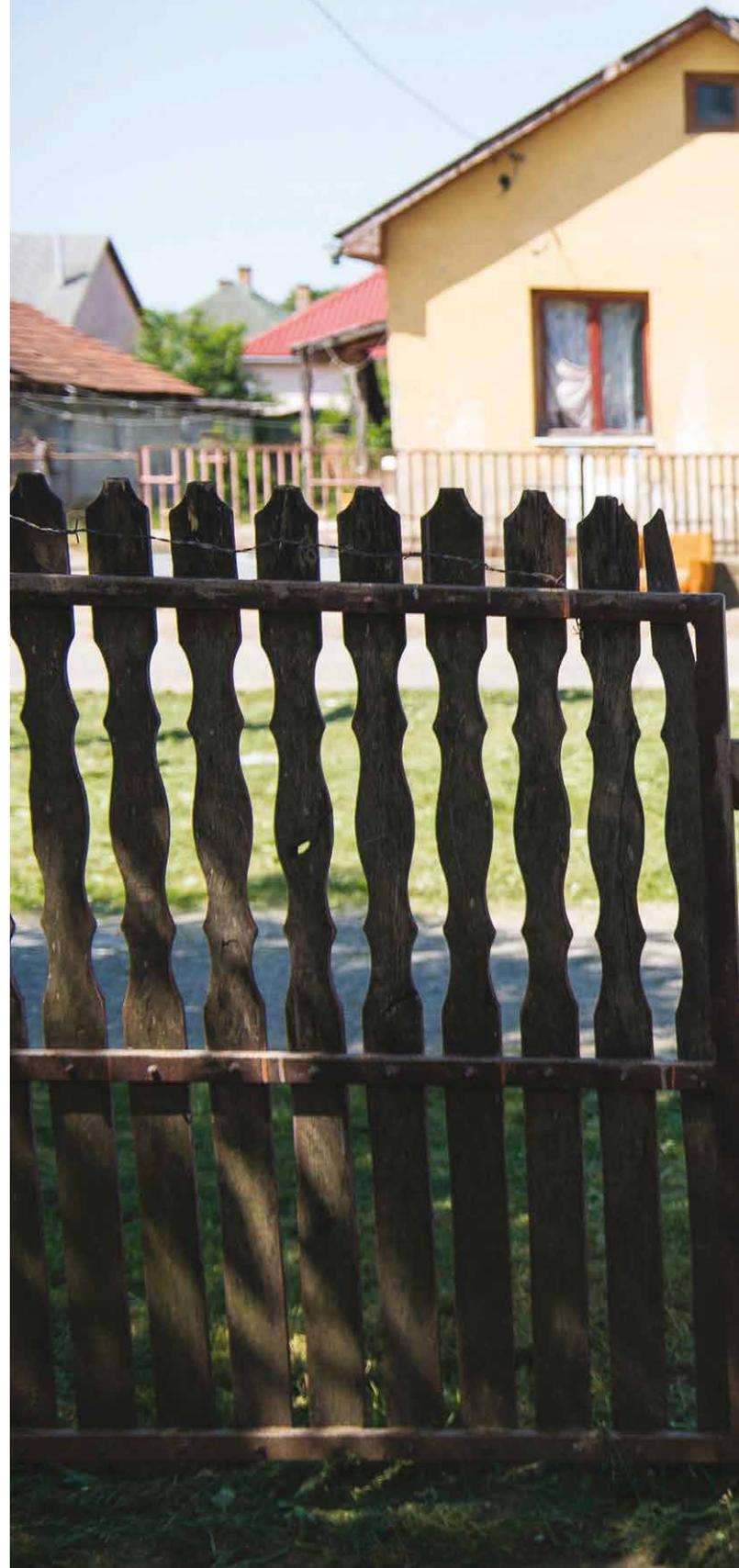
4.2 | Social reality

The social reality of 2018 in Hungary was characterised by historically low unemployment, yet at the same time a near-crisis situation developed in key sectors such as health care and education due to mismanagement, under-investment and chronic labour shortages. Dismal demographic trends, resulting from ageing, mass emigration, anti-migrant propaganda and a low birth-rate also risked undermining the labour market over the mid-term which, therefore, served as a major threat to sustainable growth.

A tight but repressed labour market

Employment in Hungary reached historic levels in 2018: it first crossed 4.5 million in a country of 9.8 million citizens. With 57.000 new jobs added in the age category of 15–64 the employment rate rose by 1.1 per cent to 69.8%. Inactives in this bracket counted 1.75 million – this was the labour reserve of the Hungarian economy, including parents with small children and students in higher education. Part-time work, a time-tested solution for workers with such special status, was virtually non-existent: only 178.000 employees worked less than 36 hours a week, the second worst ratio in the EU after Bulgaria. The gender gap was also considerable with a 77% employment rate among working age men but only 62.7% for women. Finally, the exodus of young Hungarians to Western Europe was uninterrupted and the permanent loss of multiple hundred thousand workers in their prime was a real threat.

It is in this context that unemployment figures are best understood. For those active on the labour market the unemployment rate fell to 3.6%, the lowest on record. This figure was also 0.4% lower than what had been expected at the end of 2017 and put Hungary in the top four in terms of unemployment in the EU (with fellow Visegrad countries





EZT A CSOMAGOT
MAGYARORSZÁG KORMÁNYA JUTTATTA
ÖNHÖZ ÉS CSALÁDJÁHOZ

Poland and the Czech Republic, as well as Germany). Nevertheless, by including participants in the public works programme, which was – for all intents and purposes – a substitution for the job-seeking benefits of old age, the head count of unemployed jumps to slightly below the EU average. Therefore, the relevance of public works for the facelift of official figures cannot be neglected even as the number of public works employees dropped from 187.000 to 133.000.

The aforementioned statistics are indicative of a labour market close to its full capacity, given the circumstances. The active working age population profited from this state of affairs with an average of 12% real wage growth with further possible increases in the years to come. An elevated minimum wage, a product of a six-year wage agreement that had been concluded in 2016, also contributed to salaries, as did chronic labour shortages. Official statistics recorded around 88.000 unfilled jobs, up 20% over the previous year. Furthermore, this data, a historic record on its own right, most probably underestimated the magnitude of the problem. The Ministry of Finance estimated an actual shortage twice the size of statistical figures; independent assessments put it closer to 200-300 thousand. This includes major sub-systems in the government sector including 4400 in education and 9000 in health care.

The Fidesz-led government used this opportunity to streamline the central bureaucracy (although not the record number of state secretaries and under-secretaries). In what counts as a major lay-off, around 7000-9000 administrative services workers were let go – over 2000 from the ministry responsible for „human resources“ (the portfolio of which covers almost all of social policy). A leaked proposal envisaged helping those deemed to be in surplus with setting up their own companies or with re-training for private sector jobs.

Yet the prospect, idealised by the Orbán government, of private sector employment with one of the multinational investors in Hungary also began to show its uglier face both on the level of policy-making and the factory floor. Global corporations, especially those active in the automobile industry, were wooed to Hungary with

major cash handouts and a repressive labour code. In fact, the most important public upheaval, trade union backlash and – a rare, unified – offensive by opposition parties on Orbán's new political-economic regime was related to working conditions.

