



Hungarian Politics

in 2022



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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 ninth time we herewith present an annual review of Hungarian politics. This is a comprehensive overview of recent developments, events and trends in Hungary in 2022, and an outlook on what topics we expect to dominate Hungarian politics in 2023.

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 2022, be it the lessons from the Hungarian parliamentary elections, the strategic challenges of the government, the state of the opposition, the tense Hungary-EU relationship, the main economic trends or the values of the Hungarian society. 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 reasons behind the fourth consecutive win of Fidesz at the parliamentary elections, and the strategic situation of the government at the end of 2022. In the second section we look at the opposition parties, their state and prospects after suffering a heavy defeat at the last elections. The third section focuses on foreign affairs, in particular the developments surrounding EU funds and the international position of the Orbán government in the context of the Russia-Ukraine war. In the fourth section, we

take a detailed look at how Fidesz's policies have shaped the economy over the past year. Finally, some key developments of the Hungarian society – media landscape; teachers' demonstrations – are discussed. All of the sections conclude with a brief analysis of the issues which may come to the fore in 2023.

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

1

The Hungarian government in 2022

1.1 | Fidesz wins fourth consecutive two-thirds majority

Another victory for Fidesz in the 2022 Hungarian elections was not unexpected, as none of the polls during the campaign had shown that the opposition could win a majority. What was a surprise was the extent of Fidesz's success (Table 1), beating the united opposition by 20 percentage points (the difference was 16 points within Hungary), with the opposition only winning in Budapest and two other big cities. Everywhere else, the ruling party's candidates emerged victorious. Despite the uneven playing field, no one had expected such a large margin.

At 69.59%, turnout was slightly below that of the 2018 election when 69.73% of the electorate voted. Nevertheless, turnout was high by historical standards. The turnout in the 2018 election had been the second-highest since the democratic transition, and 2022 came close.

Defying the expectations of the opposition, Fidesz won 86 of the 88 seats in single-member districts outside Budapest, defending all of its previously held seats and recapturing the town of Dunaújváros, once a left-wing bastion that the Socialists had carried by a margin of 65-35 in 2006 (it was won by a Jobbik candidate in 2018). The opposition held on to its only two other seats outside Budapest, one each in the cities of Szeged and Pécs.

The minimum expectation for the opposition was that it would be able to capture many of the large urban areas it had won in the 2019 municipal election. The election of opposition mayors in large cities across Hungary at the time fed the hope that at least the parliamentary seats in these cities could swing towards the opposition. Reality shaped up very differently, however, with Fidesz not only defending these seats but mostly even expanding its lead over the opposition.

Table 1. Results of the votes for party lists in the Hungarian parliamentary election of 2022

Party list	% Share of the votes in 2018	% Share of the votes in 2022	Total number of votes in 2022	Seats in 2018	Seats in 2022
Fidesz-KDNP	49.27	54.13	3,060,706	133	135
United Opposition	47.13	34.44	1,947,331	65	57
Our Homeland	-	5.88	332,487	-	6
Two-Tailed Dog Party	1.73	3.27	185,052	-	-

Source: valasztas.hu

Hungary divided between Budapest and the rest

At the 2022 elections, it was only in the capital itself that the opposition's victories in single-member districts largely conformed to expectations, with the United for Hungary list sweeping 17 of the 18 districts in the capital. Symbolically significant is that Fidesz has lost all four of the traditionally conservative districts in Buda. Before 2010, a victory of left-wing candidates in all of them seemed inconceivable. It is unlikely that these conservative areas had shifted ideologically, what seems more likely is that their mostly wealthy and educated voters were put off by Fidesz's communication and policies in recent years. The single district in Budapest where the opposition candidate lost is actually a suburban district which is demographically similar to the more conservative districts in the wider Budapest metropolitan area (Pest County), where the opposition also failed to pick up any of the seats it had been favoured to win.

Thus, Fidesz did not only defend its hold over rural Hungary, which was widely expected even in light of the polls that painted a much more favourable picture for the opposition than the reality of 3 April, but it also tightened its grip over almost the entirety of urban Hungary outside Budapest. Thus, the urban-rural divide is now mostly a Budapest vs. the rest of Hungary divide, although it is true that on the whole Fidesz was relatively weaker and the opposition was stronger in urban areas as compared to the ruling party's overwhelming majorities in villages and small towns.

Orbán, the warrior for peace

Fidesz's message of neutrality on the war in Ukraine appears to have resonated heavily with voters, more so even than the polls of partisan preferences could capture. It quickly became clear that the idea of keeping Hungary out of the conflict would be popular, with polls by both pro-Fidesz and other polling companies showing that a large majority of Hungarians agreed that above all they wanted their country to avoid being sucked into the war. Based on



the numbers, this large majority also included many of those who unequivocally professed that the war was an act of unjustifiable Russian aggression.

The massive pro-Fidesz media empire hammered home the message that Viktor Orbán and Fidesz were most likely to guarantee that Hungary would not become militarily involved in any conflict with Russia, and they compounded the impact of this message by taking a quote by opposition PM candidate Péter Márki-Zay out of context to propagate the idea that the opposition would insert Hungary into the war in Ukraine as a warring party. None of the firm denials of the opposition were reflected in either Fidesz's communication or in the identical communication of the pro-Fidesz media which uncritically disseminated and amplified this partisan message.

It's the economy

Concern about the war often went hand in hand with concerns about its economic implications, and Fidesz's successful narrative framework of its ability to preserve peace was also openly intertwined with the promise that it was best equipped to give the Hungarian economy a protective buffer against the increasingly dire financial reverberations of the war in Ukraine. The prime minister's communication on the war was very naked in stating that the needs of the Hungarian economy were paramount. And what irked many European politicians because of the triumph of crude materialism over geopolitical and humanitarian considerations seems to have appealed to many voters who not only saw Orbán as the guarantor of peace and security, but as the best guarantee against rising energy prices as well.

The impression of the government's ability to help financially was reinforced by lavish campaign spending totalling over 1,000 billion forints (ca. 2.7 billion euros) in February alone (leading to a record deficit), aimed at millions of pensioners, who received a whole month of extra pension, and families, which received a massive income tax rebate, many in the amount of their entire income tax

payment in 2021. Even as polls showed that the rising inflation rate worries voters, the huge amount of money thrown at them by the government appears to have succeeded in mitigating their fears. They were suitable as stopgap measures to reinforce Fidesz's support. Given the opposition's lack of access to funds to distribute, they were limited in their ability to convince the public of their commitment to help citizens financially in a difficult period. Nevertheless, the opposition campaign did not place pocketbook concerns sufficiently at the centre of its campaign.

In an interesting twist, both inflation and the war, arguably the two key concerns in this election, ultimately boosted Fidesz, as Viktor Orbán successfully cast himself as an experienced hand with a long record of economic growth running against a political rookie who led a hopscotch alliance of odd bedfellows, pre-eminently including former prime minister Ferenc Gyurcsány, who Fidesz said was in control of the alliance.

The opposition's share of the blame

As was the case four years ago, this election was not about fair competition either. Voters could vote for whomever they chose, but the playing field was tilted in favor of the government. As in the previous two elections, the April 3 election was characterized by campaign regulations that favored Fidesz, biased media coverage, and a blurring of the line between the ruling political party and the state. Ultimately, it was the opposition parties that entered the race despite their awareness of how far the playing field tilted against them, and ultimately the voters' judgment was also about their performance. Fair or not, 34% is a damning judgment, especially in light of the fact that the bar for the opposition parties was the 47% they achieved in 2018. They wanted to do better but did far worse.

The opposition united formally, that is it agreed on the primary system to select candidates, a joint platform and a joint slate of candidates. Even though the joint list gave itself the name United for Hungary it never did seem that united. When Jobbik chair Péter

Jakab and the leader of the Democratic Coalition, Ferenc Gyurcsány, attacked Péter Márki-Zay within hours of the disastrous result, the thought on many people's mind was not that this was surprising but rather that it was just what they expected. Nor did Péter Márki-Zay deliver what was most fervently expected of him, namely a surge in the rural support of the opposition, which would have included many Jobbik voters. Márki-Zay's candour was a major source of his appeal, but it was also a part of his undoing. His controversial statements provided excellent fodder for the pro-Fidesz media which amplified each controversial gaffe with great effectiveness.

Despite Márki-Zay's very real flaws it must also be pointed out that given the overall campaign dynamics it seems retrospectively that any candidate leading the opposition in this election was a sacrificial lamb. Whether they are aware of it or not, Márki-Zay's erstwhile rivals in the primary campaign can thank their lucky stars that it was not them. The war and its reverberations in the economy were unforeseeable assets for Fidesz – or rather disadvantages the ruling party astutely turned into advantages. As we saw during the campaign, the pro-Fidesz media was not only suitable for shielding voters from unfavourable information about Fidesz, it was even more vital in smearing the opposition, which it relentlessly did.

1.2 | The strategic situation of the Hungarian government

For a government that is struggling with one of the highest inflation rates within the European Union, a growing shortage of price-controlled food products, a highly volatile currency, while also engaged in the process of deconstructing the last vestiges of welfare safeguards, the Orbán government is doing very well, thank you. Public opinion polls since the election in April 2022 seem more or less frozen in time. After a very slight drop in Fidesz's support in the general opinion overall – none of which benefitted the opposition – the ruling party has stabilised its support at a very high level: roughly a third of the adult public overall and half of likely voters continue to support Fidesz. This means the election result would be roughly the same at the end of 2022 as it was in April.

On the fiscal precipice

Still, there was reason to expect that in 2022 the disenchantment with the winner would set in earlier and maybe more powerfully than at any time since Fidesz's four successive electoral victories starting in 2010. With the pre-election spending spree, the budget deficit entered a terrain unseen since the massive austerity packages adopted in the 2006-2010 term of parliament. At one point, even Viktor Orbán, who has been relentlessly saying that austerity as a policy category is superfluous and only a reflection of bad economic policy, was forced to concede that certain hardships would be necessary.

That turned out to be an understatement. Most spectacularly, Fidesz had to compromise on its flagship policy, the utility price freeze, which proved impossible to maintain given the vast price increase in the international market of natural gas and electricity. Previously, the government had steadfastly claimed that the fixed prices for

utilities in Hungary were unassailable. Ultimately, the cost of low retail gas and electricity prices proved unsustainable, however, and so the government introduced a quantitative limit on how much of these could be used at government-set prices. It claimed that the quantity set was enough for average users, though it has been impossible to independently verify what average use means, and the billing has been chaotic since the price freeze was suddenly partially abandoned. Similarly, the cap on petrol prices also had to be abandoned in December. In the meanwhile, the government is trying to reduce spending by halting investments and slashing personnel.

This in itself is hardly unusual, many European governments and populations are forced to make adjustments. Nevertheless, it flies in the face of years of rhetoric that Fidesz is not bound by standard economic policy considerations. Austerity and budget cuts only serve liberal elites and multinational corporations, said the Fidesz mantra, and the Hungarian government party could shield the public from such unnecessary pain.

Yet if anyone expected that the chasm between rhetoric and reality would come back to hurt Fidesz, for the time being, they have been sorely disappointed. Fidesz may not be above the logic of basic macroeconomic processes and deficits – for now, it is indeed exempt from the frequent popular backlash that accompanies policies which directly contradict the government's core messages.

So why is Fidesz's defying political gravity?

The most important strategic asset for Fidesz is the enduring weakness of the opposition, which has still not recovered from the

massive blow it was dealt in the election. The dismal state of the anti-government camp and the lack of viable political alternatives is one of the linchpins of Fidesz's ongoing success. It fuels its defiance to a drop in the polls even as the cost-of-living crisis engulfs Hungary even more deeply than most European societies.

Many opposition supporters now concede that Fidesz's victory in the election may have been a fortunate development, as the election defeat has revealed how unworkable the opposition alliance had been in the first place. Realising this after the election, amidst a crisis, would have been even worse, thus the argument. A divided opposition alliance in charge at a time of such uncertainty, without access to fiscal reserves, could have quickly fractured under pressure, confirming Fidesz's warnings about the incompetence of the players involved and paving the way for a quick and triumphant comeback by Orbán as the saviour.

Orbán's experience is a major bonus

While some of the loose supporters have since turned away from Fidesz and have joined the column of non-voters in the polls, others see the rationale behind their support for Hungary's long time ruling party confirmed: in a time of crisis, a stable hand with tons of experience is a more soothing thought than a chaotic and divided band featuring mostly untested figures.

Viktor Orbán as the steady steward of Hungarian interests in a world of global turmoil is, of course, one of the fundamental tenets of the house that Fidesz built, the massive camp that makes up Fidesz's core electorate. The image of the Orbán government standing tall amidst the storm while the opposition is fractured and focused on itself is amplified by the immense media machine, another major reason why the crisis has mostly left Fidesz's support intact.

The global dimension helps

What these media do report, however, is that there is a massive complex global crisis afoot that fuels inflation and limits access to

energy. The actual portrayal of the crisis and its causes is often one-sided and manipulated, blaming the policies of the West without addressing problems caused by the Putin regime in Russia or by China's trade and Covid policies. Thus, for example, a major tenet of the government's communication – which is massively amplified by loyal media – is that on energy imports, the West has picked a fight with Russia that it cannot win and that this is the sole cause of Hungary's precarious situation right now.

This brings us to the final major reason why the government has not suffered a major blowback from the crisis thus far: the crisis is global in scope and the government's media is successfully portraying it as the failure of actors outside Hungary. It is indeed true that Hungarians are currently experiencing economic hardships and challenges that are not of their government's making but the spillover effects of global events beyond the control of Viktor Orbán.

However, what the pro-Fidesz media coverage fails to acknowledge are the various ways in which the government's policies have rendered Hungary more vulnerable to a crisis, for example, by vastly increasing the budget deficit before the election at a time when a fiscal crunch was already emerging; stealing a substantial chunk of EU funds and wasting much of the remaining money that could have been used to modernise and prepare the Hungarian economy; deliberately increasing energy dependence on the Putin regime even as the policies of the latter were controversial, to say the least; and relying on a weak forint as the main instrument for attracting investments. The latter also has a major impact on Hungarians' costs of living as the forint depreciation increases the prices of imported goods – which make up a high share of domestic consumption – in excess of their general inflation.

Welfare retrenchment

Among the highly relevant issues that much of the media in Hungary is failing to pick up on is how the government is methodically scaling back the state's responsibility in the welfare sector and, despite



arhetoric that the state protects the public from all sorts of harms, it is in fact privatising responsibility for individual well-being in ways that mesh with the most orthodox neoliberal economic policies and directly clash with its communication on the subject.

The most recent example of the underhanded way in which this is carried out was the adoption of a bill amending the Social Services Act. The new law puts the state last among five actors responsible for individual welfare. According to the amendment – which was concealed in the depths of an omnibus bill – the state only needs to step in to mitigate welfare emergencies if the individual, their family, the local government and private charities have all failed to help. The change came against the backdrop of a rise in welfare emergencies, shifting responsibilities and burdens from the government onto players that face significant financial pressure and will probably fare worse next year – in many cases owing in part to the government's policies. This is not what most Hungarians think a welfare state should look like, which is why the government is trying to hide the systemic effort at dismantling welfare even as it relentlessly emphasises how it focuses on the interests of everyday people.

Can something imperil the support of this government?

The question on the minds of many who see these broad trends is whether this will ultimately catch up with Fidesz and exert a major impact on its political support. Rather than predicting how the government's public support will shape up, let's briefly recap the major factors that will decide this. On the downside for Fidesz, it has little fiscal latitude to soften the blow of a major recession. On the whole, it is conceivable that the crisis could embitter a significant slice of the Hungarian public, and the government that has always prided itself on its alleged prowess to shield Hungarians from problems could find itself with limited tools to soften the blow. Strategically speaking, however, the government is more prepared for such a difficult scenario than most of its counterparts. Part of its fortunate position stems from the fact that there will be no serious electoral

test in 2023; if the crisis peaks in 2023 and peters out in 2024, then Fidesz could luck out once again since by the time of the municipal and EP elections in May 2024, Hungarians may feel the impact of economic tailwinds again.

In the meantime, the government is not going to leave its public support to chance. Even as it is implementing or considering cutbacks in many areas, media spending will likely remain massive in 2023. There is no reason for the government to change a working recipe, and its success has always rested more on the skilful use of propaganda than actual policy successes.

Can the EU actually do something about this?

Given the lack of domestic incentives to change and the absence of alternatives, the most important political problem for the government to contend with is the precarious international environment, especially the very polite escalation of tensions with the European Commission and the major EU powers, which have some latitude over the government's access to the funds it desperately needs in lean times. For the European Commission and the supporters among European governments of a stricter line towards the Fidesz government, their leverage over EU funds is a double-edged sword, however.

To remain popular, Orbán needs outside enemies just as much as he needs money. As the migration crisis has demonstrated most effectively, the Fidesz machine runs on a mix of money, hate and fear. Of these, the European Union has some limited control only over the first. If the EU wields its power over money in a manner that the Fidesz's media can successfully exploit, it will fuel the flames of hatred, which the government also needs. That the EU is aware of this is reflected in its careful and measured approach, in its avoidance of the open confrontation that used to mark the EP debates in which Orbán or his proxies clashed with critics. These rhetorical exercises were used in the Hungarian media to portray the critics of the Orbán

regime, ranging from the centre-right all the way to the far left, as part of a broader conspiracy.

