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POINT OF VIEW

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IN A STATE OF NECESSITY

HOW HAS ORBAN CHANGED HUNGARY

Andrzej Sadecki

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Contents

MAIN POINTS /5

INTRODUCTION /7

I. DOMESTIC POLICY /10

- 1. The constitutional reforms /10**
- 2. Fidesz's hegemony in the state administration /12**
- 3. The weakening of independent institutions /13**
- 4. The consolidation of power and the ‘irreversibility’ of the changes /14**
- 5. The dominant position of Prime Minister Orban /14**
- 6. Fidesz's business and media base /16**

II. ECONOMIC POLICY /19

- 1. The fiscal policy /20**
- 2. More state in the economy /22**
- 3. The results /24**

III. EUROPEAN AND FOREIGN POLICY /28

- 1. European policy /28**
- 2. The international criticism /30**
- 3. The policy on Central Europe /33**
- 4. The Eastern opening /36**

CONCLUSION AND FORECASTS /40

MAIN POINTS

- Viktor Orban took power in Hungary at a time when the country was plunged in a deep political and economic crisis. He introduced radical changes in the country and thus challenged the previous economic and political order. The mechanisms of checks and balances were significantly hemmed in, and the political opposition's role was marginalised. This caused a great deal of controversy abroad, and Orban's rule provoked a discussion on the limits of democracy and the rule of law in the European Union. The reforms, however, have not undermined the fundamental features of the parliamentary system, in place in Hungary since 1989. The new basic law includes some necessary solutions, such as constitutional restrictions on public debt. Nevertheless, the changes were aimed primarily at reinforcing the central government and expanding Fidesz's dominance on the Hungarian political scene.
- Fidesz's key achievements after four years of rule are a consolidation of public finances and a slight reduction in public debt, though this remains the highest in the region. It has been unable to overcome the economic stagnation ongoing since 2007. Frequent legislative changes have added to the deterioration of the investment climate, although the policy of supporting selected economic sectors has prevented capital flight. In turn, the drop in market confidence caused temporary problems with the service of the national debt. The government has taken a number of short-term measures aimed at improving the situation faced by citizens, but no clear perspective for improving the dynamics of economic growth can be seen yet.
- No fundamental change of direction has been seen in European and foreign policy and Hungary has shown little activity and initiative as part of the EU and NATO. Relations with the USA and most large EU member states have cooled as a consequence of the controversies over Hungarian reforms.

Although politicians from Fidesz have resorted to Eurosceptic rhetoric at home, in practice Budapest has followed the EU's mainstream. The Orban administration confirmed its obligations as part of NATO but it further cut the country's military expenses.

- Orban has shown an inclination to treat co-operation within the Visegrad Group not as a format which supplements the European integration process and which is a foundation for political coalitions inside the European Union, but rather as a group to counterbalance the 'dictate' of Brussels and the largest EU member states. Although Hungary's approach was not backed by its partners, the country became engaged in co-operation as part of the V4, pointing out the Socialists' negligence in this area. On the other hand, Fidesz has conducted a much more active policy concerning Hungarian minorities abroad, and has thus caused tension in relations with the countries it borders.
- The strategy of an 'Eastern opening' in foreign policy which was announced at the beginning of Fidesz's rule has brought limited effects despite the significant diplomatic expenses incurred. Establishing closer economic relations with China was initially given a high priority, but Russia gradually became the leading economic partner. Although Fidesz as an opposition party had severely criticised close co-operation with Moscow in energy issues, it continued the political left's policy after the election. Furthermore, Orban's government decided to build a comprehensive solution to address the most important issues for the Hungarian energy sector on the basis of co-operation with Russia. It has actively supported the construction of South Stream, and towards the end of its present term chose to entrust a Russian company with developing the Paks nuclear power plant, the largest investment in Hungary since 1989.

INTRODUCTION

In 2010, the right-wing party Fidesz took total power in the country. Together with its satellite party the Christian Democratic People's Party (KDNP), it achieved a sweeping victory in the parliamentary election in April 2010. It won 53% of the votes, thus receiving 68% of the seats (i.e. a constitutional majority) in parliament as part of the mixed electoral system. This victory came after two back-to-back defeats in 2002 and 2006, and the party leader, Viktor Orbán returned to his role at the head of the government (after having been prime minister from 1998 to 2002). Parliament elected Fidesz's Pal Schmitt president of Hungary in June 2010. In October 2010, Fidesz received 58% of votes in local elections, and its candidates for mayors won in 22 out of the 23 largest cities, including Budapest.

At the root of Fidesz's dominance on the Hungarian political scene was the economic and political crisis which began in 2002-2010, when the political left was governing the country. During its first term, the coalition government formed by Socialists and Liberals oversaw a rapid increase in the country's debt and a crisis in public finances. Furthermore, Hungary benefited much less from the economic boom following its accession to the European Union than the other new member states. Following the election in 2006, Prime Minister Ferenc Gyurcsány appealed for reforms at a closed party meeting and at the same time concluded that the actions taken by the cabinet thus far had been a failure and that the Socialists had been able to retain power only by concealing the tough financial situation and lying during the election campaign. His speech was leaked to the press a few months later, causing the strongest political upheaval in Hungary since 1989. A wave of anti-governmental demonstrations swept across the country. There were violent clashes between demonstrators and the police in Budapest, where hundreds of people were injured. The Gyurcsány government retained power, but the political left began hemorrhaging popularity.