In focus: The case of the “slave law” with international investors

One of the major issues of 2018 concerning economic and social policy was a controversial legislative proposal regarding overtime pay and regulations. The bill was dubbed the “slave law” by opposition parties due to its stipulations that favoured employers' interests vis-à-vis those of the employees. Beyond its obvious implications related to labour policy, the issue also highlighted the complex political economy of Orbán-era Hungarian capitalism.

The legislation proposed the modification of the Labour Code in terms of overtime pay and regulations. The time frame for which average overtime is calculated is due to be extended from the current one year limit to three years (it had been 2 months for years before that). The limit for extraordinary overtime – which is decided by the employer at will – was also increased to 400 hours on a yearly basis, regardless of the existence of a collective agreement. (Previously it had been set at 300 hours for sectors with a collective agreement, and for 250 for those without.) It is notable that Hungarian employees already worked 2.7 hours more a week than the average EU worker.

The proposal earned the “slave” label due to the fact that these modifications would have allowed employers, both domestic and international investors, to force their workforce to overtime work without any compensation for two and a half years. The idea for opening up the possibility for such “flexible arrangements” between social partners was first floated in Parliament in 2017. At that time, the proposal was withdrawn among widespread criticism. Yet labour shortages and the government's willingness to cater to foreign investors led to a revival of the initiative in 2018. The ruling Fidesz

party framed the draft law as one creating opportunities for workers who want to work more. Nevertheless, the rules have created a back door for allowing a weekly working time exceeding the legal limit of 48 hours.

Trade unions and opposition parties forcefully disagreed, as did 83% of the public according to one representative survey. Even otherwise relatively well-paid, non-belligerent workers such as those at a major Audi plant in the city of Győr voiced their concerns – in this case with an open letter written in German. Opposition parties highlighted the role of multinational corporations which worked closely with the government in ushering in the new regulations. According to Péter Szijjártó, minister for foreign affairs and trade, the revision of overtime rules was a longstanding request of German investors who faced a labour shortage. The new proposals would have augmented the competitiveness of the Hungarian labour market – the minister claimed. On 12 December 2018 the bill was passed in a scandalous session of parliament, followed by mass protests.

The issue serves as instructive tale of how economics and political interests are intertwined in a manner that makes the introduction of major economic sanctions against countries with backsliding democracies almost impossible. The Hungarian government made a concerted effort to establish “strategic partnership” agreements with many multinationals with investments in the country. These provided, inter alia, generous tax exemptions, land rights, transport terminals and favourable social policies in exchange for foreign direct investment and loyalty for the government. The newly established Ministry for Innovation and Technology spearheaded this effort by, for instance, creating a test track for self-driving cars in Zalaegerszeg.

In particular, the nexus between the Hungarian government and major players of the German automotive industry have become especially strong. Following Opel (in Szentgotthárd), Audi (in Győr) and Mercedes (in Kecskemét), BMW also decided to establish a large plant in Hungary in 2018 (the concern chose Debrecen over Miskolc for its site). The direct cost for Hungarian taxpayers for creating

around 1000 new jobs was HUF 12.3 billion (EUR 38 million). Reports put the average handout per job for similar agreements to HUF 10 million –this equals multiple years of minimum wage salary. There were also ongoing processes with new negotiations with Volkswagen and Jaguar, among others.

The story is also indicative of the authoritarian nature of Hungarian capitalism. During the parliamentary debate of the overtime proposals – pushed to a late-night session – the acting chairman of the sessions, a Fidesz appointee, expelled opposition MPs one by one citing procedural violations until no one was left to continue the debate. The final vote of the proposal was obstructed by the parliamentary opposition from both left and right. Fidesz-controlled House leadership broke this down with blatant procedural errors and clear infringements on the rights of opposition MPs. They also threatened with ‘painful’ consequences for what they regarded to be a ‘parliamentary coup’. The vote itself was carried out under non-conventional circumstances (e.g. without using punch cards and with no opposition parliamentary notaries at hand) which may open up it to legal challenges. Yet the message was clear: in the capitalism built by Mr Orbán only the voice of multinational firms mattered.

Health care in turmoil

In 2018, health care continued to be one of the few policy areas where the government remained on the defensive. Incessant media coverage of the demise of health services was a staple of daily life, including stories on the closing of the pre-birth section of major hospital in Budapest, on waiting times of up to 6 years for ankle operations and even on the lack of toilet paper in hospital lavatories. These news were also in stark contrast with the VIP treatment of state officials at some facilities.

The declining trends in state-run health care were exacerbated by the ad hoc decisions of Miklós Kásler, the newly appointed minister for human resources, himself a medical doctor. He approved the

dismissal of a renowned cardiac surgeon, László Székely, referring to administrative misconduct. As a consequence, a number of operations had been postponed, which in one case may have proved to be fatal. Similar personnel changes at the drug administration, the surgeon general's office and the ministry itself led to the outflow of professionals who had weathered previous purges in the Orbán-period following the 2010 elections.

The fear that the health care system could have come to a halt any day was substantiated by a series of resignations further away from the policy-making centre. Reports noted that complete departments tendered their notices to quit in Ajka, Pécs and at Honvéd hospital in Budapest, a key medical institution. Urgent care was featured pre-eminently in these accounts as reports noted waiting times of 20-24 hours at vital care units in the capital and the countryside alike. Emergency rooms were often staffed with personnel with no adequate qualifications or experience and patients lingered there due to a lack of capacity to treat incoming cases by other divisions of hospitals.

Due to these circumstances extraordinary measures were required just to keep urgent care centres open. Wages soared for employees at at least some institutions, with nurses taking on double shifts beyond their usual overtime and half-legal secondary jobs at other hospitals. Labour shortages were also pervasive throughout the health care system to the point that staffing agencies were enlisted at many state institutions. Due to the emigration of medical doctors and nurses in search of jobs that pay multiples of their domestic salary many areas and specializations were left completely unserved. At least 332 general practitioners were missing from a system that counted 4755 among its members in 2016. The government made promises for a 70% wage hike to nurses again but their credibility was questionable in light of past "increases" which, in fact, made at least some medical personnel worse off.

At the same time, private health care has become a fast growing segment of the economy. According to research by consultancies,

in just one year spending in private insurance increased by 40%. Recruitment to private providers was also in full swing; by 2018 more than 45 thousand employees worked in the for-profit segment of health care out of a total of around 120 thousand. These developments are best understood in the context of a proposed ban on extra services in state hospitals – the Fidesz-aligned oligarchy made timely investments in private health care provision and was ready to step in to cater to the upper-middle class.

The ground for the evolution of a two-tiered health care, one for the haves and one for the have nots, was also set by the systematic defunding of public provision. One country of reference, the Czech Republic was placed 9 places above Hungary on an EU list of government health care spending as a ration of GDP. Private citizens covered 29% of their health-related spending out of their own pocket – experts of the World Health Organizations recommended a maximum level of 15% as higher values would certainly result in inadequate provisions for those less well-off.