Although everyone is aware that the situation of democracy in Hungary is worse today than it was back then, the criticism from European players is more focused on technical issues, which are less ideal for distortion in the pro-government media. Given that the Hungarian government has plastered the country with posters depicting the EU sanctions as "bombs" that are the actual dangers in the current environment rather than the aggression committed by Viktor Orbán's friend Vladimir Putin of Russia, this shows that EU is well aware that it is treading a minefield as it is trying to save the last vestiges of the rule of law in Hungary without giving the appearance that it is trying to challenge the Orbán government for dominance in domestic politics.

Theoretically, a more massive crisis could ensue and substantially weaken the popular support of the Orbán government. Realistically, however, a scenario of a crisis this vast would be very unlikely to be limited to Hungary. Instead, it would likely be the result of spillover effects of a global crisis, the likes of which would make politics tremble in many countries, not only Hungary. For the EU as a whole, that is hardly a desirable outcome. In an ironic way, at a time of global crisis, it will be hard to separate the stability of the Orbán government from that of the EU overall. For now, Viktor Orbán seems confident that he can continue to espouse some form of equilibrium, where he cooperates with the European Commission just barely enough to continue to use it as a source of money and a political foil while he cements his power further.

1.3 | Outlook on the Hungarian government's prospects in 2023

Despite its fourth election success in a row, it was safe to say after the elections that the Orbán government could not expect a honeymoon period. A huge budget hole created by its own measures awaited it, double-digit inflation was in sight, and European Union funds were not flowing to Hungary because of concerns about corruption and the rule of law. The fifth Orbán government also has to deal with Hungary's place in the world. It seems that its reputation has suffered lasting damage from how the government has approached the war in Ukraine. All in all, the state of the economy and foreign policy have made it sure that in spite of another big victory, 2022-2026 would be a difficult term for the Orbán government.

Viktor Orbán is doing his best to exude his usual air of self-confidence. Still, as 2022 comes to an end amidst unprecedented levels of economic and security uncertainty, the anxiety in Hungary's long-time ruling party is palpable. Rather than incessantly reiterating how Hungarians are safe thanks to Fidesz's smart policies and competence, government spokespersons – now also including the Prime Minister – increasingly talk about hardships ahead in the coming years, including financial sacrifices that they ruled out as recently as the summer of 2022.

For the most part, the government is facing risks beyond its control, such as the trajectory of Russia's war of aggression against Ukraine, as well as global energy prices and supply chains, to mention the most prominent examples. In such times of uncertainty, many governments would be tempted to stabilise their situation through cooperation and strengthening their alliances. Viktor Orbán is not uninterested in alliances on the whole, but he is not interested in the alliance that many believe is most vital for Hungary's future and stability, namely the European Union.

The EU is finally using its only major leverage over Orbán, the disbursement of EU funds. 2023 will be a critical year for Orbán's "freedom struggle", as he calls it, as the European Union is now making clear that the price of his "independent" policy-making – which simultaneously undermines democracy in Hungary, the internal integration of the EU as well as a coherent and united European foreign policy stance internationally – could be massive, costing Hungary large portions of the EU funds the government was banking on.

Given the opposition's persistent weakness and the absence of key elections in 2023, the question of the EU funds and the underlying negotiations will be the most pressing issue for the government. But how it plays out is very hard to predict, except for stating the obvious point that Hungary needs the EU funds badly. Although Orbán's pragmatic self often prevails over his evolving ideological beliefs, there is no longer a way to be sure that he will make major concessions to the EU.

Still, even a worst-case scenario for Orbán, a massive economic crisis with a simultaneous absence of EU funds, would be unlikely to exert a major impact on the government's political standing in the short run. The opposition is weakened, and it would take a major transformation in its ranks for it to emerge as a challenger to Fidesz. Although sudden changes in politics are possible – in competitive electoral environments – such a process typically takes time, which means that the opposition does not need to be among the government's priorities in 2023.

As of this writing, it seems that the biggest domestic challenge for the government in 2023 could be the teachers, who remain unrelenting



in their determination to strike despite the ruling party's recently imposed ban on strikes and the actual firings of a growing number of teachers. The other major problem for the government will be to reconcile the yawning gap between the reality of growing poverty and its claim that it is the most effective player when it comes to shielding Hungarians from market volatility. People may feel powerless to hold the government accountable, but it is unlikely that they will not perceive that in many cases their incomes will lag far behind inflation. Since there will not be enough money to compensate for dropping real incomes, in the absence of economic successes, the government will have to focus on the other two areas where it tends to be successful: stoking fears and inciting hatred.

Its dominance in the media will be the most important tool in the government's arsenal to combat an increasingly inconvenient economic reality and the widespread perception that both healthcare and education are both failing under Fidesz. We expect that the media outlets under the control of Fidesz will steam ahead at full speed and target whomever the polling operations in the background identify as suitable targets to focus the public's fears and/or anger on. With "Brussels" already being blamed for economic problems in 2022, it is likely that the EU will remain a key target in 2023 as well.

2

The Hungarian opposition in 2022

2.1 | Lessons from a flawed opposition campaign

A closer look at the 2022 Hungarian parliamentary election result shows that from the opposition's perspective, the most significant upset was not Fidesz's share of the votes, which exceeded the average of the polls by only about 3 percentage points, but its own performance, which fell far short of both the polls and especially the united opposition parties' 2018 results. In the 2022 Hungarian elections, the six parties that formed a united opposition list received 757,000 votes less than the total number of votes cast for the six parties separately at the 2018 parliamentary elections. This means that the Hungarian opposition lost 28% of its 2018 voters in 2022.

A campaign lacking in unity

The opposition campaign lacked coordination, unity of purpose and messaging, while it hammered away at issues that passed by the everyday realities of many voters. It appears that the opposition parties overestimated the Hungarian public's desire to belong to the West while they underestimated the key role of stability and security in the broadest sense (including and especially financial security), which proved decisive at the time of the Russian war against Ukraine, with multiple crises and the threat of being sucked into a military conflict looming.

A clear lesson from the 2022 elections is that formal unity in itself is not enough. Despite the key areas of agreement, the opposition failed to present itself as united. The basis for the opposition cooperation was two-fold. At the ideological level, the cooperation between these parties was primarily rooted in a defence of democracy and the rule of law, putting an end to corruption and anchoring Hungary in the West. Vital as they may be, none of these issues is particularly relevant to large segments of the Hungarian electorate; they are of interest primarily to educated urban voters who mostly stuck by the

opposition. This would have hurt the opposition no matter what, but it made them sound particularly tone-deaf at a time when the war and the looming economic crisis became the dominant issues of the campaign. Incidentally, this does not mean that these are not vital issues but only that they are not the issues that elections in Hungary will turn on in the near future.

At the practical level, unity was based on the necessity of electoral coordination. Although the logic was sound, this was clearly not enough to appeal to voters who were looking for someone to give them more than an outlet for rejecting Orbán. The way the opposition's united front was structured presented the voters with the choice of opting for Orbán and his record or "against Orbán" and his record. While the former performed slightly above expectations and expanded its demographic base, the latter obviously did not inspire voters. Retrospectively, it appears that the opposition might have lulled itself into the mistaken belief that simply holding up a democratic alternative to Fidesz would be enough of a united purpose for voters. It was not, and it was on this point that the critics of opposition unity were most crucially right. Many critics of the electorally-induced united list believe that what is needed is not a conglomerate that unites disparate forces into a coalition of necessity but a single and coherent movement that replaces what they consider the inept forces of the existing opposition. Whether this can be realistically achieved in light of the diverse array of political parties with their own activist and voter bases, as well as resources, is a legitimate empirical concern.

The abysmal performance of the joint opposition is seen by many as evidence that unity was a dead-end, a competitive opposition would lead to greater vibrancy, more effective mobilisation and thus more success. If the sole content of the opposition's cooperation is

to gain power and unseat Orbán, without a greater agreement on substance, they will lose. The latter statement is correct, but the former is flawed and ignores reality. It is no longer only the electoral system in Hungary that penalises division, but so does the entire structure of the Fidesz-controlled public discourse, where small organisations tend to have disproportionately little impact on the public agenda. When the opposition united in a massive effort to hold a national primary, they dominated the media coverage – at least in the independent media – in ways not seen in many years. That should have been an instructive lesson.

But a unified opposition communication would amplify their communication as long as they agree on vital coherent messages. They could emphasise to voters that whatever their partisan affiliation, all opposition parties can be counted on to focus on growing public financial insecurity, for example. Arguably, the biggest flaw in the opposition campaign was not the decision to unify but that the opposition parties effectively failed to campaign together, ultimately focusing on their own distinct campaigns, while their “joint message” was advanced by a weakened central campaign headquarters led by an erratic candidate with a misguided thematic focus. Moreover, the joint position was often not based on a long-established common policy line, either, but often the subject of continuous haggling and renegotiation.

A late campaign and a problem of substance

The lacking unity was already reflected in the failure to establish a joint election team in advance of the primaries, which led to the most serious technical deficiencies of the subsequent campaign. When the joint PM candidate, Péter Márki-Zay was selected, it took the opposition two months to figure out how their common campaign would be operated, squandering the vital momentum that the successful primary had generated in public opinion.

A joint and coherent campaign right from the start would have better exploited the autumn of 2021 and would have presented a much



more united front – this would not have been enough to turn the historical tide unleashed by the war in Ukraine, but it would have likely led to a stronger performance of the opposition. Given the years they had to prepare since the successful pilot project in the municipal election of 2019, the opposition parties’ “making it up as we go along” in the 2022 election was a disappointment and a key source of their weak performance.

In terms of the substance of their campaign, the major flaw was a lacking focus on the issues that truly matter to many demographics outside the core opposition electorate. As a matter of record, the opposition parties did agree on a number of key social and economic policy issues that could be highly relevant to most voters in their everyday life, as was also demonstrated in their joint election manifesto. From social welfare, labour market regulations and unemployment benefits all the way to education and healthcare they promised a left-wing turn in a country where the public prefers a more proactive state in the social realm, even if many would not necessarily identify these expectations as left-wing.

The right-wing PM candidate failed to live up to his promise

Although eventually even the Thatcherite conservative PM candidate submitted to the reality that both the alliance he led and the voters were looking for these kinds of policies, the campaign operation he ran failed to put the social dimension of the opposition’s programme sufficiently into focus. Coupled with his lack of message discipline and frequent gaffes, the candidate’s own right-wing instincts were part of the problem. They neither energised the left-wing base nor did they focus adequately on the problems of those ideologically less committed rural voters whom Péter Márki-Zay had promised to win over – but instead routinely insulted by implying that they were ignorant and brainwashed. The candidate deserves at least some of the blame for the campaign gone awry, and he proved especially tone-deaf in reacting to the public fears about the conflict in Ukraine.

At the same time, it is also true that the opposition parties failed to present him with a clear and coherent structure that would have boxed him in where his own freestyle proved disastrous and would have provided him with the infrastructure and resources that any candidate needed to perform successfully in this campaign. Once their respective candidates dropped out of the race or were defeated, several opposition parties took a laid back approach to the election, assuming it was Márki-Zay’s problem. While the latter clearly had an appeal as a political novice – this much was apparent during the primaries – but he also lacked the anchor and the experience that the political parties could and should have provided.

Losing voters on both the left and the right

The election results clearly show that the opposition alliance has lost voters on both the left and the right of its electorate. The main reason for the loss of voters with a right-wing identity is that a large proportion of them found it unacceptable that Jobbik had become an ally of Ferenc Gyurcsány, whom they considered their greatest enemy before 2010. Jobbik defined itself in opposition to the Socialist governments of 2002-2010, and the emblematic figure of that period was Ferenc Gyurcsány, who was prime minister of Hungary for five years (2004-2009) and remains one of the most unpopular opposition politicians to this day. Fidesz’s campaign focused intensely on persuading the Jobbik voters that they cannot in good conscience vote for a list that includes Gyurcsány. Fidesz tried to frame the whole opposition coalition as being under Gyurcsány’s full influence, portraying all opposition politicians as Gyurcsány’s puppets and scaring voters that if the opposition won the elections, Gyurcsány would in fact return to power. This effort by the ruling party proved successful: the focus on Gyurcsány prevented the undecided from shifting to the opposition and discouraged many of Jobbik’s former voters, who chose either Fidesz or the new far-right party, Mi Hazánk.

The loss of left-wing voters is mainly due to the fact that the opposition campaign – and in particular the right-wing PM candidate,

Péter Márki-Zay – hardly addressed them at all. Given the values of Hungarian society and the weaknesses of Fidesz’s governance, the united opposition’s best campaign opportunity in 2022 would have been to credibly attack from the left the record of the past 12 years, and especially the last two years of crisis. The opposition’s strongest card would have been to convince voters that they would be better off economically after a change of government than under Fidesz. Instead, the opposition was continually forced to defend itself against accusations that it would introduce measures that would make people worse off than before.

Beyond winning the war theme (‘peace and security’ vs ‘East or West’), Fidesz’s main goal was to prevent the opposition from gaining ground on cost-of-living issues. As a consequence, the 2022 campaign eventually resulted in the rather bizarre situation where Fidesz attacked the united opposition from the left, precisely to avoid losses on its most vulnerable points: inflation, low salaries, the poor quality of public services (especially healthcare and education), and growing inequalities. Fidesz accused the united opposition, and in particular Péter Márki-Zay, of planning unpopular right-wing economic policy measures. The Fidesz negative campaign was dominated by messages about the potential privatisation of hospitals, and abolition of the minimum wage, the 13th-month pension, and the utility cost reduction scheme. Although none of these measures were parts of the manifesto of the opposition, the Fidesz campaign ruthlessly used some earlier quotes of Márki-Zay on economic issues. It should also be mentioned that several important economic steps (tax returns to families with children, re-introduction of the 13th-month pension, a minimum wage increase, income tax exemption for people under the age of 25, and price caps on petrol and some basic food products) were introduced a few months before the elections, with the aim of dampening people’s sense that the Hungarian economy was in a serious situation.

As a consequence, the opposition was unable to put the cost-of-living crisis at the heart of the campaign. The failure to take advantage of bread and butter issues and Fidesz’s economic policy failures can be

seen as a missed political opportunity because – as Policy Solutions research has shown several times over the last two years – the most important social trend has been the increasing concerns about living costs. By the end of the campaign, many left-leaning voters may have felt that they could hope for financial security from a Fidesz government rather than from an opposition led by a candidate with neoliberal economic policy convictions. The opposition was therefore seen as less credible than Fidesz even on economic and social policy, and this led to a defection of left-wing voters.

Fidesz simply had the better messages

The opposition lacks a strong, unified and coherent position and message on the grand issues that define Hungarian public discourse today: identity, Hungary’s place in the world, and security, including physical, cultural and everyday financial security. Some of Fidesz’s positions and messages on these grand issues are legitimately controversial, such as the homophobia and the openly nativist stance it espouses on immigration and culture. Yet other positions are dubious, both because they project a stability that is unlikely to be sustainable and because they conceal strikingly unfair practices, such as the government’s economic policy, which treats the upper classes preferentially at the expense of those with lower and medium incomes and yet suggests that it takes care of everyone.

Nevertheless, the government’s positions on these issues are clear and readily discernible to the public, while the opposition’s overall stances are lost in a cacophony, lacking clarity and the failure to push them with the relentlessness of the Fidesz propaganda machine. Moreover, Fidesz embeds its goals in a broader historical narrative where it is the carrier of a long historical legacy and it is the linchpin that provides the continuity between a presumably glorious past and a presumably glorious future – as long as Viktor Orbán remains at the helm.

2022 was evidence that as long as unity is limited to formal cooperation with a weak superstructure, it cannot deliver; but it did

not rebut the overwhelming pre-2022 evidence that only a mostly united opposition can hope to challenge Fidesz. Without greater clarity, both in terms of coming up with better messages and a clearer communication of the latter, the opposition cannot hope to rival Fidesz. This is one conclusion of the 2022 election. A concomitant insight is that a fragmented opposition that is only formally united can probably neither adopt such common positions nor successfully convey them to the electorate in a persuasive manner.

2.2 | Disunited and leaderless – The state of the Hungarian opposition

Major change is needed

Although the explanations for the dramatic defeat differed, everyone agreed that the opposition could no longer operate in the same mode that defined its pre-2022 operation. But that is where the consensus ends. The defeat in 2022 left the vast majority of opposition supporters and many leading politicians, too, visibly depressed and at a loss as to what to do next. As our own poll on the subject after the elections showed, every second voting-age Hungarian believes this government can no longer be ousted by way of an election, and only 38% believe that elections in Hungary can still serve as vehicles of political change.

On the one hand, these figures are a massive indictment of the regime that Fidesz has built: it is legitimate to question whether Hungary is a democracy when half the voters believe that elections no longer work as instruments of political change. Nevertheless, an opposition exists, and while it must grapple with the question of whether it can even hope to compete successfully in a national election, it must at the same time define its role in the current regime. The latter process is completely stuck in the sand.

The furthest right is back

Since the shock of April 2022, the opposition has failed to produce noteworthy debates or initiatives, be it at the aggregate level or the level of the individual opposition parties. It is telling that the biggest innovation in the current opposition is the shadow government announced by the left-liberal Democratic Coalition (DK), which is

polling around 15-17%, and is trying to reinforce the image that they are the strongest opposition party and that they are preparing to govern with the leadership of MEP Klára Dobrev. Besides DK, the only opposition party to have increased its support since the elections is the far-right Our Homeland party, which is polling at 9-10%. This also highlights that Our Homeland is in the process of establishing itself as a firm new presence in the party landscape, binding voters who are not in Fidesz's thrall but will not support a united opposition challenger of the ruling party. Our Homeland draws its support from a core electorate of far-right voters, Covid sceptics and others who are dissatisfied with both the regime and remaining opposition.