Fidesz capitalised on the disrepute of the political left, and together with KDNP presented itself as the only legitimate representative of Hungarians. Once the recording discrediting Prime Minister Gyurcsany had been disclosed, each time he spoke in parliament, the Fidesz-KDNP faction would leave the chamber. During the referendum in 2008 initiated by Fidesz, which was a plebiscite against the left-wing government, citizens voted for the cancellation of charges for higher education, doctor's visits and stays in hospital, imposed by the Gyurcsany government. However, Fidesz did not make efforts to shorten the Socialist government's term, hoping that they would become even less popular over time. The international economic crisis, which caused a mass outflow of foreign capital from Hungary, dealt the political left the final blow. The country found itself on the verge on bankruptcy and plunged into a deep recession (-6.8% GDP in 2009). Mass redundancies were seen in many companies. It was only possible to stabilise the financial situation due to a loan granted by the International Monetary Fund and reforms conducted in consultation with the IMF by the technocratic government led by Gordon Bajnai. However, budget cuts and tax raises made the Hungarian Socialist Party (MSZP) even less popular, and their support levels fell to 19% during the election (as compared to 40% in 2006).

Fidesz skilfully capitalised on growing frustration among the Hungarian public, who were tired of constant political scandals and the difficult economic situation¹. The 2010 election also marked an end to the previously established set-up of political

¹ In the survey conducted by Pew Research Centre in 2009, 94% of respondents from Hungary described the situation in their country as negative, while 72% of them saw it as being worse than in the communist era. 71% of respondents were of the opinion that EU membership has weakened the Hungarian economy. Although support for democratic values was high, deep disillusionment with the state of Hungarian democracy became evident, since 77% of respondents saw it as negative. For more information see: 'Hungary Dissatisfied with Democracy, but Not Its Ideals', <http://www.pewglobal.org/2010/04/07/hungary-dissatisfied-with-democracy-but-not-its-ideals/>

parties in parliament, since two anti-establishment parties entered parliament: the xenophobic and nationalist Jobbik party and LMP (Politics Can Be Different), a party promoting sustainable development and the protection of the natural environment. Fidesz, Jobbik and LMP challenged, albeit each to a different extent, the existing order and some elements of the consensus regarding the free market, liberal democracy and the Euro-Atlantic orientation present since the political transformation of the country.

I. DOMESTIC POLICY

In the government's rhetoric, the condition of the state which the "nation" had regain was that of higher necessity which allowed the country's leadership to introduce serious changes and search for new solutions. Fidesz's electoral manifesto in 2010 did not provide for any serious reconstruction of the state. However, Fidesz defined its sweeping victory as a "revolution at the ballot boxes", an expression of public consent to the political system being changed and at the same time as a vote of no confidence for the disgraced Liberal and Socialist political elites. A declaration of the "national co-operation system" was accepted at the onset of the new parliamentary term and made available to read on display in all public administration buildings. It marked the symbolic opening of the new era. A new social contract was announced as a culmination of the struggle for liberty which commenced in 1956. As a result "after forty-six years of occupation and dictatorship and a chaotic two decades of transformation, Hungary regained its right and capability to determine itself as an autonomous state"². Parliament declared the setting up of a new political and economic system, the main pillars of which would be "work, home, family, health and order." Ethnic Hungarians living beyond the country's borders were also included in the political community. This above all concerned the Hungarian minorities from the countries bordering on Hungary, living in the territories the country had lost in 1920. Parliament's first decision was to introduce facilitations for ethnic Hungarians seeking Hungarian citizenship.

1. The constitutional reforms

With its two-thirds majority, Fidesz was able to carry out a major reconstruction of the state. A new constitution and electoral law were adopted, and most institutions were reorganised. Reforms covered

² 'Legyen béke, szabadság és egyetértés', 14 June 2010, http://www.kormany.hu/download/2/33/ooooo/Politikai_Nyilatkozat.pdf

such areas as local governments, the labour code, the pension system, education, the health service and the secret services. From the beginning of its term in May 2010 until December 2013, parliament adopted as many as 840 acts (as compared to 583 acts adopted throughout the entire previous term). However, the foundations of the Hungarian political system, established during the round table talks in 1989, were not changed, and around 80% of the regulations in the new constitution are identical to those from the previous one. The parliamentary-cabinet system has been preserved and the prerogatives of the parliament and government have been strengthened insignificantly. The president, as before, is elected by parliament and has no extensive power, although the new constitution has vested the president with the right to dissolve parliament should it fail to adopt a budget by 31 March of any given year. The number of deputies in the unicameral parliament has been reduced from 386 to 199. The electoral system has been slightly simplified, but the majority-proportional system has been preserved.

Centralist tendencies could be observed in the reforms carried out by the Orban government. The amendment of the local government act which took effect together with the new constitution on 1 January 2012 partly reversed the decentralisation of the state which had been effected in 1990. For example, it reinvested central authorities with the power to supervise educational institutions and hospitals; these had been supervised by district authorities (*megye*). The public-private pension system in operation from 1998 was liquidated, and the open pension fund's assets were taken over by the Treasury.

