

Orbán's fifth government: full power overshadowed by crises

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Upon attaining a fourth consecutive election victory, Viktor Orbán's new government is sticking to its usual methods of operation: the concentration of power, control of the narrative, and 'unorthodox' economic policies, such as additional taxation on large profits. The cabinet functions in comfortable intra-political conditions, holding full power and facing a defeated and divided opposition. However, it faces its biggest challenges in years with the deteriorating economic situation and the unstable international environment. The government has no clear reform aspirations and is rather promising to manage the crisis permanently, while looking after its business base and further tightening its grip on media coverage. In view of Russia's invasion of Ukraine, it will be increasingly difficult for Budapest to benefit from balancing between East and West. In this area, it is likely to attempt a rapprochement with the Western states that are more accommodating towards Moscow, while at the same time looking for ways to maintain the relations with the US and its partners in Central Europe, albeit these are the frostiest they have been in decades. Orbán is trying to postpone a reorientation in foreign policy until the result of the Russian-Ukrainian war is known. Should the West return to dialogue with Russia, he is counting on the benefits of a developed cooperation with the Kremlin, especially in the energy sector and, should Russia enter into a situation of protracted isolation, Orbán will seek to ensure that any reduction in this cooperation will see Hungary amply compensated by its Western partners.

Crisis management and the concentration of power

Having served as prime minister between 1998 and 2002 and then uninterruptedly since 2010, Orbán was sworn in for his fifth government at the end of May, less than two months after Fidesz's decisive victory in the parliamentary election. The make-up of the cabinet, as well as the first statements and actions of its representatives, indicate that Orbán's main intention in the present term is to consolidate power in response to the expected economic volatility and crisis in relations with his most important foreign partners.

One of the first decisions of the government was to declare a state of emergency in connection with the war in Ukraine under the Tenth Amendment to the Constitution, introduced on 24 May. This means an extension of the state of emergency in force since the beginning of the COVID-19 pandemic, which allows the government to issue regulations with the rank of laws in order to speed up the legislative



process and to react to sudden shocks (such as rising inflation) more efficiently. This move is equally important from a propaganda point of view. After months of insisting in the electoral campaign that the government is in full control of the situation and will protect citizens from any of the negative effects of various crises, Fidesz has moved to the phase of preparing public opinion for difficult times and building justifications for resorting to emergency solutions. Controlling the narrative is intended to push back criticism of Fidesz for extending the country's dependence on Russia – since the invasion of Ukraine, media outlets linked to the ruling party have been emphasising that this is 'not our war', making both warring parties equally responsible for the outbreak of the conflict, criticising the government in Kyiv, providing limited information about the Russia's crimes and blaming EU sanctions for the economic problems.

Orbán continues to tighten his control over the power structures, and is also continuing his tactic of balancing the influence of Fidesz politicians by rotating them in

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different positions, granting them positions of power or stripping them of them. Two influential politicians who used to be considered potential competitors or successors as prime minister returned to the government after a break. Tibor Navracsics (deputy prime minister, minister of administration and justice and – briefly – of foreign affairs from 2010 to 2014, and EU commissioner from 2014 to 2019) took the seat of minister without portfolio for territorial development and the use of EU funds, and János Lázár (influential head of the prime minister's office from 2014 to 2018) became the minister of construction and investment. As a result, Orbán has strengthened his cabinet with two experienced politicians, but he has placed them in low-profile positions that do not threaten him.

The prime minister's office and cabinet, whose heads have the rank of ministers, will play an even more central role in the structure of the government. Orbán has clearly strengthened the position of Antal Rogán, since 2015 the chief of the prime minister's cabinet, among whose duties is information policy (he is commonly referred to as 'the propaganda minister'). He is emerging as the second person in the cabinet, especially after being given the competence to supervise civilian intelligence and counterintelligence (until now, the Information Office was subordinate to the Ministry of Foreign Affairs, with the Office for the Protection of the Constitution subordinate to the Ministry of the Interior). This will most likely bring a greater politicisation of the secret services. At the same time, Rogán's increase in strength will not challenge the prime minister's position; due to his entanglement in a number of opaque business deals and his family's luxurious lifestyle (including helicopter rides), as revealed by the tabloids, he is one of the least popular politicians of Fidesz. He appears to be loyal to Orbán and resigned to his role behind the scenes. His rise to prominence, however, suggests that even greater emphasis will be placed on controlling the narrative and further subordinating the media's message, especially in the face of an increasingly difficult international and economic situation.