The Hungarian opposition is more lost than ever

Voters are correct in perceiving that the opposition is anything but formidable. It is impossible to overstate the extent to which the electoral defeat has devastated the already weak opposition parties. Five of the six opposition parties saw a change in leadership, indicating a crisis. Only the Democratic Coalition has continued to stick fully with its leader, Ferenc Gyurcsány. One of the co-chairs of the Hungarian Socialist Party, Ágnes Kunhalmi, has also remained in her position, while the Socialists have elected a new male-chair, Imre Komjáthi. The green party LMP has also changed its male co-chair: Péter Ungár became one of the party's leaders, while Erzsébet Schmuck remained the party's female co-chair.

Arguing that he was undermined by the party's board, Jobbik's Péter Jakab resigned even after a party congress re-elected him as party chair. His successor, MEP Márton Gyöngyösi is an established figure

in the party, but nothing in his relatively long career indicates that he could emerge as the engine behind the resurgence of what once was the leading opposition party.

Centrist-liberal Momentum, by contrast, has turned to a figure with no national visibility, the recently elected MP Ferenc Gelencsér, who previously served as a district deputy mayor. A large part of potential Momentum voters is now waiting for the return of MEP Anna Donáth, who is currently on maternity leave. Gergely Karácsony, the Mayor of Budapest, and Tímea Szabó, the leader of the party's parliamentary group, left their positions as co-chairs of the green-left Párbeszéd party, and two MPs, Bence Tordai and Rebeka Szabó, took their places.

The challenges ahead

In its current, devastating state, the opposition faces several major challenges. First, it must decide what type of opposition policy it will pursue, whether it will continue to seriously engage in parliamentary work despite the justified scepticism that parliament is but a sideshow in a country that has been governed by a mix of governmental decrees and government-authored legislation rubber-stamped by the Fidesz faction in parliament.

The next major issue is substance. There is a widespread agreement now in the opposition that the joint campaign mishandled the war in Ukraine and underemphasised the most important issue in Hungary today, namely the rising cost of living. The latter is always arguably the most important element of every election campaign, but the soaring inflation made it an especially potent issue this year. The government's impressive success in downplaying the dangers of economic hardships before the election probably owed to the opposition's failure to make that issue the centrepiece of its campaign. In this deepening crisis, the opposition's best chance is the same as it would have been in the campaign: to point out the flaws of Fidesz's governance by focusing on cost-of-living issues, and to offer the country a more just alternative based on solidarity.



Even when the opposition parties find the right issues – inflation, the state of public services, energy efficiency in housing, etc. – they fail to speak in a coherent and united manner that would make it more likely for the voters to see them as a viable alternative. Instead, there is a multitude of small parties that each represent but a few percent of the total public and have very little media access. What they say is ultimately of little consequence as far as public opinion is concerned. For an opposition stance to make an impact, it would have to be delivered coherently as the opinion of a large bloc and through every channel still accessible to the opposition, from street activism over media appearances in the few outlets that still offer the opposition a platform. The opportunities to appear are indeed limited, because let no one be fooled by the fact that after Fidesz won the elections, opposition politicians were more often invited to the public media. When it really mattered, they were not invited during the campaign and news about them were only published in a negative context.

The unity question will not go away

This brings us to the perennial question facing the opposition, namely whether to unite and in what form. In a sense, the election mostly vindicated the position of those who argued from the start that a coherent, strong single party rather than an alliance of necessity would have to emerge to challenge Fidesz. Since the elections, the Democratic Coalition has explicitly taken this position and has been acting accordingly. Yet, the reality remains that the opposition landscape is divided and dominated by players, parties and individuals who are extremely unlikely to give up their own little electoral fiefdoms that offer them a rudimentary parliamentary presence. They will cling to their little empires even if they stand in the way of the opposition's path to an election victory.

It is important to keep in mind that whatever success the opposition has had in the past years, starting with the street demonstrations in 2018 over the municipal elections in 2019, making the government back off the Fudan project before the election, and then the successful primaries – which put the opposition ahead of Fidesz in the polls for

the first time and genuinely raised fears in the governing party that they could lose the election – came when voters genuinely perceived the opposition as united. Only such a unity coupled with a powerful set of messages can hope to rival a governing side that exemplifies these qualities.

A lack of leadership

This brings us to the last key points that the opposition is lacking: leadership and resources. The public disintegration of Péter Márki-Zay as a potential leader and the personnel changes in the leaderships of the opposition parties since the election show that talented leaders are in short supply.

To some extent, this is a logical consequence of Fidesz's policies, which exposes the opposition's leaders to relentless propaganda attacks and character assassination that often affects their personal lives, too. Under such circumstances, how many talented people can be expected to focus their lives on a project that seems as hopeless as the opposition in Hungary? Emigration, be it to other countries or internal emigration, or a focus on non-political endeavours seem like reasonable responses to a system that is increasingly authoritarian and repressive. However, what makes sense at a personal level creates a major conundrum for the opposition overall: unless it produces some vibrant and charismatic leaders who will lead the movement in the years to come, no amount of socially appealing messages and no degree of unity can propel the opposition out of its current paralysis.

A crisis of activism and the lack of resources

Progressive politics in Hungary also suffers from a lack of resources and activism, and especially the geographical distribution of the latter. The problem is especially poignant in the rural areas where the opposition desperately needs to make inroads. In the rural areas, Fidesz's media dominance is even more overwhelming than in urban areas, and its control of resources – including the vast majority of

rural municipal governments that act as partisan players – allows it to energise activists in the rural areas to an extent with which urban-centred progressives cannot hope to compete. While the municipal election of 2019 showed that progressives still can mobilise activists and voters in reasonably large numbers in cities, in marginal rural constituencies that play an outsize role in elections, their reach is far more limited. Establishing a solid rural activist base remains one of the most vital challenges for progressives. There is no easy solution to this problem, but it must be clear that the future success of progressive politics hinges to a large extent on remedying the underlying deficiency.

It is important to see that at the time when a potent opposition would be most needed to make clear where Orbán's policies have failed and what an alternative would look like, the Hungarian opposition appears least prepared to formulate and deliver such a message. As the deepest crisis in decades appears to be looming, Fidesz has the opposition exactly where it wants them: leaderless, dejected and without coherent messages or communication. People who might clamour for a viable alternative to the government in a few months will likely not find one, and this might steer some towards the more radical politics embodied by Our Homeland or into deeper apathy. Even as Fidesz's Potemkin economic and social policy façade threatens to collapse, thanks to the weakness of the opposition, the political machine behind the ruling party is better positioned than ever to weather the storm.

2.3 | Outlook on the Hungarian opposition in 2023

The 2022 election was without question the low point of the anti-Fidesz opposition. Many analysts, us included, agreed that this election was the first one where the opposition had a realistic chance at squeezing the ruling party. Even if an actual election victory seemed like a long shot, pulling roughly even in terms of the vote share and significantly cutting into Fidesz's parliamentary majority seemed realistic.

The devastating loss that followed instead means that the opposition – meaning both the political parties and the broader base – must reinvent itself. It must do so at a time when it is extremely divided, full of bitterness and disappointment, deprived of media and resources, and frankly unpopular even among many of those who despise Fidesz. At the moment, no one seems to know how the opposition could structure itself to seriously challenge the Orbán regime. There is neither an alliance nor a party or any single politician who seems even remotely capable of emerging as a real contender in the eyes of the majority.

This low point comes at a critical juncture because 2023 could also be the first year since 2011–2012 when the government has to contend with a major economic downturn and an uncomfortable high level of inflation. The latter could easily rise to a level exceeding 25 per cent or more in early 2023. As costs of living soar, the government is in a fiscal crunch and has trouble accessing EU funds.

Although Fidesz's massive populist propaganda, the fearmongering and incitement to hatred have been key elements in the governing party's enduring popularity, the most crucial reason for Viktor Orbán's public support has been the underlying satisfaction with continuously rising standards of living. That rug will likely be pulled out from under most Hungarians next year.

It would be up to a potent opposition now to effectively highlight the problems in the government's approach, but that opposition is absent. Even if the effort starts tomorrow, building it will take a while, and Fidesz hopes that by the time an effective opposition could potentially take shape, it will have ridden out the current crisis. Strategically, that is not an unrealistic expectation – nor is there much of an alternative because Fidesz does not have control over most of the factors that determine the looming crisis.

At the same time, some political adjustments would go a long way towards stabilising Hungary in the long run, including major efforts to restore rule-of-law guarantees and curb corruption, neither of which Fidesz really wants. Unfortunately for the opposition, from a political PR perspective these are not winning issues. At the same time, pointing to the economic hardships that the government's policies have contributed to and will continue to exacerbate could be a compelling issue if wielded by an opposition that can seize the moment.

Even in a best-case scenario for the Hungarian opposition, 2023 will definitely not be the endpoint of the process when such an opposition emerges. In the best-case scenario, next year could be the starting point in such a process, with the opposition regaining some footing and laying the ground for a reasonably successful electoral performance in the two major elections of 2024, the EP election and the municipal elections held across Hungary. At the same time, at this point there is not much of a reason to believe that 2023 will be that year. After all, the opposition has had a dozen years to adapt to Fidesz and somehow learn to challenge it, but it has thus far consistently failed.

And the hurdles remain high. The biggest hurdles are external, namely Fidesz's control over the media and its lack of scruples when it comes

to abusing executive and legislative powers. But for the opposition, the first step is nevertheless overcoming the internal hurdles, its cacophony, the lack of a presence in rural Hungary, the absence of coherent communication on the issues that Hungarian voters are most concerned about, and the dearth of persons or parties with a broad appeal in society. A successful opposition can only be one that begins to gently or not so gently disqualify some of the political players who are but a drag on its popularity. Unless 2023 is the year when this process actually begins, the coming year will all be about hopes deferred once again.

3

Hungary's place in the world in 2022

3.1 | Relations between the Hungarian government and the EU reach another nadir

A gruelling year

It was clear already early in the year that 2022 might be even more challenging with respect to the relations between Orbán and the EU than previous years because the Hungarian leader's close ties with the Russian president Vladimir Putin have irked both the European Commission and many EU member state governments for some time now. However, with Russia amassing troops at the Ukrainian border and threatening an invasion of its neighbour, this problem took on a whole new dimension. As alarm bells were ringing out across the EU and NATO that despite the seeming irrationality of such a move, Russia might really attack Ukraine, Viktor Orbán travelled for one of his recurring visits to Moscow. Although he tried to frame it as a "peace mission", the widespread perception was that it was a regular fealty visit, which was especially symbolic at a time when Putin was gearing up to trigger a massive escalation of tensions with the West.

Things have gotten only worse since then. The Hungarian Prime Minister has clearly separated himself from the EU's line towards the conflict. Even as the European Union decided that it needed to take unprecedentedly bold steps in countering Putin's aggression and has proposed a series of harsh sanctions against Russia, the Hungarian position was that it was best to keep out of the conflict and to continue business as usual with Russia on the economic front.

Distilling Orbán's position to its essence, he made clear that given Europe's dependence on Russian energy, the economic sanctions against the Putin regime would hurt the EU a lot more than Russia.

He also candidly admitted that the Hungarian economy in particular would be ruined without Russian energy imports, and he said he could not go along with sanctions that would have such a devastating impact on Hungary.

From the start, an uncomfortable duality defined the Hungarian government's position towards the Russian invasion of Ukraine. On the one hand, the government listlessly condemned the Russian attack in official statements and grudgingly voted for a series of sanctions in the European Council. At the same time, the vast pro-government propaganda empire was much more sympathetic to the Russian view than the mainstream media in other EU countries, often pushing the notion that Ukraine and the West had provoked Putin into attacking. And although the Hungarian government eventually voted for the sanctions in the Council, this often involved heavy arm-twisting and several major concessions by other EU members to get Orbán to drop his veto threats.

Orbán's war on sanctions

One memorable moment was when Orbán threatened to veto the sixth sanctions package after it had already been agreed upon in the Council because by placing the warmongering and corrupt Russian-Orthodox Patriarch Kirill on the sanctions list, the EU was allegedly violating religious freedom. The official version of the veto threat said that the Hungarian government could not support this. Once the EU grudgingly removed Kirill from the sanctions list, Orbán approved the sanctions, as he did with five packages previously and a further two subsequently.

In the meantime, in its media empire the government went all out in condemning the sanctions it had voted for in the European Council, relentlessly agitating against them and even plastering the entire country with posters depicting the sanctions as an EU-driven bomb that was about to fall on Hungary. In the fall, the government also launched another so-called national consultation. National consultations are an excuse for the government to mail brochures that present Fidesz's partisan views in a manipulative fashion to millions of households in Hungary. The most recent case has aimed to show that Hungarians oppose the sanctions.

Even friends turn away

Importantly, this attitude has put the Hungarian government at odds not only with its traditional critics in the EU but also with many of its recent allies, especially in Central Eastern Europe, where several governments had previously sympathised with its revolt against Western "arrogance" and what is perceived as an attempt to interfere with the popular values in the region.

While on immigration, gender issues, the rule of law debates and some other issues that divide the EU, Orbán generally found some allies in the European Council, on Ukraine he has found himself completely alone thus far. In fact, due to their historical experience with Russian expansionism and ongoing fears about the strategic implications of the current conflict, several countries in the region – especially Poland and the Baltics – are among the most decisive supporters of a robust European reaction to the war, including the shipping of arms to Ukraine, which the Hungarian government rejects outright. Although everyone knew that the Hungarian PM nurtured close ties with Putin, the Hungarian reaction to an act of aggression, the insistence that it was not the EU's business to help Ukraine, has left several of Orbán's erstwhile allies bewildered and disappointed. They had expected that Orbán would adjust his position in such a seemingly obvious situation. After all, Hungary was not nearly alone in its heavy dependence on Russian energy, this was a problem for most countries in the region.

For years, Orbán had worked on building up the Visegrad Four cooperation as a new power centre within the EU, hoping that the four countries could act as a bloc in Council meetings, thereby increasing Hungary's leverage when it comes to the traditional conflicts with the European Commission and the Western European member states, namely immigration, the rule of law, corruption and gender issues.

For the time being, the V4 cooperation has collapsed, or rather it has turned into a V3, as the other three member countries have repeatedly cancelled meetings because they did not want to sit down together with representatives of the Hungarian government in light of the latter's position on the Ukraine crisis. Much of the successful diplomatic work of the past years, which had achieved significant gains in securing outside support for the Orbán government within the European Union, has now been sacrificed so that the Hungarian PM can maintain his equivocal stance on Ukraine.

No longer idle, the Commission is putting pressure on the Hungarian government

In parallel with the division over Ukraine, the conflict between the Orbán government and the European Commission over the rule-of-law conditionality mechanism has also escalated. The Commission had delayed a decision about triggering the rule-of-law mechanism for months – probably also to avoid inserting the issue into the Hungarian election campaign. Finally, a few days after Viktor Orbán's re-election on 3 April and his triumphant proclamation that "we won a victory so big that you can see it from the moon, and you can certainly see it from Brussels," the Commission announced that it would launch the procedure which might result in Hungary losing a large tranche of the EU subsidies it is slated to receive during the 2021-2027 budget cycle.

This clearly ran counter to Orbán's expectations since the government had spent massively on lavish electoral gifts to bolster its re-election bid, and it did so despite warning signs that this would put a major strain on the budget. The massive spending in the run-up to the election proved to be a sound investment politically. Still,

the government clearly anticipated that EU funds would help to close the huge gap it had created between the expenditure and revenue ledgers of the budget. Without the EU funds, Hungary is in the throes of a fiscal crisis, exacerbated by the growing price of many popular government subsidies to the public.

Strategic ambivalence

The need for EU funding led to the most serious contortions in the Hungarian government's ambivalent policy towards the EU to date. The government continued its relentless attacks on the EU even as it struck a conciliatory tone on the most pivotal issue underlying the conditionality mechanism, namely corruption. Orbán brought back former European Commissioner Tibor Navracsics, who was selected to coordinate the negotiations on the government's side as the designated pro-EU face of Fidesz. At the same time, even some of the government's fiercest anti-EU propagandists, such as Justice Minister Judit Varga, struck an accommodating tone.

The government started working on a package of reforms to comply with the EU's demands for more transparency and less corruption in the spending of EU funds. Furthermore, in a conciliatory gesture, its public communication about this largely avoided the usual recriminations about the EU's demands being unfair, driven by George Soros, etc. Rather than arguing that the EU was being unreasonable or politically motivated, the Fidesz line regarding the reforms requested for unfreezing Hungary's EU funds was that they were perfectly in line with the government's policies anyway. A package containing a set of bills was drafted and rammed through parliament relatively quickly already in September, and at the time, Navracsics and other government spokespersons were optimistic that this would conclude the open issues with the European Commission.

Not enough

However, this was less obvious on the other side, with the European Commission taking its time to digest the new Hungarian laws and

the European Parliament and the German and Dutch legislatures adopting resolutions that called on the Commission to withhold 7.5bn euros in funding. After over a decade of experience with the Orbán government, many western partners have finally realised that even formally compliant regulations can be hollowed out in practice – what will matter in the end are not the laws on the book but the actual practice of how EU funds are used and whether judicial independence will be further undermined.