Chronic underinvestment in education and social services

Chronic underinvestment was also evident in many other areas of pivotal social services, including primary and secondary education and the alleviation of poverty. As for higher education and science, the government and its allies in the media waged a bona fide war on what they considered to be dissenting institutions and individuals. Yet education and an increased life expectancy is the only way out for sustained growth in an economy close to its full potential and where xenophobic media slurs on guest workers remain common.

It is in this context that the key education policy decision of post-2010 Orbán cabinets revealed itself the policy failure it had always been destined to be. In 2011, upon heavy lobbying by the Fidesz-aligned Hungarian Chamber of Commerce and Industry, the compulsory age of school attendance had been decreased from 18 to 16. Taking

into account the fact that Hungary had one of the lowest rates of education spending in OECD countries at the time, it should not have come as a surprise that the already unsatisfactory levels of reading comprehension and math skills (as measured by the PISA test) dropped to dismal levels. The ratio of students failing the tests for reading and for natural science jumped by around 8 percentage points.

By 2018 the exact same employer pressure groups which had lobbied for more low-skilled labour, i.e. students straight out of vocational school, lamented the fact that a quarter of the student population leaves school as a functional illiterate. Although education spending was eventually lifted to slightly exceed the EU average, chronic mismanagement and mistaken policy priorities (such as the centralisation of school administration and even those of textbooks) left a lasting mark on the sector.

Moreover, things turned from bad to worse on the higher education market. What had been unthinkable for most observers as late as 2017 became reality in 2018. The Central European University, a higher education institution which was the most integrated into the international science ecosystem in Hungary, was forced out of the country for political reasons (see chapter 5.3). Elsewhere, Corvinus University, one of the most popular targets for top-of-their-class high school students, was being privatized with unclear consequences for future tuition and enrolment possibilities for students with modest backgrounds. At ELTE, the biggest higher education institution in the land, biology professors went on strike as they had to fund supplies

for experiments out of their own pockets. As a result of stealth privatization, underfinancing and the overall uncertainty surrounding the sector, many of the brightest students went to study abroad, an emerging and alarming trend which compounded the brain drain already in place in research and development.

If education was a non-priority sector for the right-wing government then social policy was a true black sheep of the family. The demographic crisis continued with a shrinking birth rate, high mortality rate and a virtual ban on guest workers (it was virtual because for many companies based in Eastern Hungary Ukrainian guest workers were very much welcome). Over the course of the quarter century since regime change, 300.000 students went „missing“ from primary and secondary education. The Fidesz party once again looked for solutions which were only beneficiary for those with considerable savings and with a lofty taxable income. At the same time the real value of the universal child care allowance continued to wane.

Child poverty was rampant with one in three children missing out on basic services and healthy food. This put Hungary in the hardly glorious group of countries in the EU allowing such inhumane conditions along with Romania, Bulgaria and Greece. In 2018, it took seven generations to break out of poverty which was only good for the position of dead last in EU rankings. With continued repression against a growing population of homeless it became clear that if trickle-down effects from massive economic growth exist, they certainly did not present themselves in Hungary.

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4.3 | Economic outlook for 2019

Forecasts for the Hungarian economy broadly agree that by 2018 the business cycle had matured and 2019 will be characterised by a cool off. According to our survey of reports by international organizations, including the European Commission, the OECD and the IMF, real GDP is expected to grow by 3.3-3.9%, a near percentage point drop from the previous year. While pro-cyclical fiscal and monetary policy, including the influx of EU transfers, is set to be continued, the potential slowing of the world economy and key export markets will be a risk factor. Having said that, with numerous major construction projects under way and other, e.g. FDI investments in full swing the downturn may only start in 2020 when the developing construction capacity bottleneck will exert itself.

The labour market will also come close to what economists call full employment: the lowest possible rate which still does not cause inflation. The European Commission forecasts a drop from 3.6 to 3.3 per cent, while the IMF estimates a similar drop to 3.5%. These constitute historically low levels of unemployment and, given the fact that several hundred thousands of working age Hungarians emigrated and the ongoing government propaganda against – at least some types of – migrant workers, reserves for further employment are limited. The effects of public sector layoffs and retraining initiatives for participants in the public works programme on private sector employment are also far from a foregone conclusion. What is more certain is that real wage growth will continue given a net increase in corporate investments in labour intensive sectors, such as construction.

Trends on the labour market will also play a key role in shaping the

consumer price index. Inflation may reach 3.3%, or even 4%, according to the OECD, which is the upper limit of the tolerance band of the central bank and the highest level in six years. Fuel and food prices will continue to push the headline rate up but the core inflation figure is also expected to rise, way above 3%. As the Hungarian forint lost almost 8% of its value vis-à-vis the euro since early 2015, inflation has also been imported – a trend which is expected to continue due to, inter alia, a higher price for essential energy imports. These tendencies will be buttressed by the aforementioned wage growth which will prompt excess import demand.

In 2019, fiscal policy will retain its pro-cyclical characteristics without jeopardizing its medium-term stability. Expansionary steps include tax reductions for home buying for families with children, a multi-step programme of scaling down social security contributions and a VAT exemption for small businesses. Despite warnings by the European Commission regarding the structural balance, meeting the Maastricht criterion of 3% budget deficit as a ratio of the GDP will not prove to be a serious challenge. The public budget balance is forecast to be around 1.9-2.0% of GDP buoyed by tax revenues from larger than expected growth. Estimates suggest that strong economic activity will also contribute to a further drop in gross public debt, to slightly above 70% of GDP, although not as much as what was expected at the end of 2017.

The pro-cyclical nature of monetary policy is even more glaring. Despite accelerating inflation György Matolcsy and the Central Bank has not abandoned their policy of low interest rates. This decision was enabled by the European Central Bank which, in contrast to the approach of the FED which had started to raise the headline rate, opted for the postponement of rate hikes amid an environment of low inflation and low growth in the Eurozone. The base rate set by the Central Bank of Hungary was held at 0.9% in September 2018 with a stable outlook, although at least some non-conventional tools, such

as the purchase of mortgage securities, were discontinued resulting in a slightly tighter monetary policy.

Beyond its obvious incompatibility with domestic trends of the consumer price index, two factors may nudge the central bank towards reconsidering its policy stance in 2019. First, the depreciation of the forint will push up prices in an economy functioning at its full potential and ever more reliant on import goods. On a related note, the balance of the current account is expected to deteriorate further: the IMF projects a drop to 2.1% of GDP while the Commission is more pessimistic: it forecasts a decrease from 1.2 per cent to an even balance partly due to price increases in imported energy. This estimation is in stark contrast with projections at the end of 2017 when the Hungarian economy was still on track for a 3.2 surplus for 2019.

The mid-term outlook for the fully-fledged economic regime of Viktor Orbán is also dependent on a major political factor. As we indicated above, EU structural funds allocated to the country for the 2014-2020 period will be all but used up by the time of spring 2019. With the slowing of key export markets, such as Germany, and the gradual loss of wage competitiveness, EU transfers will remain pivotal in maintaining excess growth over the rate of the Eurozone. Unfortunately, the international reputation of Hungary under Prime Minister Orbán is far from ideal entering this key period of negotiations related to the budget period 2021-2027. Furthermore, a potential loss of EU transfers is not counterpoised by investments in human capital: poverty remains rampant and the education sector continues to lose both qualified teachers and incoming students. Therefore, it is unclear whether the three-pillared, neoliberal (see tax cuts and labour policy), export-oriented and EU-funded model of growth is feasible over the mid-term and the country can make the transition from a developmental model based on low-skilled labour and a “flexible” labour market.