A number of symbolic and ideological changes have been introduced. Under the new constitution, the name of the state 'Republic of Hungary' (*Magyar Köztársaság*) was changed into simply 'Hungary' (*Magyarország*). This was intended to symbolise a clear break with the legacy of the People's Republic of Hungary. Regulations establishing the protection of human life from conception and defining the family as a relationship between a man and

a woman were included in the new constitution. However, regulations allowing legal abortion and relations between two partners of the same sex were not repealed. The government party was afraid to change the solutions backed by a significant part of Hungarian public³.

2. Fidesz's hegemony in the state administration

The reconstruction of the state administration enabled Fidesz to conduct a major staff reshuffle. Although replacement of personnel in state institutions and state-controlled companies was nothing new in Hungary – the political left had carried out a thorough purge after its victory in 2002 – Fidesz carried it out on a scale hitherto unseen. The reasons for the changes included the need to call the incompetent left-wing government to account, while the act that facilitated dismissing public administration servants adopted at the beginning of the new government's term proved to be a handy instrument. When Schmitt took the presidency, almost all presidential administration employees were replaced, even though his predecessor had been nominated by Fidesz⁴. Staff reshuffles were also seen among regulatory authorities and at cultural and academic institutions.

The reorganisation or creation of new institutions made it possible to replace almost all senior officials, in many cases before the end of their tenures. One example was the president of the Supreme Court, who, following the reorganisation and renaming of this institution (known as *Kúria* since 2012), had to leave his office before his term had expired. State institutions became more politicised. A qualified majority is required when electing directors

³ ‘Hiába védett a magzat, nem szigorodik az abortusz’, Index, 11 March 2011, http://index.hu/belfold/2011/03/11/az_abortuszrol_torveny_valtozasa_varhato

⁴ ‘Sólyom szinte minden munkatársát kirúgták, Szabadné maradhat’, Népszabadság, 3 August 2010, http://nol.hu/belfold/solyom_szinte minden_munkatarsat_kirugtak_schmittek

of regulatory institutions, the president of the Supreme Court, judges of the Constitutional Court and other senior state officials and this previously meant that the candidates were selected as a consequence of a compromise between the government party and the opposition.

3. The weakening of independent institutions

The 2010 election vested Fidesz with unusually strong power, enabling it to push through any legal act. State institutions which had counterweighted the legislative and the executive powers as part of the checks and balances system were weakened. This above all concerned the Constitutional Court (CC), which – given the weak presidential prerogatives and the lack of an upper parliamentary house – had played an especially vital role in the Hungarian political system. The new constitution curbed the CC's power to pass verdicts on budget issues, and vested parliament with the right to nominate the court's president (previously, the court's judges elected one of their number to be the presiding judge). The government camp has on many occasions actually challenged the ultimate nature of the Constitutional Court's decisions. In some cases, when the court found an act to be incompatible with the constitution, parliament would amend the constitution and adopt the act in unchanged form or raise the rank of its regulations to constitutional level. Fidesz has resorted to this trick a few times, both when the old constitution was in force and since the new one has been adopted. The most widely publicised case took place in March 2013, when parliament – amending the constitution for the fourth time – adopted a package of several amendments in cases which had been questioned by the Constitutional Court. Finally, Fidesz cancelled some of the changes under pressure from the European Union, the Council of Europe and the USA⁵.

⁵ It should be noted that some essential decisions passed by the Constitutional Court, for example the one deeming the obligation to register for election unconstitutional, have been respected by the parliamentary majority.

4. The consolidation of power and the ‘irreversibility’ of the changes

Even if Fidesz loses power, it will continue to wield significant influence on the situation in the country since it has extended the tenures of many senior officials and nominated loyal adherents to such positions. One example is the issue of media supervision. The head of the National Media and Intercommunications Authority (NMHH – established in 2010) and members of the Media Council were appointed for nine-year terms. Reforms conducted by Fidesz may also prove extremely difficult for the next governments to revert. The Hungarian legislative system includes an extensive catalogue of so-called “cardinal acts” (*sarkalatos törvények*), adopted by a qualified two-thirds majority in parliament. This procedure applies to acts concerning, for example: electoral law and the scope of powers of the Constitutional Court and other central institutions. The new constitution has extended the scope of issues which can be regulated under cardinal acts, including family policy, the pension system and the tax system. This will be a serious restriction for future cabinets, which will find it difficult to implement their political manifestos should they fail to win a two-thirds majority. For example, an extensive compromise in parliament would be needed to cancel the flat-rate income tax introduced by Fidesz. Furthermore, the powers of the Budget Council, whose members are linked to Fidesz, have been reinforced; and this institution may play a major political role in the future. If the council vetoes the budget act, and the government fails to adopt a new one, the president will be able to dissolve parliament and schedule a new election.

5. The dominant position of Prime Minister Orban

Fidesz’s rule is characterised by the unusually strong position of Prime Minister Orban. He is the undisputed leader of the party. Although Fidesz is formed by a great variety of right-wing circles, no factions have been formed inside the party, and Orban has no

real competitors among Fidesz members. The individuals who used to play an essential role in this party have either been marginalised (Zoltan Pokorni and Tamas Deutsch) or hold senior positions in the state administration and have not shown independent political ambitions (President Janos Ader and Parliamentary Speaker Laszlo Kover). Fidesz politicians of the younger generation (in their thirties and forties) are predominant among Orban's closest aides. Janos Lazar, the head of the Prime Minister's Office, is playing the leading role among them. Lazar has been mentioned as Orban's potential successor.