What complicates the matter is that with the debates over Ukraine and the concomitant sanctions running in parallel with the problem of the conditionality mechanism, it has become impossible to separate these issues. The Hungarian government has also done its share to ensure that these issues are linked as much as possible. Although the Hungarian government denies that the delay in the ratification of the NATO membership of Sweden and Finland has anything to do with the controversy over EU funds, it is also widely seen as part of the Hungarian government's push for access to EU funds.

The Commission finally approved the Hungarian government's post-covid Recovery and Resilience Plan, thus opening up the possibility that the 5.8bn euros from that particular pot may be paid out while making actual payments contingent on the verification of the milestones set out in the plan. Furthermore, after some speculation that it might ultimately acquiesce to the Hungarian proposals to remedy the rule of law problems, the Commission recommended that the European Council continue to withhold roughly two-thirds of the money that Hungary is slated to receive from three major Operational Programmes, the 7.5bn euros mentioned above.

This led to an all-out escalation by Orbán. At the Council meeting where the ministers of finance were expected to vote on the Commission's proposal, the Hungarian representative, Minister of Finance Mihály Varga, vetoed the planned EU loan for Ukraine, making clear that the Fidesz government was willing to block essential EU goals if Orbán does not get his way.



A problem delayed

Ultimately, in the game of chicken that followed, the Hungarian government ended up relenting. It gave up its two major vetoes, those against the assistance for Ukraine and the introduction in the EU of the global minimum tax on large corporations. In return, the European Council agreed to lower the volume of suspended funds from 7.5bn euros to 6.3bn euros. Also, as previously announced, the Hungarian Covid recovery package worth 5.8bn euros was greenlit, albeit actual pay-outs will be contingent on Hungary meeting the Commission's milestones as previously pledged. The role of the Czech Presidency of the Council of the European Union in reaching a compromise in December 2022 must be highlighted.

The Orbán government and its media echo chamber celebrated this as the anticipated breakthrough and a success of Orbán's hardline negotiation tactics: after all, Hungary was now slated to receive 1.2bn euros more – an enormous amount by Hungarian standards that would itself suffice to fund a higher teacher's pay for years – and money could start flowing in as early as next year. Or not, that remains to be seen.

In the EU, too, many saw it as a major victory since in their perception Orbán had dropped two key vetoes in return for ultimately marginal concessions. Many in the EU also see it as a significant step forward, as the EU has indeed upheld key principles such as the independence of the judiciary and the fight against corruption. Although the funding remains accessible to Hungary, its actual disbursement will be contingent on satisfying the strict guidelines designated by the Commission. Critics of the Orbán government also perceived it as a point when Orbán simply caved despite his previous bluster.

But the long-term game is still open-ended

In reality, the problem has been deferred to next year, as seemed most likely in the first place. The Hungarian government is still trying to figure out how little in terms of actual concessions it can get away with

to draw the funding it needs. At the same time, the EU still faces the problem of how far it wants to go in escalating tensions with Orbán – which a massive final withholding of funds would trigger – at the risk of him using his vetoes to continuously obstruct the EU's operations.

The EU wants to remedy several parallel problems with the Orbán government. These problems can be divided into two broad categories. One category is Orbán's domestic policies, specifically corruption and the abuses of democracy and the rule of law. The other broad category involves Orbán's repeated blockages of EU policies, at this point especially the common policy line on Ukraine. The two are formally not connected, and theoretically funds can only be withheld with reference to the former. Both parties claim that they treat these issues separately and accuse the respective other of conflating them.

As in any bad marriage, who is right or wrong is of limited importance. What matters is that the problem is not only political, it is structural. The EU has been remarkably resilient over the past decades in handling difficult political players, but its structure was not designed to manage the kind of systemic challenge that the Orbán regime constitutes.

To put it bluntly, there is no real solution to the EU's Orbán problem in the current constitutional setting. Especially since the Hungarian PM does not really have an EU problem; he only needs money, not a solution. For Orbán, the EU is the gift that keeps on giving, even – or maybe especially – when there's tension: it's a source of money and investments; it offers a huge internal market; it serves as a political foil for his propaganda machine; a point of attraction for his authoritarian partners who like to have their own tool in the EU; and, through the free movement, it's also a pressure valve to release those who are discontent for whatever reasons, as hundreds of thousands of Hungarians have departed Hungary under Orbán during a time when Fidesz was allegedly overseeing an economic miracle.

Striking deals with Orbán to make inches of progress while watching him consolidate power in Hungary is increasingly troubling the

European Union. But if they have any long-term solution other than the tedious bargains that end up enriching Orbán and his clique and further entrenching his power, they have yet to reveal it. The current deal may seem like a victory for the EU in terms of delaying the payment of EU funds without guaranteeing it will happen. But while Orbán can make tactical concessions that will ultimately get him the funds, that will not solve the EU's problem that any solution with the Hungarian government is temporary.

3.2 | As global polarisation increases, Orbán places his bet – against the West

Concerning Putin's war of aggression against Ukraine, Orbán has spent months playing both sides. On the one hand, his government condemned the attack, with the newly elected president, Katalin Novák, using especially clear language. From a western perspective (including Hungary's erstwhile closest ally, the PiS government in Poland) Novák appears to have been selected to play the role of the good cop, the "western" face of Hungary. A symbolically important but substantially weightless figure, the role of moral condemnation was practically written for the newly elected President of the Republic.

At the same time, the vast government-controlled media empire presented the conflict from a whole other angle, with its coverage ranging from coolly neutral to supportive of Russia's allegedly desperate strategic position, which presumably left it with little choice but to attack Ukraine. Especially the experts invited to comment in the Fidesz-controlled media pushed the narrative of Russia as a victim of circumstances and as conducting a humane war as opposed to the disorganised and neo-Nazi dominated Ukrainians.

Strategic calm

Fidesz's own public position became that of "strategic calm" that is of Hungary being essentially neutral in this conflict, "disliking" the war but increasingly obfuscating the responsibility for its outbreak. Above all, Orbán argued, Hungary needed to avoid getting sucked into the conflict and paying a vast economic price for a problem that was not its own. This played well with an electorate that was deeply concerned about military confrontation with Russia and the economic crisis stemming from the war.

Over time, Viktor Orbán himself has become increasingly vocal about the role of the West in "triggering" the Russian reaction, with the emphasis that rather than penalising Russia (and itself, by extension), the West should push for peace.

Another strategic speech

The gradual shift over time culminated in Orbán's annual political vision speech in the Romanian town of Baile Tusnad (known as Tusnádfürdő in Hungarian), where Fidesz has hosted a major event for ethnic Hungarian youths in Romania for years now. This jamboree has been the place where some of Orbán's most notable strategic visions were first laid out, including the one on the idea of building an illiberal democracy.

He chose this venue once again to throw down the gauntlet and challenge the entire West not only over the Ukraine policy but comprehensively. What Orbán said was not new on the whole, but the timing was remarkable: at a time when many in the West genuinely perceive that their way of life is being threatened by Russia and the growing influence globally of authoritarian regimes, and when this threat has become more direct than at any point in a very long time due to the actual, hot warfare in Ukraine, Orbán predicted that the West was doomed to fail, a victim of its weakness and decadence. To add to the provocative edge, the Hungarian PM went further than ever in clashing with the most fundamental values of the EU in declaring that "we [Hungarians] are not a mixed race ... and we do not want to become a mixed race."

Although this was a calculated provocation that was designed to rile up liberals in Hungary and irk western sensitivities, the essence of

the speech was more serious. The Hungarian PM laid out a detailed geostrategic framework that was visibly informed by his readings of various experts. He explained that the West has lost its roots and was losing the relevant battles of the 21st century because of its lack of natural resources and its growing decline in industrial production. What remains, for the time being, is its superiority in weaponry and capital, but these would not be enough to thwart the momentum that fuels the rise of Asia and Russia, along with other areas that embrace the classical values of cultural and ethnic homogeneity that had once driven the rise of the West.

Old West vs. post-West

Orbán distinguished between what he referred to as the classical West, which used to be morally and economically dominant, and what he termed the post-West, a presumably weak and decadent culture mired in genderism and multiculturalism. The prime minister portrayed the European and US insistence on a humane refugee policy and liberal democracy as desperate attempts at cultural and political imperialism by a weak and declining power, and he argued that other – presumably illiberal – regimes (Hungary included) were justifiably wary of what he termed the “post-Western” efforts at foisting their moral values – especially on race mixing, i.e. immigration, and gender – on them because they wanted to survive with their own cultures and races intact. Regardless of whether one accepts Orbán’s debatable distinction between the classic and the post-West, the fact is that he is implicitly at least as concerned about the “post-West’s” insistence on democratic accountability, the rule of law and anti-corruption as about immigration and gender culture. This explains his insistence on conflating the EU and the US’ calls for safeguarding democracy with what he portrays as their allegedly “real” underlying goal, to undermine Hungary culturally and racially.

Orbán’s speech was not meant to mend fences at the time of sensitive talks with Brussels. It was instead a rallying call for Hungarians to be on the right (eastern and authoritarian) side of history and to line up behind him in what seems like an inevitable showdown with



mainstream western governments and supranational institutions over the coming decade. The standard question of whether this is truly ideological or merely a cover for operating the corruption machinery is practically meaningless. The Hungarian PM appears to genuinely believe these theories about the decline of the West, but concurrently he is firmly committed to building a regime that is buttressed by a Fidesz-sponsored oligarchy. The two visions are complementary, and though they currently are connected, each can stand on its own, too.'

Biding his time

The most vital component of Orbán's strategic approach to international politics now is time. He believes it works in his favour. Even if Russia's war on Ukraine has left his government in a level of isolation within the EU not seen since the invasion of Crimea by Putin in 2014, in democratic countries elections still matter and they can lead to significant shifts. All of Orbán's opponents are either democratically elected bodies or institutions dependent on elected bodies, so while he is increasingly insulated from democratic accountability, his opponents are not. Orbán's calculation is that either the war will recede, which would reduce pressure on him to disassociate himself from Putin, or sooner or later some of the western governments will be toppled by the voters and replaced by Putin-friendly formations, especially if Russian fossil fuel imports hit EU countries hard.

As the speech in Tusnádfürdő suggested, and as was reinforced by his visit to address the CPAC conference in Texas, Orbán is not only interested in temporary relief, he has set his sights higher. Laying all his cards on the table, Orbán is betting big on either Donald Trump being re-elected in 2024 or at least a Fidesz-friendly Republican administration taking over. While the 2024 race is still open, this calculation, too, is not wholly unrealistic.

A recession-proof majority

A populist surge in Europe as a result of the looming recession, coupled with a GOP administration that is friendly towards the

Hungarian government, would essentially neutralise the pressure that the Fidesz government is under in Europe right now. While this is not a certain scenario, Orbán is gambling that it will materialise. And here is the other key source of his confidence: influential as the EU funding and other economic benefits may be, and vital as the US-led strategic alliance may seem, the backbone of the Fidesz regime and the key source of its endurance is Orbán's massive public support within Hungary.

Orbán has made clear repeatedly that the Hungarian public is his sole focus, he does not aim to please foreigners. Bracketing the issue of corruption as a central feature of his regime, in terms of the audiences whose support he courts Orbán is definitely aware that at this stage of regime-building the solid support of a majority of Hungarian society is far more important than the view of any foreign country or alliance, no matter how powerful they may be on the global stage.

Is the China issue next?

Just as Orbán had ignored for years the possibility that his closeness to Putin may lead to a situation that could undermine his alliance not only with the "post-West" but also with his regional allies who are otherwise more sympathetic to many of his policies, especially Poland, his general strategy of East before West now glosses over the fact that there is another potential for a conflict over China.

Orbán is clearly bent on deepening ties with the People's Republic, and while those are not yet as close as his personal ties to the Russian leader, Orbán will most likely push further on this front, no matter the discomfort that this could cause in the West. If tensions in the Far East increase, however, that would not only put him at odds with the European Commission, leading Western European governments, and the Democratic administration in the US, but would also open up a rift between him and a potential Republican administration in the US.

Orbán's hope for a shift in the West towards him is based on his intense ties to the far-right in the US, as evidenced by his appearance

at the ultra-conservative CPAC conference in Dallas in August, where he went through all the talking points that American conservatives love to hear. He also talked in detail about the war in Ukraine, noting that a GOP-led US would be necessary to broker a peace deal (i.e., to pressure Ukraine into making territorial concessions). What was conspicuously absent from the speech was his often-repeated reverence for China and Asian values, however, or his musings about Hungary as a "half-Asian country". That would have been received with significantly less enthusiasm because the Republican Party, too, has recognised China as the West's main strategic rival. And while the conflict with Russia may be considered an irrelevant sideshow by the influential Donald Trump and TV host Tucker Carlson axis of the Republican Party, that does not hold for China. And if anything else must be clear to Orbán's allies anywhere in the West, including Trump and his supporters in the GOP, if push comes to shove, Orbán will always side with China, Russia or other non-western authoritarian regimes over his western allies.

The Hungarian PM is visionary enough to focus not only on the next one or two years in his strategic outlook, which will likely be dominated by the conflict with Russia, but also on the extended trajectory until 2030 and beyond, on the presumption of a declining West. Many western conservatives may identify with the reactionary, anti-immigration, anti-LGBTQ agenda of this vision. But there are probably few who would agree that they should subordinate their own nation or region's strategic interests and become vassals of China in exchange for personal financial or even national economic benefits. Orbán's vision clearly sees Hungary as a country that must adapt to a world order in which China (supported by a few major authoritarian regimes across the globe) will lead, and Hungary will follow. The message is clear, and those who ignore it ignore the Hungarian PM's consistent history of turning away from the West.

3.3 | Outlook on Hungary's place in the world 2023

The Orbán government's foreign policy has been fairly consistent over many years now in its trajectory of growing estrangement from the West because of an intensifying ideological and strategic partnership with authoritarian regimes across the globe. The Hungarian prime minister has repeatedly said that the world's future lies in the East, whereas the liberal and decadent West is in decline. Hungary, argues Orbán, must be on the winning side.

The success of this policy has been less consistent, however. Initially, along with reservations about its domestic policies, his international politics led to Hungary's isolation within the EU. For a while, that isolation eased over time as Orbán developed partnerships with similarly-minded governments in the region. It is also worth pointing out that the Hungarian Prime Minister is also building on the cultural divisions in Western societies. His anti-immigration, anti-gender and "culture warrior" rhetoric has tried to build strong coalitions with the new right in Europe. The success of building an Eastern European alliance against the allegedly overbearing West came to a screeching halt with the Russian invasion of Ukraine. Before the Ukraine crisis, a growing rift was emerging between new Eastern European member states and the old Western European member states. Much of the emerging schism that increasingly troubled the EU's central bodies was rooted in different political cultures. Eastern European societies develop differently than expected, their political convergence towards the European mainstream is a mixed process at best.

The divide between East and West that Viktor Orbán recognised and exploited still exists. But for the time being, Putin's war on Ukraine has successfully plastered over it. While the Hungarian PM has positioned himself as the staunchest opponent of a harsh EU reaction to the invasion, most countries in the region – including several governments that viewed Orbán as an ally before the war

– have emerged as the most outspoken proponents of a tough line against Russia.

This leaves Orbán back at square one for now, with no relevant allies left within the region – and none at all before the election of the new Italian government this fall. The Hungarian PM believes that the long-term trends still favour him. Just as he had successfully waited out the first wave of isolation, he seems determined to wait out the current one, too, without a fundamental reorientation of his foreign policy.

He expects that the Biden administration in the US will fall and be replaced by a Republican administration which will be considerably friendlier to his government. At the same time, he hopes that the Ukraine crisis will either end or that the economic havoc it wreaks will bring down several European governments which are opposed to him, while these trends may strengthen nationalist right-wing forces he can relate to quite well. If that ends up happening, he can continue to pursue his policies without significant compromises.

And that may all happen in the long run, but 2023 nevertheless could still shape up to be a tough year for Orbán's foreign policy. He needs EU funds, and at the moment, it does not look like he can make that happen without genuine concessions as the frontlines between his government and the European Commission have hardened.

Nor is the picture much better for him with respect to the United States. Whatever happens to the Democratic administration in the long run, a potential new Republican administration will not enter office before January 2025. This means that even in a best-case scenario for Orbán, there is still a long way to go before friendly winds blow again from Washington. Moreover, Orbán's cosiness with the Republicans has also depended on glossing over the fact that while

his stance on Russia and his authoritarianism puts him at odds with the Democratic administrations in the US, his determination to act as China's advocate in Europe could also undermine a long-term alliance with the Republicans in the United States.

Still, in the end, Viktor Orbán's core belief is that liberal democracy is weak and whatever foreign policy winds blow, they will not sink his ship which is always focused on consolidating power domestically. The fall of Trump in 2020 and of Bolsonaro in 2022 may be interpreted as a warning to Orbán that populist politics has its limits. But it is more likely a reminder that competitive elections make for a superfluous gambit when one has the instruments to ensure that an election is not competitive. For every Trump, Bolsonaro, Jansa or Babis, there is an Erdogan, Maduro, Putin or Xi, leaders who persevere because they are not subject to the limitations of democracy.

Any notion that Viktor Orbán's foreign policy isolation can hurt his political standing is rooted in the belief that international critics can undermine his regime domestically. However, there is very little evidence of that happening anywhere in non-competitive regimes. Thus, even if financial considerations may compel Orbán to make concessions in his foreign policy, there is no reason to believe that he will either fundamentally readjust his foreign policies or fundamentally change his domestic policies in response to international pressure.