The cabinet reshuffles also indicate Orbán's modest reform ambitions. The Ministry of Human Resources, known as a 'super-ministry', which dealt with issues relating to health, social affairs, education, higher education, culture, sport, family and youth, and which had been operating since 2010, was disbanded. The most sensitive of these portfolios, i.e. health and education, were incorporated into the structure of the Ministry of the Interior. Moreover, the transfer of supervision over them to the head of the Interior Ministry, Sándor Pintér (a former police chief and the only minister to have held this post in every Orbán government to date – a total of 16 years), may lead to tightening the grip over increasingly dissatisfied workers in these sectors. These changes indicate

an abandonment of ambitions to reform public policies, the collapse of which has been one of the main topics of national debate in recent years, especially in the context of the very high death rate in Hungary during the COVID-19 pandemic.

Fidesz will be at pains to further strengthen the business circles connected to the party. After the election, the process of building the Hungarian bank holding

(Magyar Bankholding) accelerated. The merger of three banks – the state-owned Budapest Bank and the private MKB and Takarékbank – should be completed by the end of this year. The main shareholders of the ‘superbank’ will be the state (approximately 30%), the leading oligarch of Fidesz, Lőrinc Mészáros (approximately 40%), and businessmen linked to the head of the central bank, György Matolcsy (approximately 30%). On the one hand, this will improve the position of Hungarian capital on the financial market (the institution will become the second largest lender after the private bank OTP). On the other hand, it will further strengthen the business elite which is directly linked to Fidesz and supports the pro-government media. The entities which will make up the holding have already financed ventures propping up Orbán’s foreign ambitions, such as granting a loan to Marine Le Pen.

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As the issue of security is growing in importance and, in consequence, military spending has been increasing since 2016 (it is expected to reach 2% of GDP in 2023), Fidesz is trying to benefit more from this fact. Kristóf Szalay-Bobrovniczky, a former ambassador to London and in recent years one of the key businessmen implementing Fidesz’s projects at the junction of the economy and the state, has become the new minister of defence. Among other things, he is a co-owner of a joint venture with the Russian state concern Transmashholding, which exports railway carriages to Egypt. In 2021 he became the main shareholder in the Czech plant Aero Vodochody, with which the Ministry of Defence signed a contract for the purchase of 12 training aircraft shortly after the election (the status of the minister’s shares after he took up his portfolio is unclear). It cannot be ruled out, therefore, that the task of the new head of the ministry will be to channel the funds from the arms contracts towards people linked to the party. This appointment also carries the risk of negative changes at the ministry, which is regarded as the last pro-Western bastion in the government.

Economic and energy difficulties

The new cabinet faces serious challenges due to the difficult budget situation and the jump in energy prices. Due to the heavy spending of the last two years, the country’s debt has increased dramatically and has moved dangerously close to that of the 2008–9 financial crisis period: the budget deficit for 2021 was 6.8% of GDP and public debt was 77% of GDP (the highest among V4 countries). Hungary’s increased spending resulted from interventions in the economy in response to the COVID-19 pandemic, followed by Fidesz’s pre-election welfare offensive. In the first quarter – coinciding with the electoral campaign – the budget deficit reached as much as 73% of the level planned in the 2022 budget law. Furthermore, Hungary has still not come to an agreement with the European Commission on resources from the Recovery and Resistance Facility – RRF (grants of €7.2 billion); this will be one of the government’s most important objectives in the coming months (in March, the cabinet announced that, contrary to earlier declarations, it also intended to apply for loans worth €9.4 billion under this fund). The inflow of money from the EU is also threatened by the so-called conditionality mechanism, launched by the European Commission immediately after the election; however, its implementation will probably last at least until autumn, and it will cover only those funds which are at clear risk of corruption.