In the first two years, when the constitutional reform of the state was being implemented, Pal Schmitt, who was completely loyal to the party, was the president of Hungary. He replaced Laszlo Solyom, who was linked to the political right and was a deeply respected politician. Nevertheless, Fidesz chose not to elect Solyom for the second term. Schmitt approved of all legal acts submitted to him for signing. He did not use his right to send an act back to parliament to be considered again or direct it to the Constitutional Court even once. When Schmitt stepped down in April 2012 as a consequence of a plagiarism scandal, deputies from Fidesz elected Janos Ader, who had served as a Member of the European Parliament. The new president has shown some independence, since he has directed a few acts to the Constitutional Court in the first two years of his presidency, but he has generally shared the party line as regards the most important issues.

The centre of power led by the prime minister has been reinforced. The previous twelve ministries have been replaced by eight strengthened ministries; only the Ministry of Foreign Affairs and the Ministry of Defence have remained in unchanged form. The Prime Minister's Office has been granted more extensive competences. It has taken over issues concerning foreign economic co-operation and the policy of 'Eastern opening' from the Ministry of Foreign Affairs. The National Development Agency, which is in charge of the distribution of EU funds, fell under the supervision

of the Prime Minister's Office in August 2013, and the office's head, Janos Lazar, was put in charge of the agency. The civilian intelligence service also reports to the Prime Minister's Office.

6. Fidesz's business and media base

Fidesz has also used its dominant position in politics to reinforce its business and media base. The Hungarian press has given publicity to a number of cases of discrimination in favour of entrepreneurs linked to the party. The Kozgep construction holding, which has regularly won public tenders over the past few years, has played the key role. The holding is owned by Lajos Simicska, who was Orban's roommate as a student and served as financial director at Fidesz in the 1990s. In 2013 alone, Kozgep, either by itself or as part of a consortium, won public contracts worth at least 430 billion forints (almost 1.4 billion euros)⁶, covering primarily infrastructural projects. Acts regulating the sale of tobacco products and land trade have given rise to strong controversies. Businessmen linked to the political right benefited from both acts.

Fidesz has also gained more influence in the mass media, although a section of the Hungarian press is critical of the government. At the beginning of its tenure, Fidesz dissolved the previous institutions in charge of media supervision and established the National Media and Intercommunications Authority and the Media Council. Fidesz's nominees were appointed for long terms as members of both of these institutions. The politicisation of these institutions and regulations of the new media act have been sharply criticised by journalists groups at home and abroad and also by the Hungarian political opposition. They also attracted the attention of a great part of the EU's member states, since the government made the changes shortly before Hungary took the presidency of

⁶ Estimated data taken from the investigative journalism portal Atlatszo.hu, http://atlatszo.blog.hu/2014/01/08/kozgepes_kozbeszerzesek_2013-ban_tul_a_400_milliardon

the Council of the European Union. The most controversial issues included the possibility to impose high penalties on the media and regulations forcing journalists to reveal their sources of information under certain circumstances. Part of the regulations which could violate European law were loosened under pressure from the European Commission, but the basic part of the act remained in force. However, no gross violations of the freedom of speech have been witnessed over the past few years (one exception could be the problems which the left-leaning Klubradio has had with obtaining a licence). In turn, massive layoffs were carried out in the public media, which are now clearly pro-governmental – as they were under Socialist rule.

The government has made use of a number of propaganda measures to popularise its actions and achievements. Advertising actions branded as ‘government information’ have been carried out on a large scale. Public funds have been spent on full-page advertisements in Hungary’s largest dailies, Internet advertisements on the key news portals and on posters and hoardings. When speculation about the terms on which the International Monetary Fund would grant a loan to Hungary appeared in the media in October 2012 (unconfirmed by the IMF), the government launched a campaign under the slogan “We shall not succumb to the IMF!”⁷. When the EU’s excessive deficit procedure was discontinued with regard to Hungary in June 2013, the government took out advertisements in the press to announce that the EU “had been forced” to close the procedure, and every citizen received a letter from Prime Minister Orban with information about this fact⁸. The government conducted a number of advertising campaigns under the

⁷ The following advertisements were published in seven major dailies with national coverage on 9 October 2012: “What can we expect from the IMF? Respect and trust! We will not allow Hungary to lose independence”, “No to reduced support to families! We shall not succumb to the IMF!”, “No to real estate tax!”. http://index.hu/belfold/2012/10/09/nem_engedunk_az_imf-nek_-_hirdeti_a_kormany/

⁸ The letter from Orban was published on the fn24 portal on 9 August 2013, <http://fn.hir24.hu/Root/Shared/Pictures/2013/08/09/orban-levele.jpg>

slogan “Hungary is better-off” (*Magyarország jobban teljesít*) in the last year of its present term, giving information about the government’s achievements in press advertisements and on posters throughout the country whose graphical layout closely resembled that used in Fidesz party materials. Advertisements of this kind have also been broadcast on television during the election campaign. Fidesz has thus in fact exceeded the limit of TV spots set for each political party.