Some tactical withdrawals notwithstanding, Viktor Orbán has been consistent in his approach, and if he can weather the isolation he is experiencing right now, he will see his policy as vindicated once again. That is of course precisely why the European Union and NATO will be especially keen on reining him in, but it seems unlikely that they have any potent instruments to do so in the long run.

4

Hungary's economy in 2022

4.1 | Overview of the Hungarian economy

Post-pandemic and wartime economy

While 2021 was about the effects of the COVID-19 pandemic, in 2022, the Russia-Ukraine war quickly rose to the top of every European government's agenda. Due to its proximity to Ukraine and heavy reliance on Russian energy resources, Hungary has been particularly hard hit by the conflict: it diminished the country's medium-term growth prospects while also increasing its risk premia. In the economic projection of the European Commission before the war broke out, a 5.4% annual growth rate was forecast for 2022 off the back of a dynamic 7.1% expansion in 2021. A year later, in its latest forecast, the Commission still projects a 5.5% growth rate despite the outbreak of the conflict. In 2023, however, the economy's expansion will slow down drastically to a mere 0.1%.

The success in the country's main economic indicator for 2021 and 2022 was mainly down to the government's "election budget" it introduced in 2021 before the 2022 spring general elections. To please the electorate, the government – amongst others – returned the total income tax people with children paid in 2021, reintroduced the 13th-month pension, and introduced several one-time transfers for civil servants. That is why the budget deficit as a percentage of GDP ended up being one of the highest in Europe at -7.1%. 2022 is unlikely to see a major turnaround from this perspective as, this time, the government's energy-related spending is putting significant pressure on the budget; hence the Commission's forecast of -6.2% for the public budget balance.

In addition to government spending, positive unemployment data and the uptick in remittances are the three main contributing factors

Table 2. Key indicators of the Hungarian economy (annual percent change 2021-2024)

Indicators	2021	2022	2023	2024
GDP growth (%)	7.1	5.5	0.1	2.6
Gross fixed capital formation	5.2	5.0	-1.6	1.2
Private Consumption	4.6	7.2	-1.5	2.6
Export	10.3	6.5	3.5	4.8
Import	9.1	7.4	2.0	3.9
Inflation (%)	5.2	14.8	15.7	3.9
Unemployment (%)	4.1	3.6	4.2	4.2
Public budget balance (% of GDP)	-7.1	-6.2	-4.4	-5.2
Gross public debt (% of GDP)	76.8	76.4	75.2	75.1

Source: European Commission 2022 Autumn Forecast

to Hungary's above-average growth projections. Domestic demand's contribution is likely to remain high after last year's 4.6%, around 7% in 2022, due to the government's artificially induced, one-time extra income to a large chunk of the population. Meanwhile, with elevated gas prices, the value of imports will outweigh exports, thereby causing economic stagnation (growth of 0.1%).

The most significant factor constraining domestic consumption is inflation, by which Hungary is particularly hard hit even in European comparison. The country still relies heavily on fossil and nuclear fuels for its energy needs which it satisfies almost exclusively from Russian sources. The sudden and significant increase in the price of especially natural gas due to the sharp decline in Russian supply to Europe after February led to a record increase in consumer prices by the third quarter.

Worrying trends already in 2021

For the entire year of 2021, the annual inflation rate in Hungary was 5.2%, the second highest in Europe. Its source was manifold, the most important one being the already increasing energy prices, deteriorating exchange rate and (often one-time) handouts (including income tax cuts and pension bonuses) to appease the electorate before the general elections a year after. Yet no other even made prices climb as high as the onset of the war in February 2022. The monthly inflation rate exceeded the previous year's average each month, reaching its latest record in November at 23.1% (the highest rate in the EU). According to an early forecast from the IMF from April 2022, Hungary was likely to experience one of the highest rates of inflation in the EU in 2022, with only Bulgaria and the Baltic states surpassing it. However, their 10.3% estimate may prove slightly too optimistic as even the country's national bank's latest estimate projects inflation up to 14.5% overall for the year, just below the Commission's 14.8% forecast.

Correspondingly, the business sphere also expects a dire future for the country's economy. The confidence index measuring their

level of optimism about the economy's performance has at first seen a progressive decline since the start of the war, then between September and October, it stumbled from an already pessimistic -1.1 to -10.1 points. Worse yet, consumer confidence was at a record low at -55.4. People felt they had better prospects even at the height of the Covid-19 pandemic in 2020. The impact of the Russia-Ukraine war is evident in the results. Only a few months earlier, in February, respondents to the underlying survey had all-time high confidence in their ability to save money which was gone by October.

Extreme dependence on Russian energy sources, but no indication of preferential prices

In 2022, European governments had to face a crisis that the continent has not experienced in several decades within its territory: a prolonged war between two of its nations. Russia attacked Ukraine, and to the former's significance in regional and global trade, the war has snowballed effect on all aspects of the economy, causing havoc far beyond the Ukrainian front lines. However, given Russia's trade profile, no other sector has been more severely impacted than energy.

On the one hand, before the war, Russia was the largest exporter of oil and the second-largest of crude oil in the world. The European countries represented almost half the product's target markets. Conversely, Western demand for Russia's natural gas was even more prominent. Close to two-thirds of Russian exports went primarily to EU countries (and Turkey), while the EU covered over 40% of its own consumption. Its share was not evenly balanced within the region, however. Eastern European nations absorbed most Russian gas exports (and Germany).

According to data from 2020, Hungary was the fourth most dependent on Russian oil in the world, with 44.6% of its overall consumption supplied by its eastern partner, while close to 90% of its natural gas consumption was based on Russian sources (although long term contracts cover only about 45% of it, the rest is bought through

futures and spot markets). The three most dominant sources of the country's total final energy consumption were oil at 37%, natural gas at 30%, and electricity at 17%. The latter is also heavily dependent on Russia since around half the country's power supply is produced by the Soviet-built Paks nuclear power plant that receives all its fuel from Moscow.

Upon Russia's invasion, the EU decided to wean itself from its Russian energy dependency and find alternative sources for its (fossil) energy needs. To achieve its target, member states began to strengthen their partnerships with alternative producers while the EU gradually imposed sanctions – in a gradual manner – on Russian oil imports (meanwhile raising no restrictions on natural gas). Russia retaliated by reducing its natural gas exports to the region by close to 75% of the previous year's average. This has caused a massive supply shock that raised the European natural gas benchmark price, the TTF, to an unprecedented high, reaching its peak in August 2022, when a megawatt-hour worth of natural gas cost EUR 339. A far cry from the EUR 27 a year before. By the end of the year, due to favorable weather conditions, better-than-expected storage levels, and cutbacks in consumption, the prices de-escalated but remained elevated, hovering around EUR 100.

Energy prices shot through the roof everywhere in Europe, and despite maintaining a strong relationship with Russia (even after it started its invasion), Hungary was no exception. Despite Russian claims, it was soon evident that Hungary was not receiving natural gas at the fifth of its market price. Independent analysis by the Hungarian Statistical Office (HSO) showed Hungary pays the TTF price exactly but with a 2-month lag.

The new normal in energy prices has been the source of a severe headache for the government, given that residential energy prices have been at the forefront of their policy priorities. Since 2013, the government has maintained a system where residential electricity and natural gas prices have been fully government-mandated instead of market-based, set at a relatively low unit price for both (€0.08/kWh

and €0.25/m³, respectively, in current prices). There is no regard in the system for income or social status, nor is there indexation to events like inflation or other economic indicators. Therefore, residential utility prices have not changed for almost 9 years. Hungarian households have enjoyed some of the lowest prices on energy consumption in Europe. As a result, by April 2022, they paid 60% less for electricity than the EU average and 75% less for natural gas.

Naturally, a system where the price is capped below equilibrium cannot be maintained in the long run without a financier. The state had to step in and subsidize Hungary's primary energy producer and provider (MVM Group) with hefty sums. According to estimates, even before the war began, the whole 'rezsicsökkentés' program cost close to HUF 450 billion (~EUR 1.1 billion) for the year. For 2022 it is estimated – by government officials – to more than double that, reaching a staggering HUF 1 trillion (~EUR 2.5 billion).

Strong inflation

When the war began, the government showed some confusion about its stance and the way to communicate after several years of anti-EU rhetoric mixed with a more subtle pro-Russia, pro-Putin discourse. However, by the summer, it sobered up and returned to old habits by blaming "Brussels' sanctions" for the record consumer price hikes in Hungary. Sanctions that itself had voted in favor of. There has been, however, no evidence that EU sanctions would have contributed to the sharp rise in energy prices and, with that, to inflation, especially given that they do not include the most crucial source of energy: natural gas. Moreover, a country like Serbia, outside of the EU and maintaining robust ties to Russia, has also seen double-digit inflation rates. Plus, well before the war began, inflation was already a pressing concern in Hungary. The Hungarian domestic industrial sector had raised its prices by 40%, while the cost of foodstuffs was also trending upward in 2021, reaching a 10.1% growth in January 2022.

Thus, it seems the war only fueled, and not started, the upward spiral. Between September 2021 and 2022, the price of essential

food items rose by astronomical heights. Bread's price increased by 76.2%, cheese by 68%, butter by 66.3%, pasta by 60.2 and eggs by 53.7%. This was partly caused and partly exacerbated by a drought in the first half of 2022. The first 7 months of the year were the driest since 1901. Only a third of the yearly average rainfall fell until August. According to the national bank, the phenomenon was so severe that it even trimmed the country's expected growth rate for the year by around 0.6-0.8%. Nevertheless, the unprecedented drought was experienced across Europe, yet nowhere in the EU did food prices increase as much as in Hungary in 2022. The second highest rate was 12 percentage points lower than Hungary's average 45.2% rise.

It is by no means a surprise that the Orban government would want to find alternative sources to blame for the surges in prices. An increase in consumer prices in the magnitude of 2022 is directly felt by the general population. Based on the data from the HSO, by September 2022, real wages decreased by 9%. Even with their likely increase in January 2023, they are projected to remain below inflation by about 3-4% next year. Consequently, real wages will decline in value in 2022. This will, of course, further dampen domestic demand.

Record inflation, however, did have an upside to it from the government's perspective: additional income for the state. According to independent analysis, in the first 6 months alone, the government collected an extra 800 billion HUF in VAT income. This was well beyond what was initially planned. VAT income, with its European record high rate of 27%, is one of the state's most significant domestic income sources.

Investors lose confidence in the Forint

The Hungarian currency lost its value against the goods domestically in 2022 and abroad. Investors lost confidence in the country's economy due to its heavy reliance on Russian energy and the ever-increasing cost of the unsustainable residential energy subsidy program ('*rezsicsökkentés*'). Meanwhile, the issue was exacerbated by the fact that due to disputes about the systematic misuse of EU-provided financing, the Hungarian government has been unable to

access neither the recovery (RRF) nor the new round of cohesion funds. A combination of these factors led to a drop in the Hungarian Forint's exchange rate against major currencies. In fact, it is most likely that the sharp decline fed directly into inflation through higher prices for imports.

One euro before the war was worth slightly less than HUF 360, then immediately a week after the onset of the war in the first week of March, it rose to HUF 393, and by October 13, it – so far – plateaued at HUF 430. By November, the forint was able to regain some of its strength due to a couple of biting measures by the Hungarian National Bank (HNB); however, it still lost around 13-15% of its value (and faltered even worse against the dollar) in less than a year. The Hungarian currency's struggles are even more transparent against the regional currencies. While most other non-euro-based EU currencies lost their value against the dominant international currencies, no other has fared as poorly as the Hungarian forint. In the first days of January, 1 euro was worth 24.8 Czech koruna, 4.6 Polish zlotys, 4.9 Romanian lei, and 7.5 Croatian kunas. By November 1, their respective exchange rates were: 24.4 Czech koruna, 4.7 Polish zlotys, 4.9 Romanian lei, and 7.5 Croatian kunas. In other words, while the other regional currencies were able to regain their pre-war strengths, the Hungarian depreciated even against them.

It is, therefore, no accident that despite its past troubles and constant government propaganda against it, most Hungarians (69%) favor introducing the euro – the second highest popularity rate for the currency among the non-euro member states after Romania (75%).

27 super milestones to reach EU funds

Since Viktor Orbán rose to power in 2010, the role of foreign investment in Hungary's economic dynamism has declined, while EU transfers became more prominent. European subsidies represent a significant part of the country's Gross National Income, hovering around 4-5% until the end of 2021.

For years NGOs, civil society, and politicians across Europe called on the Commission to stop "financing" the Hungarian government if it systematically breaks down the pillars of democracy while misappropriating the funds to benefit its cronies. Finally, in 2022, the Commission changed its approach and decided to attach institutional requirements for member states to access the funds. This spelled trouble for the Hungarian government because the Commission could withhold money from member states unless it found them fit to receive them. The government was forced into negotiations, and after spending the better part of 2022 with it, it finally put together a list of 17 measures by September that aimed to weed out corruption. The Commission later added a further 10 requirements and requested the government to implement them until March 2023 to access the funds. This concerns the total amount of the Recovery Fund and 55% of three operational programmes of the seven-year EU budget.

Among the 27 requirements, the most prominent ones are:

- The setting up of an Integrity Authority: the authority would play a supervisory role in the distribution of the EU funds; its main objective would be to prevent conflicts of interest, corruption, and fraud
- An anti-corruption work group, which would be assembled from government and non-government members and provide a report every year on the state of corruption in the country
- Assembling an anti-corruption strategy and action plan
- The right for judicial review of the prosecutor's decisions regarding corruption cases. The accusing party can request a judge to reevaluate the prosecutor's decision should it close a case with no material finding. The judge can not only reopen the case but also initiate an investigation separately from the prosecutor
- Reduce single bid public procurements' share to under 15%

- Strengthening the licenses of OLAF by deepening the cooperation with the local tax authorities.

- Reform of the courts and guarantees for their independence

By looking at the list, it is evident that the Commission is not planning to fundamentally alter the system that the Orban government has created since 2010. Among the requirements, not one is about aspects that could be associated with political power. Nothing about reforming the electoral system, ensuring the independence of the public media channels, etc. The requirements are primarily economic. The EU's lack of consideration for the country's democratic state is not due to insufficient evidence of its dismantlement but to the absence of willingness by the European elite. The reason is simple, Hungary has a pro-(big)business tax and labor environment that favors Western investors. This was most recently reaffirmed by the Switzerland-based IMD competitiveness index, where Hungary was fourth in the world for the *international investment* indicator.

The EU funds help finance public investment to a relatively large extent, allowing the government to reduce taxes while subsidizing investors from its domestic revenues. As a part of this strategy, corporate income tax was reduced to a flat 9%, the lowest rate anywhere in Europe. Even so, the effective corporate tax paid by the 30 largest – primarily foreign – companies in Hungary on their income was even less, a mere 3.6% in 2017. In 2022, the effective tax rate was around 5.7%. The primary beneficiaries of the ultralow tax environment during the 2010s were the German carmakers, while more recently, increasingly East Asian power battery producers.

Given that favorable tax rates for large corporations represent one of the most essential pillars of the Orban government's economic policy, it came as little surprise that it was not in favor of the US-proposed 15% minimum corporate income tax rate. Hungary was the only OECD country to veto the globally applicable tax in June 2022. Moreover, it was the only EU member state to do so. This effectively blocked its common introduction within the alliance and, with that,

the world. Since then, the Hungarian government lifted its veto as it received some concessions (it can add the local business tax to the corporate tax), but will still have to modify corporate taxation to ensure compatibility.

Based on the broad support Orbán has received from crucial international political and business allies, it is no surprise that the EU has done little to withhold funds from the country for more than 10 years despite severe violations of democratic principles. Whether the current measures are indeed a serious attempt by the European body to regulate the Orbán government is only likely to become evident after it implemented its promised measures. Nevertheless, even so, should the EU continue to fail to take a hard line against the Orbán government, it would be a blatant admission of financial interests' predominance over democratic values. The uncertainty surrounding the EU funds also represents a significant risk for economic recovery, as Hungary heavily depends on the continued availability of European resources.

The domestic front: workers' oppression, tax increases

The Orbán government's pro-business policy approach was evident in the international arena and domestically. In line with the ideology of the "workfare state," the government today penalizes 'idleness' to an unprecedented degree. Since Orbán took office in 2010, the retirement age had been gradually increased while early retirement was eliminated, and disability benefits were significantly cut back. The government also cut the duration of unemployment to three months, reduced social benefits, cut sick pay by half, and decreased the public works salary. Collective bargaining (though not extraordinarily strong before 2010) has also been undermined. After Orbán took control of the country, the government embarked on a massive trajectory of internal devaluation, depressing real wage growth until 2016.

During the 2017-2019 economic boom, the increasing labor shortage improved workers' bargaining positions, which led to significant wage



growth. However, this growth was nowhere near enough to make up for the lag accumulated during the previous six years. The minimum wage has doubled since 2010; its net value was 133,000 HUF (~330 EUR) in January 2022. Despite the seemingly extraordinary rise in absolute terms, relatively speaking, Hungary's minimum wage increase was not particularly outstanding. Between 2011 and 2022, the average annual rate of change was slightly over 5%, while in the other V4 countries' it was 6% or above, never mind Romania, where the rate reached 12%.

The Orbán government increased the minimum wage by a sizeable amount between 2021 and 2022. This led to a 19.4% rise in its value. Yet, even so, the Hungarian minimum wage at the beginning of 2022 was the third lowest in Europe after Bulgaria and Latvia. In 2023, the minimum wage will be increased by 16%.