5

**The Hungarian
society
in 2018**

Magyar Nemzet

KIADÓ

I. EMELET

hírTV

I. EMELET



Lánchíd Rádió

FÖLDSZINT

Class FM

5.1 | 2018: The year the second Fidesz media empire was completed

For Fidesz's media movers and shakers, the past year was vital as the impact of years of painstaking work invested in rebuilding the Fidesz media empire – which had taken a significant hit in 2014–2015 – contributed to deliver an overwhelming election victory to the governing party. This success was subsequently amplified by the dissolution of the largest opposition media portfolio, the Simicska media holding. Thanks to the successful crippling of Lajos Simicska's media and the creation of a huge media conglomerate at the end of the year, Viktor Orbán now wields sole control of a vast media empire that is far bigger than what he had in 2014, when he took the daring step of upsetting the carefully crafted media system that had served him so well. Before reviewing in detail how 2018 marked the culmination of these efforts, let's take a brief look back at the events that triggered the developments that led up to this year.

An oligarch challenges...and an oligarch challenged

After his re-election victory in 2014, Viktor Orbán assessed that the time had come to reorganise the media empire that is widely considered one of the fundamental elements of Fidesz's increasingly strong hold on public power in Hungary. Meddling with this structure was a risky undertaking. Thanks to friendly oligarchs, first and foremost Orbán's longtime friend Lajos Simicska, Hungary's leading rightwing party had invested heavily in building the Fidesz-aligned media empire during lean opposition years, between 2002 and 2010. These media played a vital role in maintaining the party's public profile in opposition, and they were also vital in

expanding its influence over public opinion after Fidesz's election victory in 2010, boosted also by the growing financial pressure on independent and leftwing media. Fidesz also gained total control over the public media after 2010, and it practically became part of the media empire of the governing party. Yet by 2014 the alliance and friendship between Orbán and Simicska had become frayed, and after comfortably winning re-election, the prime minister set out to radically scale back Simicska's power in all segments of his government, including Simicska's de facto right to appoint several key economic policy officials in the Orbán cabinet.

Since Simicska controlled several crown jewels in the pro-Fidesz media segment, entering into a conflict with him was always a gamble, though arguably the risks were not as serious as some critical media tried to make out. Simicska was the owner of the leading rightwing news channel HírTV, the leading rightwing political daily Magyar Nemzet, the leading commercial radio Class FM and the talk show radio Lánchíd, as well as the free daily Metropolis, a tabloid with a more subdued political tone but a huge circulation and wide reach. The fallout from Orbán's pressure on Simicska was probably even worse than the prime minister anticipated, as Simicska publicly attacked Orbán, severed all ties with Fidesz and turned his previously devoutly pro-government media outlets into powerhouses of investigative journalism and staunch government criticism. Simicska made no secret of his intention to oust Orbán. Orbán, for his part, was less explicit, but an unceasing stream of punitive actions against all of Simicska's business holdings spoke louder than words; he wanted to either annihilate Simicska and his media outlets or reintegrate them into the Fidesz fold, decoupled from their owner.

A swift end to the challenger's fortune

Since it was reasonable to assume that sustaining these media outlets would quickly make a big dent in Simicska's formidable financial reserves, there was no question that he would not be able to hold out another four years as the sole anti-Fidesz oligarch. The question was only how quickly he would pull the plug. Simicska did not leave the interested public guessing for long – a mere few days after the 2018 election the inevitable happened and the oligarch suspended the prestigious daily *Magyar Nemzet* and the *Lánchíd Rádió*, and put the rest of his media empire on notice, including the weekly *Heti Válasz* which survived only a little while longer (the tabloid *Metropol* and the radio *Class FM*, the two Simicska outlets with the biggest audience reach by far, had already been driven out of the market by custom-made regulatory changes).

The only Simicska-held brand surviving is the news channel *HírTV*, which was returned to Fidesz neatly packaged by Simicska's confidante and business partner Zsolt Nyerges, the only person who maintained close ties with both Simicska and the governing party. Nyerges was thus the ideal go-between in the liquidation of the Simicska empire. The newly installed leadership at *HírTV* immediately made clear that the channel would be returning to the pro-Fidesz editorial line that had characterised it before 2015, and quickly moved to fire everyone who was assumed to be committed to independent or critical journalism.

A large media conglomerate under Orbán's control

With the taking back of *HírTV* and the destruction of the remaining parts of the Simicska empire, Fidesz's consolidation of the media market has made enormous strides. In parallel, another process was ongoing, which was less visible but nevertheless turns out to be even more important. After years of building parallel media pillars, Orbán has once again moved towards concentrating his

media holdings in one hand. The new boss of the Orbán media is an old loyalist, Gábor Liszka. He essentially became a sort of editor-in-chief of the entire pro-Fidesz media conglomerate. The single giant umbrella organisation, the Central European Press and Media Foundation, was established as a nonprofit organisation.

The significant part of the Hungarian media, 476 titles including most of the flagships of Fidesz's media empire are now the property of the Central European Press and Media Foundation. The unification of the media portfolios of various oligarchs linked to Fidesz happened suddenly at the end of November, with a number of pro-government media owners voluntarily offering their shares to the foundation on the same day – for free.

For some observers this move was somewhat of a surprise because in 2014/2015, as the depth of the breach between Orbán and Simicska became apparent, it was rumoured that one of the lessons that Orbán had learned was not to leave too much power in one place, and the subsequent trajectory of the expansion of the Fidesz's media empire largely bore this out. The expansion was built around 3-4 main actors (Lőrinc Mészáros, Andy Vajna and Árpád Habony clearly played major roles), with many minor players controlling smaller stakes in the market. However, it could be also argued that Orbán has learned the Simicska-lesson well, as the new foundation is controlled through a board. This structure makes it possible to control the effects of any potential future internal conflicts better, and no meddling with ownership structures would be necessary again.

A few days after the announcement about the new media holding, Orbán signed a decree exempting the foundation from scrutiny by media or competition authorities. The decree simply lists the companies involved in the merger and qualifies the unprecedented acquisition as a "merger of strategic importance at a national level", and cites "public interest" as the reason for this qualification, without further explanation. It is not an exaggeration to conclude that this decision just makes the state capture of Hungarian media

more visible and transparent, and also makes it obvious that the government media empire has been elevated above the rest of the media market.

A spectacular shift

Looking at the close to 500 media outlets controlled by Fidesz, three striking aspects stand out. First, the audience reach and size of this empire are far bigger than before it took its major hit in 2015. Moreover, there have never been as many voters for whom Fidesz media are the sole source of information – even though unlike the ideological diehards who voluntarily seal themselves in their filter bubbles, a large segment of these voters have not consciously made a decision to seclude themselves from independent information.