II. ECONOMIC POLICY

Fidesz took power in difficult economic times. Hungary had fallen into its deepest recession of the previous decade just one year earlier (its GDP fell by 6.8% in 2009). However, the country was not in a catastrophic financial situation. The real threat of the state defaulting on its debts had been averted by a loan worth 20 billion euros granted by the IMF and other financial institutions. An agreement with the IMF marked the beginning of a process aimed at improving the health of public finances through reforms conducted by the technocratic cabinet led by Gordon Bajnai⁹. Its policy, closely consulted with the IMF, was strongly criticised by Fidesz, which was making promises to end the austerity policy and open a new beginning in economic policy during the election campaign. However, in practice Fidesz's manifesto cannot be defined as a coherent economic strategy. In the initial period, it included elements aimed at stimulating economic growth through tax cuts for small and medium-sized companies. Then, an attempt to consolidate public finances was made in the next years, while cuts in social expenditure were avoided. The most important reforms carried out by Fidesz covered:

- a) major changes in the country's fiscal system, including the introduction of low income taxes along with the imposition of high taxes on banks, telecommunication firms, the energy sector and retail chains, followed later by increasing and imposing new taxes, while the situation in public finances remained difficult;
- b) major changes in the pension system as a consequence of what de facto was a disassembly of the public-private pension system and takeover of the savings from open pension funds by the state-controlled pension system;

⁹ For example, the extension of the retirement age (from 62 to 65 gradually between 2010 and 2022), the freezing of wages for two years and the liquidation of the so-called "thirteenth paycheck" for public servants, and the VAT rate increase (from 20 to 25%).

c) strong state control of the economy, examples of which include building a national energy giant, increasing interference with energy prices and undermining the role of the independent office for regulating the energy sector.

It was assumed in Fidesz's economic strategy that the income tax cuts for individuals and small and medium-sized companies would revive the stagnant Hungarian economy. In turn, the special taxes imposed on some sectors and the return to the state-controlled pension system were expected to significantly improve the country's fiscal situation. However, the government's plans had to face domestic and foreign restrictions. The government has been forced to significantly modify its economic policy throughout its entire tenure due to the financial markets' reaction to the Hungarian reforms, the volatile situation on foreign markets, the disciplinary measures adopted by the EU with regard to Hungary's budget policy and continuing stagnation.

1. The fiscal policy

In the first year of its rule, Fidesz cut the income tax and was simultaneously searching for new sources of budget revenues. A 16% flat-rate personal income tax was introduced in 2011, replacing the previous system where two thresholds (18% and 36%) applied. The 16% corporate income tax (CIT) rate was replaced with two rates: 19% and the reduced 10% rate for firms with incomes lower than 500 million forints (around 1.6 million euros). Lower budget incomes were to be compensated by crisis taxes imposed on banks, insurance companies, energy companies, telecommunication service providers and retail chains. In February 2011, the state took over savings from open pension funds worth roughly 10 billion euros. This de facto meant the cancellation of the reform which had introduced the public-private pension system in 1998. These funds have been used to service the current needs of the state.

The imposition of additional levies on the sectors where foreign capital was predominant, the failure to make budget cuts, and the use of solutions to improve public finances by use of one-off measures provoked a negative reaction from the financial markets. In late 2011/early 2012, the key rating agencies (Fitch, Moody's, and Standard & Poor's) reduced the rating for Hungarian bonds to the 'non-investment' grade. Contrary to government forecasts, which had predicted economic growth at a rate of 3-5% in 2011-2013¹⁰, Hungary's economy once more entered recession (-1.7% GDP) in 2012. In addition to this, the financial crisis in the eurozone worsened. Hungary again started to have problems with the service of the national debt. Furthermore, the European Commission applied strict rules to the reduction of Hungary's deficit, refusing to recognise the single boost in budget income as a durable improvement of the financial situation. Hungary was the first EU member state which the European Commission applied its strictest instrument to as part of the excessive deficit procedure, namely the suspension of part of the funds from the Cohesion Fund (the measure was lifted once the government had implemented a package of reforms).

The government had to significantly modify its economic policy. First of all, it had to impose new taxes and cut spending to a limited extent. Between 2011 and 2013, parliament adopted a total of eleven law packages aimed at stabilising the budget situation. The VAT rate was lifted from 25 to 27% (being the highest in the EU). A financial transaction tax (FTT) was introduced, initially at 0.1% rate to be increased subsequently to 0.3% (the Hungarian National Bank was exempted from the tax under pressure from the EU). The crisis tax imposed on telecommunication firms and retailer chains was lifted in 2013, while the other crisis taxes were retained. The bank tax, which was to be lifted after two years, has

¹⁰ NGM-prognózis: Csökkenő adóterhek és újraelosztás, Origo, 2 October 2010, <http://www.origo.hu/gazdasag/hirek/20101102-ngm-2011ben-3-szazalekos-2012ben-35-szazalekos-gazdasagi-novekedes.html>

become a constant element of the Hungarian fiscal system. The generous welfare spending was effected by limited budget cuts. Unemployment benefits and earlier retirement schemes were restricted. Furthermore, expenses on higher education, subsidies for public transport and medicine, and expenses of individual ministries were reduced. As a result, the government managed to durably bring down the deficit to below 3%, and the Council of the European Union withdrew the excessive deficit procedure (EDP) in June 2013, which had been imposed on Hungary since its accession to the EU in 2004.