2022 brought significant changes to at least one relatively large subsection of the workforce as the government decided to eliminate a micro-enterprise tax form known as KATA. Since its introduction in 2012, KATA has proved very popular as it allowed (micro)businesses to pay close to no taxes on their income up to 12 million HUF (~30 000 EUR) per year. However, the government had expected at best 100,000–200,000 largely self-employed people to use this form of taxation when it was introduced, yet by 2022 there were close to 500,000 people paying little taxes on at least part of their income. This represented close to 10% of the employed workforce.

The exact impact on the state's coffers is not known. Depending on which government official one asks, the associated revenue loss could range between HUF 50–300 billion (~EUR 123 million – ~ EUR 740 million). The system was unsustainable for the state and, in the long run, for the increasing number of KATA-based taxpayers, too, as the low taxes also meant extremely low pensions when the time was to come. Meanwhile, employees were often forced to become self-employed through KATA to reduce the company's wage bill, while in reality, they were full-time employees. According to the Budapest Chamber of Commerce and Industry, there were about 100,000–150,000 KATA taxpayers where such disguised employment took place.

4.2 | Social reality

The government budget was already showing signs of worsening balance before the pandemic. The structural deficit (-3.8% in 2019) significantly deviated from the Medium-Term Objective set by the European Council (at 1.5% of GDP). Consequently, Hungary has been under a Significant Deviation Procedure since June 2018. Overall, the Orbán government had followed a strictly conservative fiscal policy and maintained a low deficit, significantly reducing the debt-to-GDP ratio, decreasing from 72.9% in 2017 to 66.3% in 2019. However, the pandemic, then the elections, and finally the energy crisis in tandem with the Commission withholding the RRF and cohesion funds turned its fiscal track record on its head.

The government has been forced to give up on its achievements and increase spending to mitigate the dire consequences of the lockdowns and sudden fallback in the volume of international trade. It, therefore, put together an "economic protection plan". Measures included introducing a modest form of the Austrian Kurzarbeit (wage supplement for a few select businesses) and financial aid. The debt to GDP ratio rose to 79.6% by the end of 2020. In 2021, Hungary once again rode the global wave of economic recovery. Rising GDP led to a cut back in the country's debt to GDP ratio, reducing it to 76.8%. Nevertheless, further decreases are unlikely in the short term; thus, in 2022 and 2023, the debt is expected to remain stagnant at best.

Helping businesses cope with extremely high utility bills

In 2022, the government introduced three measures to help businesses cope with the extremely high utility bills. It placed an upper limit on the SMEs' interest rate that banks could impose on existing variable interest loans. It introduced a loan program for businesses with a fixed 5% interest rate (instead of the current market rate well

above 10%). Finally, it created a "factory rescue program" to benefit the manufacturing sector in a targeted manner. Part of the program is available for large producers (primarily foreign owned) and provides state guarantees for working capital loans, overdrafts, or loans to finance operations. In addition, medium and large producers can receive up to HUF 200 million (~EUR 490 000) to implement energy efficiency measures or to install renewable energy at their sites. The loans' interest rate is maximized at 5%, while the measure's budget is planned to be HUF 300 billion (~EUR 740 million). Small manufacturers will not be able to access these funds. However, the government introduced a relatively minor support program for them as well: for the last three months of 2022, it would pay half of that part of their utility costs exceeding the corresponding amount from the previous year.

These state support programs all increase the state's financing obligations; however, they are dwarfed compared to the additional financing needs of the residential energy subsidy program ('rezsicsökkentés') with its HUF 1000 billion (~EUR 2.46 billion) cost for 2022 alone. By the summer of 2022, the government realized that it would not be able to foot the bill of the program any longer and introduced several measures to balance its expenses.

Budget rebalancing with new taxes

In addition to abolishing the KATA tax scheme, the government either increased or created new so-called sectoral "extra" or "surplus" taxes. They are expected to bring in an additional HUF 815 billion (~EUR 2 billion) in 2022 and HUF 1.02 trillion (~EUR 2.5 billion) in 2023.

Table 3. New or reformed surplus taxes

Tax category	Details
Retail tax	Retailers must pay 80% of their sectoral surplus taxes in 2022, irrespective of when their tax obligation started. For 2023, retailers that, based on their tax base (over 500 million HUF, under 30 billion HUF), fall to the second lowest tax rate category, will see a 50% increase in their tax rate.
Energy surplus tax	A brand-new form of tax. It primarily affects MOL, the Hungarian automobile fuel provider giant, since that is the only energy providing company that has had surpluses due to margins between the much cheaper Russian sourced Ural type of oil it has used to supply fuel vis-à-vis the much higher valued (in price terms) Brent that serve as benchmark however for pricing at the gas stations.
Airline tax	Depending on the destination, the tax entails an extra sum the airline must pay per passenger. For most European destinations, it is around 3900 HUF; for the ones outside of the continent, it is 9750 HUF.
Pharmaceutical tax	Increase the tax rate from 20% to 24% for pharmaceutical products that cost 10 000 HUF.
Insurance surplus tax	The set of insurance products that are taxed was extended.
Mining royalty	Mining companies must extract at least the same amount from their mines in 2022 and 2023 as they did in 2021. If not, they must pay a penalty at the rate equivalent to the mining royalty.
Company car tax	Companies will have to pay close to double the tax rate they did until June 2022 after their company cars.
Telecommunications surcharge	Based on the company's tax base, the surplus tax ranges from 0% (under 1 billion HUF) to 7% (over 100 billion HUF).
Financial transaction tax	The maximum duty per transaction (e.g., transfers between residents) increases from 6000 to 10,000 HUF. Securities trading will also be charged when buying, not when selling.
Oil producers	Oil producers and sellers will have to pay a 25% tax based on the difference in Brent and Russian oil prices.
Banks	Based on their net income in the previous year, in 2022, they will have to pay a 10% surplus tax, and in 2023 8%.

Restructuring the residential energy subsidy scheme and its social consequences

Seeing the dire prospects of the Hungarian economy, the government was motivated to pull its possibly most controversial effort to balance its budget when it decided to reshape the residential energy subsidy program. Announced in the middle of July 2022, the government decided to provide the state-mandated prices for each household up to a predetermined average consumption level, beyond which they would have to pay state-mandated but elevated prices. For electricity, the price was doubled for every extra kw/h consumed, whereas, for natural gas, the multiplier was seven for each additional cubic meter. People had two weeks to prepare before the system took effect in August. Many were left disappointed since the ruling party, FIDESZ, had repeatedly promised during its electoral campaign only a few months earlier that it would not touch the residential energy subsidy program.

Moreover, what truly aggravated the situation was the general population's unpreparedness. For a decade, utility prices were low and remained unchanged, demotivating people from investing in energy-saving measures. As a result, nearly 80% of the Hungarian residential building stock has not been appropriately insulated, while 10-21% of the population lives in energy poverty, meaning that they are unable to access essential energy services and products, unable to reach sufficient levels of heating, cooling, and lighting. Therefore, the government's announcement two months before the start of the heating season, in the middle of a price environment that has been going through steep increases for months, made it impossible for most people to prepare for winter adequately. Since 69% of the population felt they had no financial security and only about 39% had enough savings for one month, the signs pointed towards social hardships not seen since the 2008 financial crisis.

No country for poor people

In a European comparison, the Hungarian population lives in relative

poverty. Close to 10% of the working population lives on less than HUF 100,000 (~EUR 247) per month. Inequality is not outstanding (although rising), yet even that result is only partially positive since it is primarily because people belonging to the top 20% best earning strata also made relatively little. HUF 410,000 (~EUR 1010) gross monthly income was enough to get into the top two deciles of the income spectrum.

The two crises of the past two years had a disastrous effect on society, with large income losses. The government's ideological priorities – helping those who are already better off, aiding the upper-middle class's embourgeoisement, supporting transnational corporations – are reflected in the social and economic policy measures adopted in response to them. Governmental interventions have prioritized alleviating the financial burden of businesses. Both transnational corporations and the government-friendly national bourgeoisie received generous support during this time.

Financial assistance to help the general population has been much more tight-fisted. The measures included:

- a limited wage guarantee scheme modeled along Austria's "Kurzarbeit" that was discontinued in 2022
- a debt repayment moratorium for all borrowers, in September 2021 extended until the middle of 2022 for a more limited set of potential claimants
- a projected increase in the number of public workers and military intake
- a one-off bonus for health workers
- the extension of various expiring maternity entitlements
- the suspension of evictions, confiscations, and tax-related cases

- a “pension bonus” in November 2021, and a “13th-month pension” paid out in February 2022 and again in February 2023
- interest rate freeze on loans with a variable interest rate
- price caps for certain essential food items and motor fuel

Most of these measures were introduced in response to the pandemic; only the interest rate freeze and the food price cap were additional elements in 2022. Neither yields much additional cost to the government while leading to severe shortages and further price increases in alternative products.

In the meantime, the government refuses to extend the record-low three-month unemployment benefit even though the prime minister had envisaged major layoffs between the end of 2022 and the first half of 2023. No new social policy tools have been introduced to ease the burden on those living in poverty. On the contrary, if one had debt accumulated against the state based on a new law in 2021, they were no longer entitled to social security. In less than a year, the number of people without this basic benefit went from 55,000 to 141,000. The unemployed and those working in the informal sector do not receive any additional help. In October 2022, there were 235,000 unemployed, the average length of finding a job was 9.2 months, and at least 33.9% of job seekers were unsuccessful in securing employment for more than a year. Nearly half (41.9%) of all job seekers received no financial assistance from the state. Meanwhile, the government legislated at the end of 2022 that a person's social security is primarily their own responsibility, second his/her relatives', third the municipalities', and only in the last instance is it the state's.

The government's limited appetite for social assistance is also reflected in the fact that it has one of the lowest social benefits expenditures as a percentage of GDP in Europe. Sports, however, have a special place in the heart of the decision-makers, as a record-breaking EUR 1.7 billion was spent on the field in 2020, with a large share used for developing private sports club infrastructure.



No education, no future

By the end of 2022, rising inflation and decreased quality of life created pockets of social upheaval. The most prominent of those was the schoolteachers' continued and visible demonstrations. Their primary grievance with the government has been about the extremely low level of wages and the lack of long-term perspective in the field.

Teachers' feeling of neglect is by no means a surprise. The second Orban government's spending record on the field is disheartening. Education expenditure as a percentage of GDP has been among the lowest within the European Union, staying well below the EU average for most years. According to the OECD, an average Hungarian teacher with 15 years of experience earns the second lowest among OECD members — only teachers in Slovakia are worse off. This is partly because the government has not initiated a general pay raise for teaching professionals since 2014.

According to the teacher's union estimates, there are already 16,000 teachers missing from the education system in Hungary and their number is likely to increase to 22,000 in the coming years due to a lack of new applicants to the relevant training programs. The issue is prevalent among public school teachers and university professors. The gross monthly salary of a junior professor is the lowest in the whole of Europe (behind Bulgaria and Romania) and the second lowest for full university professors (only ahead of Bulgaria). In value terms, this represents a starting salary of gross EUR 615, climbing to EUR 1538 at the later stages of their career.

The government's lack of aspirations within the field is also visible at the other end of the educational spectrum, as there are increasingly fewer people who gain a degree in the country. Based on the most recent data, 32.9% of people aged between 25–34 had university degrees, which was only ahead of Italy (28.3%) and Romania (23.3%). When Viktor Orbán rose to power in 2010, Hungary was ahead of nine countries in this regard. Should the trend continue, Hungary will have the least educated population in Europe within a decade.

These numbers are not the results of unfortunate circumstances or pure neglect. Instead, they reflect the government's policy of maintaining a low-skilled, easily exploitable, low-wage workforce that focuses on blue-collar manufacturing instead of white-collar intellectual work. Hungary spends the fourth lowest amount per person on R&D in the EU and is the 20th in the number of patents per million inhabitants (10).

4.3 | Economic outlook for 2023

Economic growth is likely to falter in 2023. According to the European Commission's current forecast, the GDP will increase by no more than 0.1% next year and by 2.6% in 2024. Public finances will continue to deteriorate in 2023 due to the prolonged war between Russia and Ukraine and the corresponding energy crisis. The budget deficit will remain significantly above the maximum -3% the EU expects at a negative 4.4%. Consequently, the government debt level as a percentage of GDP is set to remain stagnant, going from 76.8% in 2021 to 76.4% in 2022 and potentially climbing down to 75.2% by the end of 2023. With the expectation of recession for the first half of 2023, private consumption will be negative, falling to -1.5% of GDP together with a negative real wage growth, while public consumption will not contribute to the economy's expansion. The slowdown of 2023 is likely to be temporary, and both the growth rate and the underlying indicators are expected to return to positive territory in 2024, albeit at a much lower rate than during the "roaring" 2010s.

The previous sections showed that the government's priority is subsidizing manufacturing businesses. Consequently, private investment receives significant policy support, including grants, cheap financing, and tax cuts. Despite all, gross capital formation is forecast to suffer the largest setback, going from a 5% growth in 2022 to -1.6% in 2023. Exports are also forecast to decline, from 6.5% this year to 3.5%. Their contribution to GDP growth will still be significant in relative terms. The reinvigorated global supply chain activity is an essential factor behind the increased exports, and so is the improved cost competitiveness following Hungarian forint's continued depreciation.

Overall, the Hungarian economy's long-term potentials are less rosy than the vigorous rebound from the COVID-19-induced slump to follow in 2021–2022. Orbán's government realized the need to

balance economic dualism by gradually decreasing transnational corporations' role and increasing domestic value added. Such a shift would be necessary to make economic development future-proof and get Hungary out of the middle-income trap. However, this recognition did not result in a policy environment that could ensure long-term economic upgrading. The capacity of Hungarian-owned companies to take advantage of global value chains remains exceptionally low. Domestic producers' capacity to innovate declined further after 2010 from an already deficient level. The difference between the productivity of foreign- and domestic-owned companies has also increased slightly since 2010. In parallel, transnational corporations' export structure has also changed adversely, leading to a decline in the Hungarian economy's knowledge intensity after 2010.

In the medium to long run, the potential reduction of EU funds can significantly threaten the Hungarian economy. However, it is doubtful that the current quarrel around the rule of law conditionality would threaten Hungary's total income from the EU budget. Furthermore, unused funds in the budget cycle ending in 2020 can be used until 2023. Hungary would also be among the biggest winners of the EU's pandemic recovery fund should it be able to gain access to it. For the time being, the country survives through loans from the international bond markets and spending cuts. The country's financial position is better than Italy or other severely indebted nations; thus, the government might successfully maneuver in the following months. However, securing access to the EU budget and the recovery fund is crucial for Hungary's economic development beyond 2022.

5

The Hungarian society in 2022

5.1 | Fidesz's dominance in the media

In the perennial debate about what type of regime Hungary has become under Viktor Orbán, the overwhelming control of the ruling party over the media is often cited as a vital data point to show that Hungary gradually shifted into an authoritarian or hybrid mode.

In many electorally crucial areas and demographics, especially elderly rural voters, pro-Fidesz coverage enjoys a near-monopoly on information. To see any critical content, many voters in rural areas must deliberately transform their media consumption patterns and seek out critical information online, or else they must openly declare their political sympathy by subscribing to the few critical independent outlets that remain. In the legacy media markets, television, radio and print, independent media have been almost completely subdued using a mix of market interventions (acquisition and the distortion of the advertising and printing market) and regulations (taking away frequencies from critical radio stations and awarding them to politically loyal channels)

Assisted by the media, Orbán's stance on Ukraine benefitted Fidesz

The stunning margin of the Fidesz victory in April 2022 was a major upset fuelled in no small part by the government's dominance over information. After a short while of insecurity, when it did not know how to present the shocking developments between Russia and Ukraine, the pro-government media found a way to actually successfully slant in the government's favour. In the narrative presented by the government and its media, the opposition sought to drag Hungary into the war while Fidesz was the party of peace and the only force committed to keeping Hungary out of a potentially dangerous armed confrontation with Russia. Both polls and anecdotal evidence from thousands of activists who travelled to rural areas to canvass votes

suggested that many rural voters were genuinely convinced that the opposition's candidate for prime minister, Péter Márki-Zay, was going to insert Hungary into the war.

The key media lesson of the past years in Hungary is that propaganda still works, not only in narrow segments of society but across large swathes of it. The mix of financial and regulatory instruments, along with political pressure on advertisers and media owners, has proven a potent tool for dominating public discourse.

Crisis: challenge and opportunity

The unprecedented crisis that has gradually unfolded over 2022 presents both challenges and opportunities for the pro-government media. For the critical media in Hungary, by contrast, it mostly implies challenges only. But even in the case of the Fidesz media, the aftermath of the election and the fiscal crunch facing the government has shown that the era of unlimited financial resources for pro-government media is essentially over.

In previous years, the government was flush with money which it spread out generously through public advertising, subsidies and oligarchs who had enriched themselves through public procurements. This resulted in the relentless expansion of Fidesz media and often seemingly profligate spending. However, as cutbacks became inevitable in many areas of government spending, parts of the pro-government media are also experiencing a crunch. It should be also noted that after acquisitions and thus the creation of a dominant position in the sector, the next step in any business cycle is consolidation. Since the elections, Fidesz has apparently been taking stock of how its media outlets have been performing and rationalising operations accordingly.