This is a logical consequence of the second striking feature of the Fidesz-dominated media landscape, namely that many of the media outlets in question have been taken over recently by Fidesz. Through its newly acquired media, the governing party's propaganda machinery has gained access to a politically diverse and unaligned audience, most significantly (in terms of audience reach) thanks to TV2, Origo and Bors. It is not unreasonable to assume that these media have played a major role in consolidating Fidesz's electoral support. Despite optimistic opposition expectations, the governing party ended up substantially outperforming its impressive 2014 tally, adding new blocks of voters even as it forfeited the support of some narrow segments of its former electorate, primarily among higher educated urban residents, few of whom are likely to follow TV2 or Bors (nor Origo, at this point).

Finally, the expansion of the pro-Fidesz media empire has gone hand in hand with a spectacular decline in the number and audience reach of independent and opposition media outlets. In addition to turning some unaligned media into propaganda outlets, Fidesz has directly or indirectly shuttered Hungary's two largest political broadsheets, the centre-left Népszabadság and the centre-right Magyar Nemzet,

the two largest commercial radios, Class FM and Neo FM, along with a number of smaller outlets, such as Heti Válasz and Lánchíd Rádió.

How much is enough?

The biggest question now is where Orbán will stop. Apart from a number of popular online outlets (hvg.hu, 24.hu, 444.hu), some print newspapers (Népszava, 168óra, Magyar Narancs) and small sites (atlatzso.hu, direkt36.hu) that have performed some amazing feats of investigative journalism in the past years, the current situation leaves two major independent players in the market: Hungary's leading news portal, Index.hu, and leading commercial television channel, RTL Klub. RTL has been a long-time target of Orbán's aspirations and ire, but it appears that for the time being that is one notch Orbán will not be able to put in his belt.

With the fall of its owner Lajos Simicska, Index.hu, however has become extremely vulnerable. Index was previously omitted in the listing of major Simicska media holdings, and that was not an accident. In part to reassure the online newspaper's readers regarding Index's independence, for a while Simicska did not even out himself as the owner, and by the time the stunning information became public, it was aired in combination with the announcement that in practice the ownership rights would be exercised by a foundation chaired by the newspaper's longtime attorney, László Bodolai, whom the newsroom trusts to preserve its independence. How robust this structure is remains in doubt, however, and concerns have multiplied since it emerged that Simicska has also divested itself of the media holding that comprises Index – selling it to two businesspeople, one of whom is a Fidesz-aligned municipal politician with a history of publicly maligning Index. While Index is technically independent, two problems remain.

First, it is unclear how difficult it would be for new owners to take control of the foundation if they wish to do so. Second, even assuming that it would be a protracted process to take direct control

of Index, the new owners already control its source of income, since the company with the exclusive right to sell Index's advertising (CEMP) is part of their new holding and does not enjoy a protected legal status as the newsroom. Index has ample readership and advertising to support itself, but legally it cannot do so without the cooperation of its owners. That is why the newsroom, which also harbours doubt as to whether it can survive as an independent outlet under these conditions, has begun to solicit direct funding from its readers.

Fidesz clearly intends to leave some opposition media in place, it does not want to be confronted with the charge that it has completely strangled all opposition outlets. At the same time, it wants to exert a high level of control over what type of information reaches audiences, and the current system is designed to broadly meet this requirement of controlled dissent. What level of dissent is tolerated or deemed too much depends on the eye of the beholder, but arguably Index is too much, especially if it keeps unearthing corruption scandals. If Index would not be allowed to survive another four-year term, for the battered Hungarian realm of public discourse, the blow would be tremendous.

5.2 | Fidesz sets its sights on culture and science

When it comes to finalise his vision for Hungary, it appears that the Hungarian prime minister still has a lot of details left to work on. Thus, Orbán announced during the summer that he wants to shift his attention to a hitherto neglected area, namely culture. In this realm Orbán perceives that the system he has built is still incomplete, he has yet to leave a decisive mark in culture. The announcement, made at his annual speech in Tuschádfürdő at an event held for the ethnic Hungarian community in Romania, did not come as a surprise, nor did the aspiration Orbán expressed therein. As often, his statement was the temporary culmination of a long-term campaign.

Orbán said that the System of National Cooperation, dubbed NER in Hungarian, which he had promised to build in 2010 had been the subject of ridicule before. However, in reality he and Fidesz have achieved far more than what he retrospectively considers the relatively limited ambitions of the NER. The issue at hand, thus Orbán, is no longer that of building a new system but of shaping an entire epoch – in his image, presumably. To this end, major changes can be expected in culture, Orbán promised.

It is readily apparent why cultural policy would be a vital aspect of this aspiration. In centuries hence – and that is clearly where Orbán's thinking is shifting as he heaps electoral success upon success – politicians will not be remembered for fixing schools and hospitals (the state of Hungarian schools and hospitals is an excellent reflection of this insight), but among the things they might be remembered for is their ability to shape the cultural landscape.

Still, even though it may seem to mostly concern symbolic issues, such as statues, monuments and commemorations, or funding or the

denial thereof for certain artists, the issue does have actual critical impact, especially through education.

Leaving a conservative mark in culture

For a fuller picture and what it tells us about the workings of Orbán's system in 2018, it is also worth reviewing the chronology of the events that led up to Orbán's declaration of the new culture war. In his remarks in Tuschádfürdő, Orbán expressly lauded the cultural policy debate that had been launched in the pages of the pro-Fidesz press in the weeks prior to his speech. That was very revealing, it explained the choreography behind that debate which previously had everyone guessing whether pro-Fidesz henchmen were running amok out of sheer fanaticism in the pages of the government's main mouthpiece, the daily Magyar Idők, or whether they were setting the stage for a broader policy pronouncement. It was the latter.

The debate centred around newspaper articles, in which ultra-conservatives went after moderate pro-Fidesz intellectuals for using the taxpayer-funded cultural institutions they run to provide space for "liberal" views. Specifically, the director of the State Opera House, Szilveszter Ókovács, was attacked for allowing Billy Elliot, an opera that presumably promotes a pro-homosexuality agenda, to be presented at his institution. Ókovács misunderstood the signs of the time and mocked the author for her myopic outlook in response. A few days later he apologised in another article and cancelled a large portion of the scheduled Billy Elliot performances. And to make clear that the message had been received, he recently announced that the Opera's next season would focus on Christianity.



MAGYAR TUDOMÁNYOS AKADÉMIA



The other target was Gergely Prőhle, the head of Hungary's leading literary museum, the Petőfi Museum. Prőhle also defended himself against the charges of using his office to support liberal authors and giving supposedly liberal events a platform. He seemed better insulated against criticisms because even though he is moderate by Fidesz standards, as a former government official and senior diplomat he has a rich history of staunchly defending Orbán against international criticisms. However, his past as a Fidesz loyalist did not save him, and he was not even given the chance to continue with a marked conservative shift: Prőhle was sacked in November.

The resistance within Fidesz to strong-arming the cultural and scientific sphere is more pronounced than usual, but it is still proffered by figures whose influence has been on the wane. The poet, Fidesz MP and former state secretary László L. Simon and his colleague Géza Szőcs, a former state secretary for culture, both criticised the perceived attempt to appropriate the cultural sphere for political purposes or to subject it to political control. L. Simon insisted that like all art, national-conservative art should distinguish itself through performance rather than governmental backing.