One of the first decisions of the new government – the introduction of a special tax on excess profits (the so-called ‘windfall tax’) – was aimed at balancing the budget. In the years 2022–3, this tax will be imposed on several sectors: banking, insurance, energy, telecommunication, as well as retail chains and airlines. Orbán has thus resorted to a solution similar to the special taxes imposed on selected branches of the economy in 2010. According to the government, the move is expected to bring in around 800 billion forints (around €2 billion) to the budget this year, and 1 trillion forints (€2.5 billion) next year. These funds are to be injected into special funds to keep energy prices down and protect defence spending. The biggest revenues are expected from the financial institutions sector (taxed at 10% in 2022 and 8% in 2023) and energy companies (25%). It also announced cuts to public investments worth 1.2 trillion forints (€3 billion) and the suspension or postponement of those planned for 2022–3. According to the Finance Ministry, these measures are expected to reduce the budget deficit to 4.9% of GDP this year and 3.5% of GDP next year. As an immediate effect, however, the levy on excess profits has contributed to a record fall in the value of the forint (the symbolic barrier of 400 forints per euro was passed). Some companies – e.g. airlines – have already started to pass on the costs of the new taxes to consumers (the government has announced a fight against this practice).

The government intends to continue to support families at all costs and implement measures to ease the burden of rising prices on households. Maintaining low energy prices, which Fidesz has for

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years presented as one of its government’s greatest achievements and a justification for developing close relations with the Kremlin, remains a key tool in this regard. However, this argument is becoming increasingly difficult to defend due to the increase in the prices of raw materials on international markets and the uncertain prospects of supplies from Russia, on which the Orbán government has consistently relied while neglecting diversification. For a long time, Hungary had been buying gas from Russia at preferential rates but, even before the invasion of Ukraine, imports of raw materials from this source began to become increasingly unprofitable. According to media reports, the 15-year contract signed with Gazprom in September 2021 provides for a gas price close to the market price, and the costs of maintaining low retail energy prices are borne by Hungarian energy companies. Maintaining the freeze on petrol prices – at 480 forints (around €1.20) per litre since November – is becoming increasingly challenging, as evidenced by the government’s decision on 26 May to allow only cars with national number plates to benefit from the discount (the EC is investigating the compatibility of this solution with EU law). However, MOL, which dominates the fuel market, will continue to compensate for its losses by buying Russian oil at favourable prices (since the beginning of the invasion, it has been approximately US\$30 cheaper than Brent per barrel) due to Hungary winning an exemption for oil pipeline supplies from the Russian Federation under the EU’s sixth package of sanctions.

The government faces the challenge of fundamentally modifying energy plans based hitherto on cooperation with Russia. It is uncertain whether Rosatom’s construction of two new units of the Paks nuclear power plant (agreed in a 2014 intergovernmental agreement) will proceed. The project was already significantly delayed before the invasion of Ukraine and still has not received final approval from the Hungarian Nuclear Energy Authority. Its continuation seems unlikely for political and financial reasons (including Russia’s potential difficulties in providing a €10 billion loan for the project). The office of minister without portfolio for the expansion of the Paks power plant has been abolished (its portfolio was absorbed by the Ministry of Foreign Affairs and Trade), which may indicate an intention to terminate this Russian-Hungarian project. It is possible that the operation of

the four units currently in operation will be extended by an additional decade (according to current plans, they are to be phased out between 2032 and 2037), and new ones will not be built, or that the state will entrust their construction to other entities (e.g. from France). The government seems to be putting off difficult decisions, probably betting on the end of the war and a return to cooperation with Moscow, or tangible benefits from the EU in return for abandoning this cooperation.

Outlook

Orbán's cabinet has entered its most difficult term since taking power in 2010. The coming months will show whether it will prove efficient to apply only slightly modified prescriptions to new challenges. A deeper policy change will probably only occur if the current problems become worse. Fidesz is most concerned about possible social unrest resulting from a combination of a number of unfavourable factors: the intensification of budget problems, high prices, and the energy crisis. The government will therefore primarily try to manage the crisis in the country and consolidate its power. There has been some reshuffling in foreign policy since the election, but no significant move away from the strategy of balancing between the West and the East – although it is possible that economic pressures and foreign partners will eventually force some adjustments here.

Despite Russia's invasion of Ukraine, Orbán's cabinet has not cut its close relations with Moscow, is not providing military aid to Kyiv, opposed the embargo on Russian oil supplies to the EU until the last moment, and has ruled out similar talks on gas. He has also made further concessions to Russia, including agreeing to pay for gas in roubles and successfully defending Moscow's Patriarch Kirill I against EU sanctions. Péter Szijjártó, who in the last decade has been the face of the policy of 'opening to the East' (in December he received the Russian Order of Friendship), has remained in the post of minister of foreign affairs and trade. According to the Hungarian investigative website Direkt36, he ignored the attacks of Russian hackers on his ministry for years. This may have contributed to the prime minister's decision to strip him of control over civilian intelligence thus weakening his position in the government.