Post-election blues

The pro-Fidesz media empire led by the Central and Eastern European Media Foundation (KESMA) and Mediaworks (once part of Lőrinc Mészáros's sprawling business empire) has shut down a few outlets, and it has massively cut staff in some newsrooms. The network of regional newspapers, a declining but still relevant market that is completely controlled by Fidesz, has identified a lot of redundancies since Fidesz comfortably secured its re-election primarily with the help of rural voters; the election was followed by a massive round of layoffs in May.

In June, the closure of the print versions of two once-prestigious newspapers, the daily *Világgazdaság* and the weekly *Figyelő* (both focus on economic reporting), was announced. They had been prime examples of independent outlets that had been taken over to control their content, with *Figyelő*, in particular, taking a sharp turn towards serving as a partisan outlet. They were niche products even in their prime, however, and ultimately, they came to inglorious ends when the novelty of controlling once-respected newspapers had worn off. Whether their online versions will survive in the long run is a question, but arguably since most of the Fidesz news is centrally produced and curated, online outlets can be operated cheaply by relying on economies of scale.

The most high-profile change was the announcement that Pesti TV, the television channel launched by the magazine *Pesti Srácok*, would be nixed. The alt-right youth-oriented channel had started with high hopes of reaching out to young voters who seem less enchanted with Fidesz on average. It used youthful hosts who basked in vulgarity in an effort to make being pro-Fidesz seem hipper. At the same time, the production costs were high while audiences failed to materialise.

In the coming crisis, many media corporations are likely to struggle, and the cutbacks in the pro-government media market show that they won't be unaffected. On the whole, however, struggling media is good news for Fidesz: whatever comes, the government and its

cronies have deeper pockets to weather a crisis than independent media, which subsist mainly on the support of readers, many of whom will also have to make adjustments to their household budgets to adjust to rising costs of living. Under such circumstances, supporting independent media may not be a priority.

Catching up in the social media segment

The cost-cutting in the Fidesz media empire is not only a result of tighter fiscal possibilities, however, but also of a visible restructuring within the government-aligned media network. After Fidesz's spectacular defeat in many urban areas in the municipal elections of 2019, the engineers behind the pro-government media empire realised that they lagged behind the opposition in the realm of social media and quickly began spending massively to make up for lost ground.

While it is difficult to measure overall success in a setting when there are so many potent explanations for Fidesz's electoral success in April, it is likely that Fidesz's efforts to build up social media influencers have had some success, especially as the post-election polls have suggested that the government has made some inroads with young voters. Even as social media advertising spending showed that the opposition, too, was spending considerably on reaching voters online, once it began establishing a foothold in social media, Fidesz vastly outspent all the opposition advertisers.

A key role in its new presence was the project *Megafon*, which funds youthful influencers – some already known and others who have made a name for themselves more recently through this project – who present “hip” versions of the often trite messages churned out by the established pro-Fidesz media outlets. Having felt the palpable tailwind generated by their investment in social media, Fidesz is very likely to keep focusing on this area, expanding its presence, both to maximise voter support and to gain a foothold with younger voters, who seemed lost to Fidesz for a long time. As long as the internet remains fairly free, Fidesz is unlikely to enjoy the same dominance in social media that it has had in legacy media. But it does not need such

a dominance to be successful. It is enough for the ruling party to hold its own among youths while it racks up huge majorities among the elderly and rural voters.

Digital is the next frontier

There is also another, more subtle change going on in the Hungarian media landscape. The ruling party is increasingly gobbling up the providers of information and telecommunications infrastructure. Although this is one step removed from content providers, it is nevertheless a potentially critical development that might have implications for the future of information in Hungary.

As happened in the media landscape itself, the transformation here is also gradual, occurring in smaller and larger steps, which nevertheless point in a clear direction. The government has declared control over the telecommunications and information infrastructure, a strategic area where Hungarian control is preferred to foreign ownership, and thus far such announcements have always been followed by a concentration of ownership in the hands of government cronies.

Key developments in this market were the takeover of the popular ISP and cable provider Digi by the oligarch Gellért Jászai, as well as the (earlier) acquisition by the Hungarian state of Antenna Hungária (previously owned by a French company). Few consumers know the latter, even though it is the most important provider of terrestrial broadcasting infrastructure and is also expanding into the digital realm. Given the tight fiscal situation, many were stunned by the government's announcement in August to acquire Vodafone Hungary jointly with Jászai's 4iG corporation, which would give the two companies together a vast dominance in the ISP sector.

And while these companies are usually not principal players in content generation, they can be: one of the biggest coups of the government in terms of dominating the media landscape was the acquisition in 2014 of Origo.hu from the German-owned Telekom. One of the top two internet news sites at the time, Origo.hu gave Fidesz access to a

vast market of politically unaffiliated users who previously consumed a balanced coverage on the website. The many readers who remained are now continuously inundated with pro-government messages.

Some positive trends for independent media

Despite the uncertainties about the future, there are also some positive trends for independent media in Hungary. Recent years have shown that, at least in the market for digital media, several independent players have established themselves as respected players in the media landscape. Their coverage is not anti-Fidesz, as the government sees it, but usually balanced in the sense of airing critical news about all sides, all the while focusing more heavily on the government's activities, which should be the norm in a democracy.

Telex.hu, for example, which was created when the entire staff of the then-market leader Index.hu resigned in the wake of the takeover of their newspaper by a pro-government oligarch, has quickly emerged as a solid presence with a broad following. 24.hu, HVG.hu and 444.hu are three other major outlets that have been around for a while and publish critical content. While these are perceived as left-of-centre (neither have an official ideological stance, nor does Telex), two established conservative but independent outlets are Magyar Hang and Válasz, both founded by disaffected right-wingers who balked at Fidesz taking over the media they used to work for.

A new and successful experiment is the avowedly progressive online television channel *Partizán*, which has successfully pulled off on the left what *Pesti Srácok* failed to emulate on the pro-Fidesz end of the media segment: it has a large and growing number of followers. For many young people and opposition supporters, *Partizán* has emerged as an alternative to traditional television coverage. A jury created by the media and PR market magazine *Marketing&Media* has selected the *Partizán* founder Márton Gulyás as the most influential editor-in-chief in the digital media sector. Going up against the editors of several competitors that have been established for far longer, this is a significant achievement. It highlights that Gulyás, a

skilled television host in his own right, has also identified a key niche in this market by openly appealing to progressive audiences and giving them something different from written news reports.

Another interesting player in the media market is Direkt36, which engages in investigative reporting and – in a market where funding for investigative pieces is increasingly rare – is unusual in terms of the number of hours its staff can devote to researching and writing their pieces. Its survival in the market, for now, is a testament to the fact that even though corruption has not had a major impact on voting behaviour, there is still some public interest in exposing it.

On the whole, the persistence of these media is good news for media pluralism in Hungary, especially in light of their appeal to the younger generations. Nevertheless, the vibrancy of critical coverage in the online sector might obscure the fact that the government is vastly preponderant in the media market overall, and for the time being, the political impact of the latter is far more important: both the dynamic and the outcome of the 2022 election made that very clear.

5.2 | As teachers rise up, Fidesz's neglect of education moves to the fore

As increasingly desperate teachers openly defy the government's ban on strikes, often supported by students and parents, Fidesz finds itself in a quandary. It has acknowledged for a while now that teachers are underpaid, and yet it is unwilling to commit money to change this situation. While the government's official justification is the lack of fiscal room because of the EU's unwillingness to pay Hungary the funds it is theoretically entitled to in the framework of the 2021-2027 EU budget cycle, the actual reason is more complex. Even in early 2022, when the government was spending generously on all sorts of electoral presents to secure its re-election with an unprecedented spending spree, the notoriously underpaid teachers were one of the groups that were left out. This caused understandable frustration among them, which has been exacerbated by the cost-of-living crisis that has emerged in Hungary since.

Public education in a deepening crisis

The proliferating protests and the desperate decision by many teachers to strike despite a blanket warning that they could be fired – which has since turned into personalised notices in the case of many who defied the general warning, and has resulted in some actual layoffs too – shows that many consider the situation untenable, both personally, in terms of their financial and work burdens, as well as at the systemic level. The lack of new teachers has created enormous staffing problems and increased the already excessive number of hours many teachers are forced to work for salaries that lag not only significantly behind the private sector but also behind most public sector pay as well. Arguably, the situation of public education in Hungary stems from the fact that, for the time being, the government has realised that it lacks the resources to micromanage

and control these institutions, which may explain why it has decided to mostly disregard this area altogether and to allow to spiral it into a deepening crisis.

As the current wave of protests shows, twelve years after Fidesz's takeover, Hungarian teachers are underpaid and overworked, but ideologically still not in line. One of the areas where Fidesz's actual control remains distinctly limited is the public education system, from nurseries and kindergartens all the way to grammar schools. Fidesz has made some inroads in taking control of the education system, especially through the takeover of many schools by ecclesiastical institutions that espouse the conservative values shared by the government – and which generally receive more public funding than ordinary public schools. Furthermore, by setting up the so-called Klebelsberg Institution Maintenance Centre (abbreviated as KLIK in Hungarian), which controls the funding and management of schools at the school district level, it has created an administrative apparatus that can locally interfere in the operation of schools, including the recent spate of layoffs.

Nevertheless, while this gives the government-dominated KLIK network financial and administrative leverage, the actual ideological domination of Hungary's far-flung public education system is a vastly more ambitious enterprise that is in its infancy at best.

Even without money or a vision for education, order must prevail

Moreover, there are signs that, at least for the time being, the government has abandoned this project altogether, instead leaving

the public education system to rot completely. One clear indication that the government is simply uninterested in what is happening in public education is the lack of designated policymakers who are in charge.

Instead of taking charge and appointing someone with a remote interest in education to take control of this crisis-ridden segment, Viktor Orbán has tossed it to the reliable veteran Sándor Pintér, the police chief-turned-politician, who is generally seen as loyal, competent in his own area of expertise (policing), and without further political ambitions. As his parliamentary hearing showed, Pintér is not particularly interested in the policy area, and his only idea about education is that there needs to be order in the schools, and that no matter their grievances, teachers must be disciplined and carry through with their tasks. The assignment of the public education system into the remit of the Ministry of the Interior – a total anomaly in international comparison – is itself evidence that the Orbán government's ambitions regarding the elementary and secondary education systems are very narrow at this point: if you can't own it then why fund it?

Completely fed up

Many teachers – who are clearly among the most obviously losing segments of Fidesz's long-term policies and the current cost-of-living crisis in particular – have had enough, and not only of the political humiliations inflicted by a government that never seriously engaged their demands. Many find themselves in a genuinely precarious situation; their wages are below the national median and are especially not fit for the high costs of living in major urban areas. A teacher at the start of their career makes a net of under 400 euros a month, which is barely enough to cover rent in Budapest but leaves no money for anything else.

It is, therefore, hardly surprising that a vast number of teaching positions go unfilled, and the number of students in higher education who opt to train as teachers is far below the level that would be needed to replace the retiring educators. The profession is ageing



out; scores of teachers leave and many of those who remain burn out because of the toxic mix of low pay (for quite a few teachers, this means they have to take a second job), too many class hours and oversized classes, not to mention decaying infrastructure and lacking tools.

That is why despite the government's repeated warnings that striking could lead to dismissal has not cowed many teachers who decided to go on strike nonetheless. On the whole, the situation involves a game of chicken because it is obvious that if the number of striking teachers is high enough, the government cannot realistically deliver on its threat. The staffing situation is so dismal that the school system can barely keep up with its responsibilities as it is, and given the huge number of unfilled positions, the vast majority of those who could be theoretically fired could never be replaced. In practice, it would not even take a high level of participation by teachers to put the government in a position where it would have no choice but to make concessions to prevent a scenario where many schools can no longer hold classes.

Nevertheless, despite the low pay and the difficult circumstances, many teachers do love their profession and cannot imagine doing something else, while there are others whose prospects of finding jobs outside the education system are slim – because of their age or less marketable skills –, even if the labour market in Hungary is still suffering from a dearth of labour. The government is clearly hoping that such considerations will hold a sufficient number of teachers back from engaging in effective labour action

Why the neglect?

The question arises why the government is treating teachers and the education system with such apparent disdain. Providing quality education has not been on the agenda ever since 2010. The government's economic policy goal is to make Hungary a country that offers cheap labour to industrial investors, and that model does not require the state to highly educate youths. In fact, the more they are

educated, the higher pay they will demand, the more options they will have, not to mention that they are more liable to become politically active. One of the early controversial measures of the Fidesz government was the reduction of the mandatory minimum school leaving age from 18 to 16, thus effectively cutting off many youths from a secondary school degree or access to higher education. Fidesz representatives have also bemoaned the alleged overproduction of university graduates.

Fidesz has politically moved away from the educated segments of society, and this is increasingly manifest in the voting behaviour of many conservative intellectuals, who have withdrawn their support from the ruling party without changing their ideological outlook. The underlying anti-intellectualism of its approach has been politically beneficial insofar as Fidesz has been more than able to balance the loss of some of its educated and predominantly urban electorate by adding less educated voters in rural areas.

Politically speaking, Fidesz sees no benefit in improving the public education system until such time as it has the capacity to manage more directly what is being taught in the classrooms. Another aspect of the government's current approach is that after years of saying that Hungary is doing the EU a favour by remaining a part of the bloc, and after years of reviling European institutions, Fidesz is now arguing that it cannot pay the teachers what they would deserve because of the funds that Brussels withholds. It is not clear how many voters realise the contradiction in the government's often-repeated claims that Hungary is sovereign and fiscally self-sufficient, all the while laying the blame for its inability to appropriately compensate teachers at the door of the EU. "Brussels", as the government refers to the European Commission, is hardly responsible for the government's spending priorities, which have always treated education as one of the least important areas.

Even as the government loudly argues that Brussels is to blame for its inability to pay teachers, reports about the negotiations between the Fidesz government and the European Commission suggested that it

was the latter that had to insist that the Hungarian side should use the money to raise teachers' salaries. It seems likely that if teachers do get a pay increase, they will owe that not only to the funds provided by the European Union but also to the Commission's insistence that for once the government uses the money for a purpose that actually benefits Hungarian society. Whatever happens, the one thing that is certain is that Fidesz will not treat public education as a priority until it has the capacity to take full control of the education system and align its operations with its long-term interests.

5.3 | The values of Hungarians – Hungary’s Political Compass

It is well-known that the left-right divide in Hungarian partisan politics does not map neatly onto the traditional conception of the left-right ideological divide. Our own research four years ago on the subject showed that many left-wing beliefs are widespread even among voters who support right-wing parties. Similarly, certain ideas commonly associated with the ideological right enjoy some support among the voters of left-wing parties.

In 2022, Policy Solutions and Friedrich-Ebert-Stiftung wanted to take another look at the values espoused by Hungarians to see how the public’s overall views have shaped up and what changes have transpired in the intervening period. Our economic policy questions measured how Hungarian society views the roles of the market and the state in the functioning of the economy. Those in favour of state redistribution, solidarity, the extension of workers’ rights and the regulation of market functions are on the economic left, while those in favour of competition, efficiency and the market are on the economic right. The socio-cultural questions measured the proportion of those who support the creation of a more progressive or a more conservative society. Those in favour of social change, inclusion and the extension of individual rights are on the progressive side, while those who stress the importance of traditional values, order and authority are on the conservative side.

A slight drift away from the left in economics

Although there was some shift in the popular value preferences between 2018 and 2022, there was also a significant amount of stability. On the whole, it is still true that the vast majority of Hungarians prefer left-wing economic values to right-wing ones,

while they continue to lean towards the right when it comes to socio-cultural issues. We believe that this is a vital data point to show that despite the right-wing dominance at the party-political level, Hungarian society is in fact more nuanced in terms of its views – most notably, voters tend to embrace many of the classic left-wing economic ideals that are essential for a progressive movement.

At the same time, we found the most pronounced shift in economic policy values. While back in 2018, 70% of respondents leaned towards the left on economic issues, in the spring of 2022 the proportion of economically left-wing respondents had dropped to 56%. Although still a decisive majority, this was 14 percentage points lower than four years earlier. This shift implied a move towards the centre of the economic values spectrum, which surged from just 21% to 32% in the population overall, while there was only a slight uptick in the support for right-wing economic policies (from 9% to 11% in total). Interestingly, the drop in the support for left-wing economics was roughly of the same magnitude among opposition voters (from 75% to 61%) as among Fidesz supporters (from 64% to 49%).

The results show that demand for state intervention and reduction of social inequalities remains high, but empathy for the poor and unemployed has been waning, especially in rural Hungary. Hungarians are clearly left-wing in areas such as ensuring good quality and state-run universal health care, reducing social inequalities, state support for the less well-off, the need to regulate the market, creating a progressive tax system, and the right to strike. The strongest right-wing predominance can be observed on the causes of unemployment: two thirds of Hungarians believe that it is a matter of individual responsibility whether or not someone finds a job in Hungary today.

Hungarian society also tends to have strong feelings against a general wealth tax, while negative experiences with the performance of the state are strongly reflected in the majority’s view that private companies do more for people’s well-being than the state.

The survey results showed that while in Budapest support for left-wing economic values was largely unchanged, in areas outside Budapest there was a massive shift towards the centre: in the major urban areas called the county seats, the share of those who identified with left-wing values declined by 19 percentage points, in smaller urban areas by 24 percentage points, and in smaller municipalities by 9 points.