2. More state in the economy

There has been an intensification in tendencies towards state control in the economy since 2010. Despite the difficult financial situation, the state has bought back a number of previously privatised companies from private owners. The most spectacular takeovers were seen in the energy sector. The government bought back a 21% stake in MOL from Russia's Surgutneftegas for a price of 1.88 billion euros (MOL is an important player on the regional oil market and the Hungarian gas transmission system operator). The state-owned corporation MVM spent 870 million euros to buy companies belonging to Germany's E.ON which had a dominant position in the storage and trade of gas. In addition to that, a number of smaller takeovers were conducted on the energy market from foreign entities (e.g. from RWE and ENI). The state's reinforced position in the energy sector was intended to help the government increase its influence on the way the sector was developing and on the prices of energy carriers. Prime Minister Orban promised that entities selling energy would act as non-profit organisations in the future¹¹. Since the company which buys natural gas from Gazprom has been taken over from E.ON, the state-controlled

¹¹ ‘Orbán: Brüsszelben kell megvívni a rezsiharcot’, *Magyar Nemzet*, 31 January 2014, <http://mno.hu/belfold/orban-brusszelben-kell-megvivni-a-rezsiharcot-1208377>

corporation will negotiate the new long-term contract with Russia (the present one expires at the end of 2015).

The state's position in the financial sector has also increased. The state-owned Hungarian Development Bank (MFB) bought Germany's DZ Bank's shares in Takarekbank, which is formed by savings co-operatives and which was later recapitalised by the state. In a situation where access to loans had become more difficult due to high taxes imposed on banks, the government made attempts to make it easier for entrepreneurs to receive loans with the help of state-controlled banks and the National Bank of Hungary. Given the hard financial situation, further takeovers have been impossible, but this process is set to be continued in the coming years. As Prime Minister Orbán has declared, at least half of Hungary's banking sector should be controlled by Hungarian capital - at present, 90% of this sector is owned by foreign capital¹².

The Fidesz government has adopted a selective approach towards the presence of foreign capital in Hungary. It has imposed additional levies on companies operating in the services sector, above all on the energy, financial, telecommunication and trade branches, while foreign companies active in the production sector have been treated on preferential terms. The government has signed a number of strategic co-operation agreements with corporations from this sector. These agreements were intended to strengthen the companies' sense of security while legal regulations were changing frequently and to encourage them to invest more. The government has signed strategic co-operation agreements with 43 companies (including 13 from the automobile sector). The Prime Minister has personally signed the agreements with Audi, Daimler, Coca-Cola and Suzuki among other companies.

¹² 'Overhaul of Hungarian banking sector kicks off - 7 facts about Orbán's dream', *Portfolio*, 11 December 2013, http://www.portfolio.hu/en/economy/overhaul_of_hungarian_banking_sector_kicks_off_7_facts_about_orbans_dream.27062.html

The government has adopted a number of solutions aimed at temporarily improving the situation of its citizens with the stagnant economy. These were predominantly solutions which burdened the private sector. In 2011, borrowers received the option to make a single repayment of mortgage loans in foreign currencies at a reduced exchange rate, which has been beneficial most of all for those who had more money. The government has also made attempts to force banks to stop offering loans in foreign currencies and to convert existing loans in foreign currencies into forint loans, but has been unable to achieve that by the end of this term. Its most important move, which has affected all consumers, was to force energy companies to cut prices for individual clients¹³. In 2013, electricity, gas and central heating prices dropped 20%, and the energy price reduction has become the leitmotiv in Fidesz's campaign ahead of the election in April 2014.

3. The results

Maintaining financial discipline and reducing the level of the budget deficit to below 3% are the government's greatest achievements. The imposition of a constitutional limit (50% of GDP) on public debt was also a positive move Fidesz made. If the debt exceeds this level – as is currently the case – the budget act must provide for reducing it. The Orban government has reduced public debt to a limited extent, but it remains at a level of around 80%, the highest in the region. The country's high foreign debt will also continue to be a problem.

The government has been unable to overcome the economic stagnation continuing without change since 2007. Furthermore, Hungary entered recession for the second time recently in 2012 (-1.7%). The low flat-rate tax contributed domestic demand receiving

¹³ For more information see: A. Sadecki, 'The Hungarian government's struggle against foreign energy companies', 27 March 2013, <http://www.osw.waw.pl/en/publikacje/analyses/2013-03-27/hungarian-governments-struggle-against-foreign-energy-companies>