The openness of these figures to speak out – which is also a reflection of the fact that they lost their positions and influence and are unlikely to regain them – shows what a sensitive area Fidesz is moving into, and how concerned people with intimate knowledge of Fidesz's ability to tread carefully are about what can be expected when you let the bull loose in the china shop. At the same time, some conservative intellectuals have declared victory already and are fantasising about the mortal blow they wish to deal to the left-liberal dominance in the cultural realm.

Academic freedom also under attack

In fact, the war over cultural, educational and scientific hegemony was already raging, only its broader context is more explicit now. The open season on academia was announced earlier in the year when

the government sent the Hungarian Academy of Sciences (MTA), the leading body for organising academic research in Hungary, a draft of a new proposal to strip it of the control of half of its research funds. This money will be disbursed by the government from now on to ensure that they no longer fund research that the government deems too theoretical or politically misguided. The MTA was given an hour to comment on the proposal it received by e-mail. The MTA story has not ended yet, the decisions about the restructuring of its research centres are expected to be made in the first half of 2019.

Another leading moderate pro-Fidesz intellectual who got caught up in the crossfire of the propaganda war that Fidesz simultaneously launched against science was József Pálkás, a renowned nuclear physicist who had previously held the position of Minister of Education in the first Orbán government (between 2001-2002), and has quietly served as the government-appointed head of the National Research, Development and Innovation Office since 2014. Even as he delivered the obligatory profession of loyalty to Orbán, Pálkás – also subject to stinging personal attacks in pro-Fidesz media, with one outlet scurrilously describing the quiet scientist as the leader of anti-Orbán academics – criticised the government's recent policies in the area of science. It was no surprise that he also had to go during the summer.

It is hard to tell whether the motivation of the government's decision to take direct control of science funding was motivated by a general desire for greater centralisation; the redistribution of the funds towards different goals; or the objective of further expanding its political control – vitally, also by defunding disliked scholars. It is probably a combination of all these factors, but there is reason to suspect that political control is the primary incentive here.

Gender studies banned

The major question for everyone is how far the government will go in its occupation of the cultural realm. The less hysterical responses suggest that governmental control over culture does not work, it is always superficial, haphazard, impermanent, etc. This does not consider the temporary toll that an intense government effort might take, nor even does it illuminate what temporary might mean in this context – a few years, a generation?

Moreover, a narrow concentration on culture will fail to consider the huge impact that the government could exert on education, which appears is part of the plan (the debate about “instilling national pride” in students or the fact that private Christian schools receive more state funding per student than state schools indicate the direction). The sudden ban of gender studies programmes in Hungary, intended as a symbolic strike against a scientific field that is considered emblematic of the liberal influence on education, is a thus far limited illustration of the potentially massive risks of a government comprehensively subordinating the educational system to ideological goals. Increasingly muscular pronouncements by government officials suggest that there is a political will towards greater control, although the work to translate this into actual policies is sometimes very time-consuming and thus the timing of the actual changes is difficult to anticipate.

One striking aspect of the current debate is that the prime minister's proclamation of the government wanting to take control of cultural life to reshape it comprehensively does not even elicit a debate about “how can they?” Such an announcement is part of the new “normal” in Hungary – the only question that is actually subject to debate is how far the process will go.

5.3 | Stop Soros: the war on NGOs and CEU

Fidesz made no secret of the fact that it planned to structure its entire 2018 election campaign around the Soros and migration issues, which the governing party suggests amount to the same thing anyway. The American-Hungarian billionaire is portrayed by the government as a villain who wants to destroy Europe through mass migration. In reality, the connection between Soros and migration is extremely thin, it is based on an op-ed (the claims in which Soros subsequently modified in light of the realities of the refugee crisis) and the fact that the philanthropist funds a variety of civil organisations in Hungary, some of which were also active in helping refugees – and many of which are critical of the Orbán government’s policies, particularly in the context of the specialised areas they work in.

The tenuous connection between the philanthropist and the refugee crisis is not even remotely strong enough to justify the broader accusation, much less the tens of billions of forints in taxpayer money that Fidesz has funnelled to advertising agencies, PR companies and media owned by friends to smear Soros, refugees and NGOs. The cost of Fidesz’s obsession with Soros and refugees has reached proportions that are discernible at the GDP level, and even if a significant portion of the outlays merely serves as a corruption instrument and a way to fund pro-government media (the anti-Soros ads are a big chunk of the pro-Fidesz media’s advertising revenue), it is also something with real and actual impact on society.

What’s it for?

Concerning Fidesz’s goals with the anti-Soros/anti-NGO/anti-migration campaign, the year 2018 has proved that these are not just campaign gimmicks and Fidesz does not let these issues go

after winning the elections. It is true that Fidesz uses these topics as its dominant campaign themes. Orbán has indeed used these issues to consolidate and energise a reliable Fidesz base of 2 million+ voters, but many observers now believe that the destruction of civil society in Hungary is the actual goal. Therefore, the migration issue and the surrounding campaigns are instruments in the long-term consolidation of Fidesz’s power in a society in which dissent is barely if at all present.

The often successful attempts at silencing dissenting voices have merged into an obvious pattern that both Hungarian society and the country’s western partners ignore at their own peril. It was no surprise for anyone that the crackdown on NGOs and the Central European University continued after the election as well.

Stop Soros

A few days after the re-election of the Fidesz government, pro-government weekly *Figyelő* published a list of over 200 names that it claims are “mercenaries” paid by Soros to topple the government. Those on the list included members of rights organisations such as Amnesty International, anti-corruption watchdog Transparency International, refugee advocates, investigative journalists and faculty and officials from CEU, some of them deceased. Orbán has long accused NGOs funded by Soros of conspiring against the state and representing a threat to national security. Vowing to defend “Christian Europe”, he made the “Stop Soros” bill a flagship piece of legislation, and one of first to be passed by the new parliament (it was adopted in June). The parliament also approved a change to the Hungarian constitution that states that an “alien population” cannot be settled in Hungary.



CIVIL

Understandably, the atmosphere became unbearable for some key targets. Citing “an increasingly repressive political and legal environment”, George Soros’s Open Society Foundations announced in May to move their Budapest-based international operations and staff to Berlin. „The government of Hungary has denigrated and misrepresented our work and repressed civil society for the sake of political gain, using tactics unprecedented in the history of the European Union”, said Patrick Gaspard, president of the Open Society Foundations. „It has become impossible to protect the security of our operations and our staff in Hungary from arbitrary government interference”, he added.

Under the provisions of the new law, dubbed the “Stop Soros law”, it became a criminal offence to carry out “organisational activities” that assist immigrants not entitled to protection with asylum requests, and to help people “residing illegally in Hungary” to get a residence permit. The new law creates a new category of crime, called “promoting and supporting illegal migration” – essentially, banning individuals and organizations from providing any kind of assistance to undocumented immigrants.