There is an evolving division of labour in foreign policy among Fidesz officials. Szijjártó is to focus on the economic aspects of foreign policy and continue to oversee cooperation with non-Western countries, while President Katalin Novák and Tibor Navracsics have become responsible for contacts with the EU and NATO partners. Novák made her first visit to Poland (followed by visits to Germany and the Czech Republic), while Navracsics held talks in Brussels in June on obtaining funds from the RRF (he hopes for a compromise by the end of the year) and also attended the congress of the European People's Party (EPP), which Fidesz left in March 2021.

Given Hungary's marginalisation in the EU, the loosening of cooperation in the Visegrad Group (the main instrument for advancing

Hungary's interests in the EU), the weakening of its relations with Germany following the formation of a left-liberal government there last year, and the worsening of its position in the European Parliament (Fidesz remains an unaffiliated party after leaving the EPP), Orbán's government will be seeking new channels for influencing the EU decision-making process. This is particularly important in the context of efforts to obtain EU funds, which are crucial both for the country's economic stability, and for 'feeding' the party's business circles. Hungary will therefore probably seek to improve relations with France and Germany, hoping that they will be more understanding of its approach to the Russian-Ukrainian war. However, Orbán has emphasised that maintaining close ties with Poland – despite fundamental differences in the approach to Russia – is still a priority, especially

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in the context of the disputes with the European Commission. However, it cannot be ruled out that if Hungary's isolation continues, it may increasingly resort to blackmail in the form of threatening to veto various issues requiring EU unanimity in order to gain concessions in other areas.

The Fidesz government will further develop foreign contacts on an ideological level, by building its image as a bastion of conservatism in the cultural war against the left. These efforts are finding fertile ground mainly among those who are reluctant to see a tough Western response to the Russian threat. In May, a meeting of the Conservative Political Action Conference (CPAC) – an organisation linked to the Republican Party, especially those within its ranks who support Donald Trump – was held in Budapest (most of the highest-ranking guests did not attend the event despite earlier announcements that they would). On 27 May, Orbán met with Le Pen, who in February received a €10 million loan from a Hungarian bank for her presidential campaign, and with whom he jointly criticised the sanctions policy towards Russia. Orbán's plan to create a new right-wing parliamentary group (a merger of the groupings of the European Conservatives and Reformists and Identity and Democracy) is less likely to succeed now, due to fundamental differences between the parties on their approach to Russia. The probing of a possible return of Fidesz to the EPP has so far not met with a positive reaction from its leaders.

Orbán's cabinet appears to maintain the priority of close relations with China and the determination to pursue joint projects with it. Orbán has stressed that the role of the Belgrade–Budapest railway, which is being upgraded by Chinese companies, could gain importance in the wake of the Russian-Ukrainian war and the need for alternative transport routes (the Hungarian section is due to be completed in 2025). The government also intends to revisit the project to build a campus of Fudan University in Budapest (financed by Hungary with a €1.25 billion Chinese loan), which was suspended after protests in 2021. The opposition initiated a referendum on this issue, but after the election the Constitutional Court declared it incompatible with the Basic Law. The implementation of this project will be piloted by the new Minister of Culture and Innovation, János Csák, who is a supporter of close relations with Beijing and has been on the Bank of China CEE's board of directors since 2015.

Since the Russian invasion of Ukraine and the parliamentary election in Hungary, Budapest has not announced any new measures to strengthen the armed forces. It has also maintained that it does not regard Russia as a direct threat to its security. However, it is gradually opening up to extended cooperation with NATO: in March, the government announced that the presence of NATO troops would only be possible in the western part of Hungary, but in mid-June it corrected its stance and allowed them to be stationed in its entire territory. In the coming months, a multinational battle group will be established in the country, which will include several hundred soldiers from the USA, Turkey, Croatia, Montenegro and Italy. After the election, the government has emphasised its determination to develop cooperation with Western European arms industries, mainly Germany's and France's (including Rheinmetall and Airbus), which will lead to closer political ties with these countries.