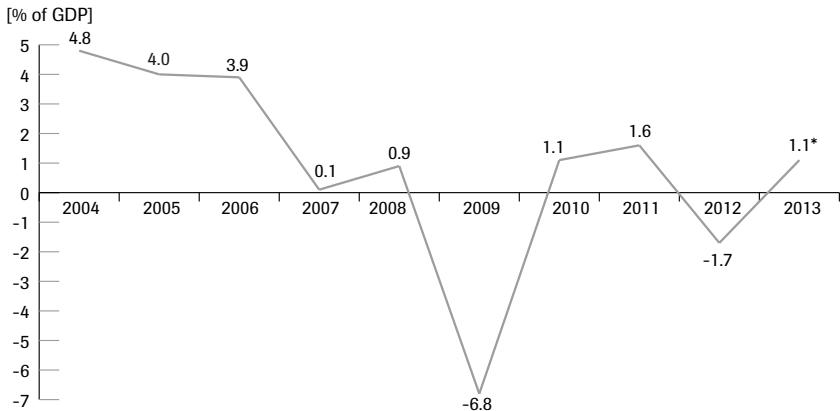
a boost, but this has been sated primarily with imported products. The imposition of additional levies on banks has significantly curbed the availability of loans for companies. In turn, the imposition of crisis taxes on some sectors, the frequent legislation changes and the increased state interference in markets have all adversely affected the investment climate. Although no major outflow of investments from Hungary has been seen, the opportunities to attract new investors have been significantly reduced.

A significant improvement in the level of employment has been impossible over the past four years (Fidesz's key promise as part of its campaign in 2010 was to create one million jobs within a decade). Although the unemployment rate fell from 11.2% in 2010 to 10.2% in 2013, few new jobs were created within this period. Unemployment was reduced primarily owing to expanding the public work programme, which extended to almost 300,000 people towards the end of 2013¹⁴. Emigration from Hungary mostly to Germany has increased significantly over the past few years. The unemployment rate has still not been brought back to the pre-crisis level of 7.4% (2007). The very low employment rate remains a weakness of the Hungarian economy. The rate is 62.1% for people aged 20-64, while the EU average is 68.4%¹⁵.

¹⁴ ‘Közeli a 300 ezerhez a közmunkások száma’, Világ gazdaság, 18 November 2013, <http://www.vg.hu/kozelet/kozelit-a-300-ezerhez-a-kozmunkasok-szama-416015>

¹⁵ Employment rate by sex, age group 20-64, Eurostat, http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=1&language=en&pcode=t2020_10

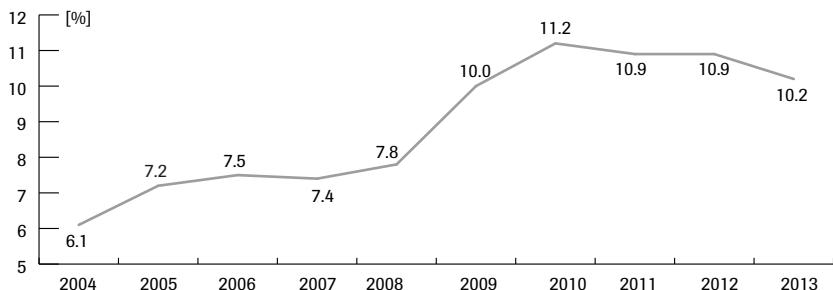
Chart 1. Economic growth (% of GDP)



Source: Hungarian Central Statistical Office (KSH)

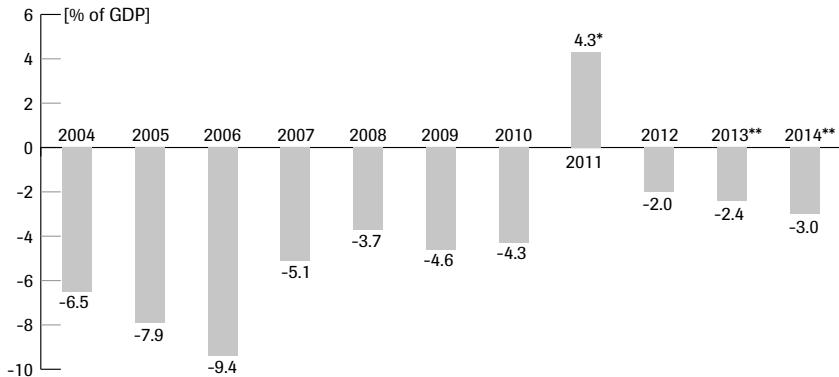
* estimated data

Chart 2. Unemployment (%)



Source: Hungarian Central Statistical Office (KSH)

Chart 3. Budget deficit (% of GDP)

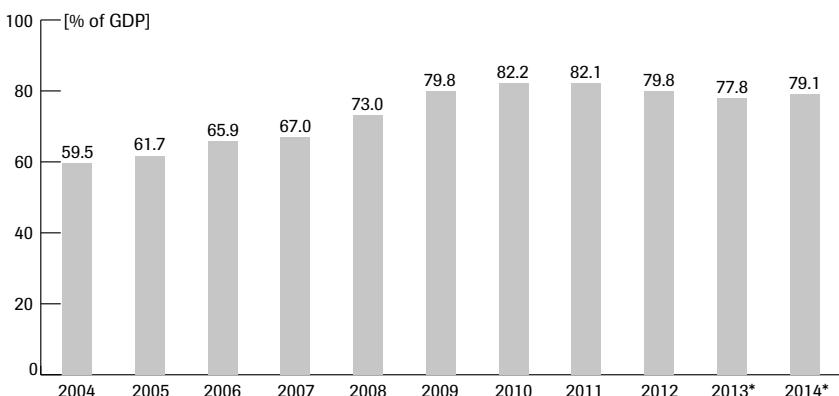


Source: Eurostat

* Budget surplus resulting from the Treasury's takeover of the savings from private pension funds