As expected, most of the organisations that Fidesz presumably targets have vehemently rejected the idea that they are engaged in any activity that qualifies as help for illegal migration, and it is unlikely that they will pay a tax any time in the future for an activity the admission of which would label them as criminal. “The primary aim of this legislation is to intimidate, by means of criminal law, those who fully legitimately assist asylum seekers or foreigners,” the Hungarian Helsinki Committee, a local human rights group, explained. “It threatens to jail those who support vulnerable people.”

Deliberately vague?

Two leading European rights bodies, the Council of Europe and the Organisation for Security and Cooperation in Europe (OSCE), have criticised the new law as arbitrary and vague and said it contravenes

European law. Other critics have also argued that it represents a further attempt by the government to silence or eradicate NGOs that fail to conform to its nationalist policies and agenda.

The text of the law lacks clarity, which suggests that the government pursues political objectives with the law rather than legal ones. It bears pointing out: the vagueness of the law does not necessarily imply that the government does not really intend to apply it. An alternative interpretation is that it does not want to be bound by the limitations in the applicability of the law that a clear definition would result in. It will be up to the Constitutional Court to decide whether to render the law void for vagueness, and the Court tends to rule in Fidesz’s favour, though there have been notable exceptions.

Since the Stop Soros law has been passed, it is an all-purpose weapon against political opponents who will have to severely watch what they say or do about migration, because based on the text virtually any comment suggesting that immigration can be beneficial could be construed as falling within the vague concept of supporting migration.

CEU leaves

During the last year, the CEU scandal has morphed from a hot battle in international public opinion and diplomacy to a war of attrition, where the Hungarian government went as far as it could without committing to either letting the Central European University stay or banning it outright. Instead, Orbán was refusing to make a decision. The government’s indecision was a serious strain on the university’s ability to attract applicants and scholars, who were understandably concerned about studying and working at a university with such an uncertain future. Fidesz appeared to have figured out that the uncertainty might be sufficient damage for CEU that it might be tempted to leave without being officially thrown out of the country, as the Open Society Foundations have.

In late October, CEU rector Michael Ignatieff announced that if an agreement was not reached by the beginning of December, the university would move its core operations to Vienna. The Hungarian government still refused to sign the bilateral agreement with the State of New York. As we highlighted in detail in the foreign policy chapter of this publication, the newly appointed US-ambassador, the Trump-supporting businessman David Cornstein, initially also stood up for CEU. However, when it became clear that Orbán's intentions would not change, Cornstein started to blame Soros for the lack of agreement.

CEU's self-imposed deadline passed on December 1st. Two days later, the university officially announced it would be leaving Hungary. Some Hungarian-accredited courses would still be taught in Budapest, but these account for less than one-fifth of CEU's degrees. New students beginning classes at CEU in 2019 will start in Austria, „a country where the rule of law and respect for free institutions still means something”, as Ignatieff put it. “This is unprecedented. An American institution was forced out of a NATO ally. A European institution was forced out of an EU Member State,” he added. Nearly everyone, regardless of political views, who has

had experience with higher education understands the magnitude of the loss of CEU.

Many of Orbán's foreign backers in the European People's Party (EPP) had referred to CEU's closure as a red line but with European elections approaching they decided that Orbán can get away with it. Although it was evident that kicking the university out would be a provocation, the Hungarian prime minister apparently felt that he was strong enough in his position to allow himself this move as well.

To allay American concerns, the Orbán government has decided to compensate for the ejection of one US institution in Hungary by inviting another, ideologically more compatible alternative, the Catholic school Notre Dame, which is perceived as leaning in a more conservative direction. In terms of the debate, the government's decision to sign an agreement with the state of Indiana – even as it refused to do the same with the much earlier agreement drafted in consultation with New York state, where CEU is registered – it simultaneously highlighted the government's deliberate foot-dragging and its seeming open-mindedness to foreign educational institutions – as long as they comply with some arbitrary criteria.

5.4 | Outlook on the Hungarian society in 2019

In the media, despite the enormous concentration in the traditional media segments (television, radio and print), there are still – mostly online – targets left that Fidesz might try to take control of. While the situation of the leading commercial TV channel, RTL Klub seems to be stable at the moment, the most important independent online news site, Index appears to be more vulnerable now. It also bears pointing out that while Orbán has not seen fit to pull the trigger yet, Fidesz also has the fate of the only opposition television channel, ATV, and the only opposition daily newspaper, Népszava, in its hands – through state advertising. As these are media with rather limited audience reach that does not include anyone who would ever consider voting for Fidesz, Orbán has graciously decided that these are necessary ornaments on the façade that poses as democracy in Hungary today.

Apart from the major question whether the government will finally address the perennial crisis in education and healthcare, the other area of interest is which institutions will be next to get caught up in the centralisation craze. As of this writing, the debate about the structure and funding for the Hungarian Academy of Sciences (MTA) is still ongoing, but eight years of experience suggest that the best conceivable scenario for MTA are minor concessions. What will happen to MTA in 2019 will also serve as a signal to other institutions. However, the science community has already received a clear signal in 2018: despite massive international pressure, including a most emphatic defence by Orbán's formal allies in the European Parliament, CEU was ultimately forced to leave Budapest behind and is moving most of its educational activities to Vienna.

In recent months the situation surrounding the embattled NGOs has remained quiet. This might well be part of the minimum deal that the EPP has wrought from Orbán in return for Fidesz being allowed to stay in the EPP for the time being. But it is unlikely that this situation will persist after May 2019. Unless Orbán and his allies receive an unexpected electoral drubbing that will make the Hungarian prime minister more vulnerable to pressure, he will likely use the new power

constellation after the EP election to turn up the heat on independent organisations that inconveniently scrutinise the government's activities. What form that will take is of course still open, but a flexible and potentially arbitrarily expansive interpretation of the existing provisions of the NGO law is a likely instrument. Furthermore, its two-thirds majority gives the government the latitude to pick and choose a wide variety of tools from the authoritarian playbook.

There are signs now that Fidesz is moving towards a more comprehensive approach to state capture, which also involves the implementation of something akin to a long-term ideological/social engineering project. It is still too early to tell whether the set of acts and policies labelled as the new "culture war" in Hungary are only about the centralisation/expropriation of funds and institutional control – with the vital benefit of crowding out any alternative worldviews, be they political or cultural – or whether there is actually a cultural/educational programme that will accompany this. There is a lot of talk in Fidesz and among its fellow travellers about the need to reshape the way society thinks, to scale back the sway that liberal ideas presumably still hold over large swathes of public life. And while this has to some extent manifested itself in the educational curriculum, there is no pervasive sense yet of propagandistic indoctrination in education, the influence is more subtle. Institutional takeover may of course turn into the control over ideas. Someone like Orbán, who is envisioning to stay in power at least until 2030, knows that the visions of the people who control the money and the jobs will exert an influence on the way society thinks. Still, in itself institutional control is not as aggressive as overt propaganda and indoctrination in education and culture, and a government whose propaganda budget (the aggregate costs of direct state propaganda, state advertising, public media funding and various subsidies for pro-government media) is roughly on par with its spending on higher education appreciates the difference. One of the questions for next year is whether the government takes the long view of institutional control or accelerates the pace of establishing ideological, social and cultural hegemony.