A large and growing urban-rural divide

This is probably a reflection of the growing urban-rural divide. The political divisions between Budapest, other major urban areas, and villages have always been pronounced, but they have massively increased since Fidesz took power in 2010. The pace of estrangement increased especially since Fidesz decided to exacerbate its cultural war-type rhetoric and policies after 2015, mainly symbolised by the propagandistic anti-refugee campaign, the subsequent expulsion of the Central European University from Hungary, along with a heavy-handed approach in general towards taking control of cultural and media institutions.

Two interesting aspects of the economic policy divide are worth highlighting. First, in terms of geography, the most left-wing segments on economic policy are Budapest residents on the one hand and the residents of the smallest municipalities on the other. At the same time, centrist views tend to predominate in the urban areas outside Budapest. Second, a similar dynamic prevails in educational attainment, with the most and least educated segments favouring left-wing economics, while those in between tend to be more centrist.

One plausible hypothesis is that the educated urban strata tend to support left-wing economic policies because that coheres with their generally progressive worldview, while villagers in turn may be more

pragmatic in that subsistence in these areas (including subsistence broadly understood, such as the access to public services), is heavily dependent on the state since market actors are absent from some of these areas, be it as providers of jobs or goods and services.

By contrast, urban Hungary has benefitted greatly in recent years from Fidesz’s economic policies, which have focused on FDI deals bringing major industrial investments to urban areas outside Budapest. Although these investments were disproportionately directed at urban centres where Fidesz is traditionally very popular, many other urban centres – including competitive ones where the left used to be strong but which Fidesz has realistic hopes of turning into right-wing bastions in the long run – benefitted too. It was also a reflection of the local impact of these policies that Fidesz gained ground in many urban areas in 2022 where it had lost in the municipal election of 2019.

A slight shift towards the centre on socio-cultural issues

In light of the above, it is somewhat surprising that along with a centrist trend in economic policy, we also found a shift away from predominantly right-wing preferences on socio-cultural issues, although this shift was decisively smaller. On the whole, the share of those with progressive socio-cultural views rose from 31% to 32%, the percentage of centrists increased from 30% to 33%, while the share of right-wingers commensurately dropped by 4 points, from 39% to 35%. While on economic policy we found a shift from overwhelming left-wing dominance to a more balanced bifurcation of Hungarian society between those who hold left-wing ideas and those who are moderate on economic matters, on socio-cultural issues, Hungary is divided into three roughly equal segments: left, centrist and right-wing.

Conservative views are particularly popular when it comes to traditional family roles: 79% of Hungarians think that teaching discipline and order is the primary goal of child-rearing, and 67% think the world is a good place when the man is the head of the family. In 2022, the most divisive socio-cultural issues were the question of



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reinstating the death penalty (50% of Hungarians would reinstate it, while 47% reject it) and tolerance towards the LGBTQ community (49% would accept it, while 46% would be 'ashamed if a family member was gay'). A clear progressive stance on abortion remains the overwhelming majority in Hungary (80% would allow it).

Given the intense government campaigns pushing conservative social values, it is curious that on the whole Hungarians are slightly less rather than more likely to support conservative socio-cultural values than four years ago. Some of the apparent contradiction between the slightly growing moderation of Hungarian society overall when it comes to socio-cultural issues, despite the simultaneous increase in the support of a government pushing cultural conservatism, may be reconciled if we look at the demographic breakdown of the underlying shift. Put briefly, the shift away from right-wing socio-cultural values occurred primarily in Budapest (where Fidesz remains relatively far less popular), while the most rural areas, where Fidesz's dominance in the media is most extreme, have tended to become more right-wing on these issues. This suggests a growing urban-rural divide on socio-cultural issues, which is distinctly less surprising than the overall trend.

The slight shift towards the centre in a society that is right-wing on the whole when it comes to its socio-cultural attitudes is basically a substantial shift towards progressive socio-cultural values in Budapest, where the share of progressives grew by 13 percentage points since 2018 to reach a majority of 51% in 2022. In the meanwhile, in the smallest municipalities their share dropped by 8 percentage points to 25%.

Ideological cohorts overall

Based on their responses to our survey, a third of the Hungarian voting age population falls into the progressive category in both socio-cultural and economic terms. The share of progressive left-wingers – people who hold left-wing attitudes on socio-cultural and economic issues – has remained stable over the years, with 32% in this category in both 2018 and 2022. The steepest decline has been in the category of the group we referred to as conservative leftists:

respondents who hold left-wing economic views along with right-wing socio-cultural preferences. This group saw its share drop from 39% in 2018 to a mere 29%.

Meanwhile, centrists – people with moderate views on social and economic issues – experienced the biggest gains, their share rising from 7 to 12% of society overall. Pro-market right-wingers (from 7% to 10%) and socially progressive market supporters, i.e. libertarians (from 5% to 8%) experienced modest gains.

It must be emphasised that these changes came amidst powerful campaigns aimed at making Hungarians more conservative in socio-cultural terms, which has not happened overall. But that does not mean that Fidesz's intense political communication has not been effective. The growing social conservatism of rural Hungary was reflected in the election results, where Fidesz has become even more solidly entrenched because of its cultural warfare, which is to a significant extent directed against Budapest and its perception as a bastion of liberal elitism that is alien to traditional Hungarian values.

As to the slight decline in the share of economically left-wing views, in the absence of government campaigns we may attribute it to a more indirect effect of economic policies: a tightening labour market has resulted in the perception that at this point only those who do not want to work remain unemployed and hence poor. This was indeed the specific question on which the right-ward drift in individual responses was most pronounced: while back in 2018 close to two-thirds of respondents (63%) had disagreed with the idea that the poor were responsible for their own situation, by 2022 the share of those who believed this had dropped by 16 percentage points, to only 47%.

The following year is likely to put a strain on Hungarians' belief in both the state's responsibility to provide for those in need and the growing sense that poor people bear some of the blame themselves. Given the level of inflation, real wages are likely to fall next year, and many of those at the lowest income levels will descend into poverty as their wages will no longer be enough to qualify them as lower middle-

class. In a worst-case scenario, this situation could be exacerbated by a recession that runs deep enough to reverse the long-term trend towards low unemployment. The latter was only partially fuelled by economic growth, with emigration and a declining active-age population also massively contributing to labour shortages and an unemployment rate that technically qualified as full employment.

Still, even if the majority of Hungarians acknowledge that a growing share of people fall into poverty through no fault of their own, this will not necessarily have an impact on their partisan preferences. One of Fidesz's biggest political communication achievements is that it has sold itself as a socio-economically sensitive party even though its actual economic and welfare policies are in fact staunchly right-wing. The latter is manifest in the regressive tax system that puts a disproportionately high tax burden on the poor, a vast number of subsidies aimed mainly at the upper-middle classes, and deteriorating public services that force those who can afford it to private healthcare and education providers. In the meanwhile, those who are less well off are left with underfunded state hospitals and schools, to mention but a few examples in which Fidesz's economic policies tilt to the right.

At the same time, the government's rhetoric is often left-wing in tone, arguing against the influence of multinational corporations and the privatisation of public services, and for the government's role in steering the economy and looking out for the "small folk". A few flagship policies, such as the windfall taxes on large corporations, the price caps on certain popular products, and especially the utility price freeze (which had to be partially abandoned due to escalating energy prices) are meant to support this rhetoric, even though a comprehensive and nuanced view of the actual economic policies reveals clearly that the government's economic vision is not only right-wing but clearly runs afoul of the preferences expressed by the vast majority of Hungarians, including Fidesz's own base.

Nevertheless, the yawning gap between rhetoric and reality has not hurt Fidesz's standing. Whether the looming economic and social crisis will change this remains to be seen.

5.4 | Outlook on the Hungarian society in 2023

In 2023, Viktor Orbán could just lean back and enjoy his creation: Fidesz's vast dominance in media, culture, business and society. Whatever pockets of resistance remain, they are isolated from the broader society by geography and the lack of resources and media access. Moreover, the crisis will likely put a nail in the coffin of some crowd-funded institutions that continue to criticise the Orbán regime. The government-supported institutions, by contrast, will probably face some cutbacks too, as some did in 2022, but with taxpayer funding to fall back on, most of them will survive and continue to churn out pro-government messages.

But the Hungarian government is not the type to stop. The protests and resistance of the teachers only highlight for the ruling party how much work there is still to be done to consolidate Fidesz's position in Hungarian society. The expectation was that it would be enough for the government to flex its muscles and fire a few teachers, and the rest would back off. However, as of this writing, the firings did not have the anticipated impact. Instead, they served as fuel on the fire, stirring even more teachers, students and parents towards protests. Although the ultimate outcome of this conflict is unpredictable, for the time being Orbán seems to have miscalculated, overestimating his government's ability to cow people into submission by making an example out of a few cases.

It is clear that public education remains a key battleground in 2023 as well. Teachers who dare publicly challenge him, and a generation of students supporting their teachers in doing so, indicates that Fidesz's control still runs into some vital limitations.

Politically, it is easy to overstate the relevance of these protests. The teachers and their supporters relentlessly emphasise that their concern is solely with education and that the protests have

nothing to do with politics. It is not the teachers but the government that has decided to frame the issue politically – as it does in every case when it runs into resistance or criticism – trying to portray the strikes as the work of leftist teachers whose main goal is to undermine the government. At the same time, the labour and civic organisations behind the strikes do their utmost to keep political parties away, expressly eschewing their support. In a country where the opposition is a viable challenger to the government, the obligatory distancing of striking professional organisations from political parties would not be considered necessary.

In Hungary, the sense is that support from the opposition delegitimises professional or other public demands. This reinforces Fidesz's position as the sole relevant political player, the mighty ruler that must be appeased with the promise that teachers want nothing more than fair pay and improved working conditions. This is why ultimately even a successful strike will not affect Fidesz's position: although the government does not like to, it could make some concessions and then the strikes will end and it will seem like the problems have been solved.

That would be true neither from Fidesz's from the teachers' vantage point. From the teachers' perspective, after a long time of neglect, nothing but a comprehensive reform would improve the education system, and such a reform is not in the cards. From Fidesz's perspective, the persistence of the strikes despite a legal ban and the punitive layoffs shows that its social dominance must be further expanded. Whatever the outcome of the current strike wave, the government will want to reassert control over the education system. It may do so quietly to avoid giving off a sense of reprisal, but it will strive to ensure that there is no repetition of scenes in schools that the public media will be forced to ignore

because covering such news would be an embarrassment for the prime minister.

Furthermore, the looming economic problems also make it more likely that the government will trigger more culture war issues, with the intent of deflecting attention from the cost-of-living problems by focusing on minorities, provoking liberals in Hungary and the European partners and thus shoring up the support of the rural conservative base. It is difficult to predict who or what the target will be, another campaign against migration, the LGBTQ+ community, or a new group altogether. But we know that the ruling party needs enemies, and it will need them especially badly when the economy is in dire straits, which looks rather likely right now.

Conclusion

2022 has been Orbán's best year in domestic politics since he came back to power in 2010. His election victory, with roughly 54% of the popular vote against the united opposition list's paltry 34%, was undoubtedly a massive political triumph. In a well-functioning democracy, such a level of public support after 12 years in government would be truly extraordinary. In Hungary, it is simultaneously a testament to the effective media empire that Fidesz has built and the Prime Minister's genuine popular appeal, his ability to frame issues in a way that resonates with large segments of the Hungarian public. Factors such as Fidesz winning the clash of narratives on the Russia-Ukraine war and protecting its economic legitimacy during a cost-of-living crisis by issuing government handouts and introducing price caps on fuel and basic food products, also contributed to the larger-than-expected election victory.

Fidesz's communication machine has proved effective in a critical situation

The biggest success was not merely the victory in the election, but the fact that Fidesz turned the issue deemed most likely to damage it – the invasion of Ukraine by Orbán's friend Putin – on its head. Fidesz used the war issue to convince previously uncertain or unlikely voters, along with probably at least some of those who had supported the opposition as recently as the fall of 2021, that with a war raging next door and a looming economic crisis, only Viktor Orbán could be trusted to manage Hungarian affairs. Even as the Fidesz machine looked insecure in the first days of the war, after a fleeting moment of hesitation, they went full in on portraying Viktor Orbán and Fidesz as the sole guarantors of Hungary's peace and neutrality.

At the price of turning Hungarian society into the most sceptical towards Ukraine and least critical of the Putin regime within the

European Union (and there should be no doubt that had they chosen to do so, they could have just as successfully gone in another direction, given the fraught history of the Hungarian right with Russia), Orbán has convinced many undecided voters that the opposition would drag Hungary into the war because that's what their western overlords want. Although this was a false narrative without real corroboration in the opposition's communication, Fidesz was able to draw on some hazy remarks by the opposition's candidate for prime minister, Péter Márki-Zay.

The collapse of the opposition

Ultimately, Viktor Orbán's strength at the end of 2022 stems not only from the mere fact of his victory but even more so from the total disintegration of the opposition. For years, the mantra of many analysts had been that only a unified opposition could successfully challenge Orbán. A fragmented opposition will always lose in Hungary; the electoral system will make sure of that. 2022 was arguably a highly unfavourable test of the first-ever effort of a largely unified opposition running against Fidesz, and it failed spectacularly.

The opposition's efforts were undermined by the war, which put security front and centre, and the candidate himself, who hoped to distinguish himself from Viktor Orbán by seeming more statesmanlike. Márki-Zay spoke of Hungary's role as a NATO ally in terms that the Hungarian public felt uncomfortable with, while he also talked up fiscal discipline – correctly anticipating the budget crunch that Fidesz's spending splurge would cause a few months later. These were tone-deaf arguments against a government selling price controls, tax rebates, increased pensions, and the purported ability to keep Hungary neutral in a conflict that many Hungarians were deeply afraid of.

The collapse of the united opposition campaign – which was never really united on anything but the ballot itself – brought with it the collapse of the idea of a united opposition. After 12 years, Viktor Orbán has no real challengers left in Hungarian politics. He is facing

several small players with limited public appeal who have for now abandoned all hope of cooperation and are mercilessly tearing each other apart in public and in the municipalities where they govern together. With their post-election behaviour, they have essentially confirmed the reservations of those who said a government with these actors would never work – and would be an especially major risk when Hungary faced multiple major crises. Fidesz’s ultimate triumph is that it can, with the approval of most of the electorate, simply ignore the current opposition, which is not seen as a relevant political player outside the minority that would opt for these parties.

This is a highly enviable position: being able to set public policy without any relevant checks and balances and having no real competitors gives Fidesz the chance to define the political agenda more than ever. Heading into a particularly challenging 2023, Orbán will need every bit of both, his own populist touch and his media that relentlessly hammers it into the minds of Hungarians.

The clash of rhetoric and reality

The failure to unfreeze a substantial part of the EU funds allocated to Hungary, the highest inflation in EU, the ongoing pressure on the Hungarian currency, and the resultant extraordinarily high benchmark interest rate, to mention just the most pressing problems, are all major source of concern going into 2023. The lack of fiscal wiggle room will likely limit the investments that a state-centred economy needs to grow and also reduce the possibility of mitigating the social impact of the crisis on individual households. This takes place against the backdrop of teachers protesting against their abysmal pay, one of the worst-affected strata among the growing number of people who face a cost-of-living crisis.

A frustrated diatribe about the state of the economy by one of Orbán’s erstwhile closest advisors, Hungarian National Bank President György Matolcsy, is a key warning sign. Many of Matolcsy’s fierce criticisms of the economic policy that he had co-shaped for years as a former cabinet member (e.g. the lack of investments into alternative

energy), and the mistakes that have occurred since he left the cabinet (overspending, ignoring fiscal realities), seemed very similar to the critiques proffered by independent economists. The fact that the architect of Fidesz’s “unorthodox economics” shares many critical assessments of the state of the Hungarian economy indicates that although they generally dare not speak their minds, some in Fidesz also harbour concerns over the long-term trends.

The next year will prove particularly challenging because, during the last decade or so, the government has been quietly deconstructing the weak welfare state structure in Hungary based on the belief that in a work-based society, as Orbán calls it, where jobs are plentiful, welfare is unnecessary. Given the enormous labour shortage in Hungary (which is also a result of emigration), it is conceivable that joblessness will not increase significantly even in an economic crisis. Still, that would not imply that welfare services are unnecessary. Given the soaring costs of living, with prices rising far in excess of the EU’s very high level of inflation, the number of working poor and needy pensioners is likely to increase dramatically.

With a recent bill amending the Social Services Act, the government has acted pre-emptively to ensure that the impending crisis’s potential welfare impact will not land on its doorstep, as the new law puts the state last among five societal actors that are responsible for welfare. Legally this creates a fairly transparent situation in which the government can simply say “no” to help people in need. How popular this will be with the public remains to be seen. Even without an electoral test, with a looming social and economic crisis, it will be tougher than ever to close the gap between the everyday experience of people and the image of Hungary being economically stable and moving dynamically towards the ranks of the uppermost EU countries in terms of quality of life.

The resilience of the regime will be tested in 2023

The next year will not be as triumphant for Fidesz as 2022 was. However, the measure of a triumph in a time of crisis is different.

Viktor Orbán’s two-thirds majority, which was vital in his efforts to establish an “illiberal democracy” and consolidate his increasingly absolute rule in Hungary, also owed to the impact of the global financial crisis of 2007–2008, which was the final nail in the coffin of the unpopular centre-left government that was in office before 2010. Orbán understands the politically destructive power of economic crises, and he has systematically built a political regime that is meant to withstand the impact of such a crisis. After 12 years, it will be tested in 2023, and it will likely prove resilient.

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