Conclusion

In a sense, the past year has brought a vital piece of much needed clarity to the analysis of where Hungary stands. In the perennial debate of the past years on the question of “Is Hungary under Fidesz still a democracy?”, the ground has shifted subtly over the years, but an answer remained elusive. Fidesz’s stunning election victory with another parliamentary supermajority – the third election in a row with nearly the same parliamentary majority despite an almost 10-point oscillation in the governing party’s share of the votes – has clearly re-centred the debate among large segments of the analyst/intellectual class, who now largely agree that whatever this regime is, it is not a clear-cut democracy anymore. What’s more, even the public has taken notice. As a recent Policy Solutions survey has shown, almost half of the Hungarian public (49%) believe that the Orbán government cannot be ousted by electoral means, and only 36% believe that it is possible for Fidesz to lose an election and leave the government. Although that is not necessarily an indication that the respondents believe that this is true because of institutional roadblocks erected by Fidesz – many of these respondents presumably reflected on the weakness of the opposition – it nevertheless betrays a stunning scepticism in the power of the electoral process.

Because the shift has been so imperceptible over the past years, with Fidesz’s slowly chipping away at ever new cornerstones of the ruins of the pre-2010 political superstructure, there was no “eureka” moment when the collective wisdom proclaimed that they had given up on the notion that Hungary might still be a democracy. The parliamentary election of 2018 was more of an alarm bell going in the heads of many people who already knew what had happened but had not quite processed the logic of the totality of changes in their own minds.

Those who defend Fidesz’s acts argue that the government’s suppression of civic life, its media market interventions which are

stifling opposition media and place growing hurdles in the way of investigative journalism, the serious blows against academic freedom and the creeping take over by party personnel of the judiciary and the universities, are nothing but the government’s implementation of its democratic mandate. Extending governmental control to walks of life which were until recently seen as no-go zones for politics is presumably what the public demands, so the government has no choice but to follow. While we know where we are not anymore, i.e. in a democracy as we understood the term in 2010, we will not know where we will end up until Orbán’s continuously evolving vision will reach another clearly identifiable equilibrium. That this will not be a democracy is fairly certain, and saying so is no longer a fringe position, which is of course a tremendous change compared to a few years ago.

Orbán’s vaunted “Asian model” is working thus far, with over 4% economic growth and a single admitted refugee in Hungary who was reported about in the news: the approval of the asylum application of Nikola Gruevski, the former prime minister of Macedonia, epitomises the Hungarian government’s policies in more ways than one. Like Orbán, Gruevski was an authoritarian pro-Russia leader in the region whose reign collapsed in a scandal that he failed to contain, forcing him to choose between prison (for a variety of illegal actions) and exile in a country with a friendly government who understands why he had to do what he did.

Everyone, from Viktor Orbán and the other top Fidesz leaders all the way to the opposition feel that the 2018 parliamentary victory was different than Fidesz’s previous victories. From Orbán’s perspective, there is at least a temporary sense that his power is secure, which is why he is day-dreaming about staying in office at least until 2030 and making Hungary one of Europe’s five most

prosperous countries (again an allusion to the Far East Asian model of how popular authoritarian regimes are built). While staying in office until the year 2030 may even sound a bit too modest from Orbán, the economic aspiration is simply outlandish.

The last year was also a powerful reflection of the enthusiasm with which the Hungarian regime is embracing a lot of the dubious aspects of the authoritarian models of development. More specifically, the government's control over public information and the media has taken a huge step forward by the legalised creation of an unprecedented media empire that operates under direct government control. Such an empire – built out of the “voluntary” donations of Fidesz-friendly businesspersons – could never have come into existence if the laws were taken seriously here. But the government decides these issues by fiat, ruling as before that the theoretically strict competition rules do not apply when they do not suit him.

Historical analysis is always a heroic effort at looking back, drawing a straight line through complex and often contradictory events and showing retrospectively how something that was far from obvious at the time was in fact an inevitable development. The consolidation of Fidesz's illiberal regime was not inevitable, however, no matter how it will be seen in hindsight. It's the aggregate result of choices made by leading politicians in the pro- and anti-Fidesz camps, as well as relevant international players who opted for timidity when assertiveness would have been needed. These combined with a favourable global economic climate, the refugee crisis and a Hungarian public that remains relatively placid because it places a greater value on the benefits of this process – or because they simply do not accept the notion that the old liberal democratic order was better when it brought them a fiscal crisis, an economic crisis and a private debt crisis, along with pervasive insecurity.

Following a disastrous year for the opposition, the series of demonstrations that were sparked by the controversial „slave law” have offered some hope to the voters who are dissatisfied with

the way Hungary is being run by the Orbán government. The new law seems to have galvanized Orbán's opponents in a way nothing else could so far. The leaders of opposition parties and activists are sensing new possibilities as – for the first time since 2010 – a new protest movement seems to be building against Orbán and his Fidesz party. In the last weeks of 2018, the main message was unity against Fidesz as all opposition parties plus most trade unions stood together against the government. Such unity will be difficult to maintain. However, cooperation across parties, regardless of ideologies, will be a must if the opposition would like to achieve some success at the 2019 local elections. Besides cooperation the other key question for 2019 is whether the opposition parties will be able to convince their frustrated potential voters that voting is still making sense or whether a deep sense of apathy remains the key characteristic of opposition voters.

The year 2018 was seminal not only in terms of the aggressiveness with which Fidesz asserted its anti-democratic agenda within Hungary, but also because it has now firmly entrenched Hungary as part of Vladimir Putin's allies, rebuffing the entreaties of Hungary's western allies on a variety of high profile issues, such as the expulsion of the Central European University, the pressure on NGOs, the admittance into Hungary of Gruevski, and the recent extradition of Russian arms smugglers to Russia rather than the American side that had conducted the investigation against them and had presented the evidence against them to the Hungarian authorities. Surveys may show that the Hungarian public remains ambivalent about the idea that Hungary's place is in the East, but at the political level the relevant international players have come to understand the trend – under Orbán, Hungary is only formally an EU and NATO member, in reality its government does not mind breaking with the internal codes and agreements of these organisations.

For the European Union, this realisation should make clear that Viktor Orbán's ambitious vision to reshape European politics in Fidesz's illiberal image (recently re-dubbed as its variant of “Christian Democracy”) is a threat that now reaches far beyond

the small country at the EU periphery. Orbán has succeeded in establishing himself as the embodiment of what the rising far-right in the traditional core of the EU, e.g. Germany, France, the Netherlands, as well as many other EU member states, wishes to emulate.

None of the trends observed in 2018 were new, of course, they are all consequential steps in the rough playbook that Fidesz has pursued for years now. What is clear, however, is that the

government has become emboldened by its constitutional two-thirds majority, it feels eminently secure in its domestic position and also perceives the international climate as far more favourable than before. The space for limiting the building of the Fidesz regime in Hungary is rapidly shrinking, and going into 2019 there are still neither domestic nor international players in sight with any realistic agenda – be it visions or specific actions – on how to counter Orbán and the spread of authoritarian populism in Europe and beyond.

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H-1065 Budapest, Révay utca 10., Hungary

Telephone: +36-1-474-87-48

E-mail: info@policysolutions.eu

Website: www.policysolutions.eu