** European Commission forecast

Chart 4. Public debt (% of GDP)



Source: Eurostat

* European Commission forecast

III. EUROPEAN AND FOREIGN POLICY

The government led by Orban has not made any fundamental changes in the country's European and foreign policy. Over the past four years, little activity and initiative has been seen in Hungary's foreign policy as part of the EU and NATO. Relations with the USA and most large EU member states have cooled as a consequence of controversies over Hungarian reforms. Although politicians from Fidesz have resorted to Eurosceptic rhetoric at home, in practice Budapest has followed the EU's mainstream. The Orban administration confirmed its obligations as part of NATO but it further cut the country's military expenses. At present, military expenses are as low as around 0.8% of GDP (2014). This level of expenses allows the army to maintain its capabilities but prevents the modernisation of outdated military equipment.

The Fidesz government has demonstrated a greater interest in regional co-operation, especially as part of the Visegrad Group. However, its policy towards Hungarian minorities in the countries it borders has given rise to tension in relations with these countries, especially Slovakia and Romania. Due to the economic crisis in the West and increasing political tension in relations with part of Hungary's traditional partners, Budapest has made efforts to intensify political and economic relations with Eastern countries. Closer political and energy contacts have been established above all with Russia as part of the 'Eastern opening' policy.

1. European policy

Neither statements from government representatives nor strategic documents have provided a coherent vision for the development of the European Union. The foreign policy strategy of 2011¹⁶

¹⁶ Hungary's Foreign Policy after the Hungarian Presidency of the Council of the European Union, 2011, http://www.kormany.hu/download/e/cb/60000/foreign_policy_20111219.pdf

expressed support for enhancing integration and the primacy of the community method over the intergovernmental method in the EU's decision-making process. At the same time, the need to reinforce the position of democratically elected governments has been emphasised. Some discrepancies have also been heard in the views voiced by the minister of foreign affairs, Janos Martonyi, who has declared support for closer integration, and Prime Minister Orban, who has made references to the tradition of a 'Europe of the nations'. Orban accepts the deepening financial integration of the eurozone member states because Hungary wants its key economic partners to remain stable. He does, however, insist that the states which do not belong to the eurozone be given the highest degree of economic sovereignty.

In practice, Hungary has accepted the main directions of European integration over the past four years (with the exception of the "Euro Plus Pact"). It has not blocked any decisions in the EU requiring unanimity of the member states. When Hungary held the presidency of the Council of the EU in the first half of 2011, it contributed to progress in work on the so-called "six-pack", i.e. the package of economic governance rules in the EU. Initially Hungary, like the United Kingdom and the Czech Republic, was sceptical about the fiscal pact but, unlike these two, it finally supported the pact. Although the intention to introduce the euro as the national currency is mentioned in official documents, actions and declarations from Fidesz politicians have proven that they have in fact given up efforts to adopt the common currency. In the opinion of Prime Minister Orban, Hungary should not consider introducing the euro until it has achieved a level equivalent to 90% of the average GDP of the eurozone member states¹⁷. The new constitution states that the forint is the Hungarian currency, which makes the introduction of the euro even more difficult. This means that an

¹⁷ 'Orbán megismételte az eurócsatlakozás egyik feltételét', Portfolio, 12 October 2013, http://www.portfolio.hu/gazdasag/orban_megismetelte_az_eurocsatlakozas_egyik_feltetelet.190419.html

amendment to the constitution and an extensive political compromise will be needed to accept the euro as the national currency in Hungary.

Among the major challenges which Hungary has faced in its European policy over the past four years are: its presidency of the Council of the EU in the first half of 2011 and negotiations of the EU's multiannual financial framework for 2014-2020. The Hungarian diplomacy effectively directed the work of the Council of the EU. A significant part of priorities which had been previously set were implemented, including the accession treaty with Croatia being signed and the EU's strategy for the Danube region (EUSDR) being adopted. However, the controversial media act adopted by the Hungarian parliament just before Hungary's presidency and Prime Minister Orban's confrontational statements cast a shadow on the evaluation of the Hungarian presidency. Achieving a good result in the negotiations concerning the new financial framework became the next priority task for Hungary. Hungary belonged to the so-called "friends of cohesion policy group" and to the coalition of the states supporting a strong common agricultural policy. Although more funds have been granted to Hungary as compared to the European Commission's initial proposal and it will still receive more funds from the EU budget than it pays in, it will receive significantly less money than in 2007-2013. Hungary will receive 18.34 billion euros from the Cohesion Fund in the next seven years, i.e. 20% less than as part of the previous financial framework¹⁸.

2. The international criticism

Hungary's relations with its Western partners have cooled significantly. Fidesz has been criticised for 'abusing' its two-thirds majority in parliament and an excessive concentration of power. It has been accused for example of restricting the role of

¹⁸ 'Többeves pénzügyi keret – versenyképesség és szolidaritás', <http://eu.kormany.hu/tobbeves-penzugyi-keret-2014-2020>

independent state institutions (especially the Constitutional Court and the Hungarian National Bank) and of attempts to control the media. It has also been criticised abroad for the imposition of additional levies on the sectors of the economy where foreign capital predominates.

Accusations against the Hungarian government have been made primarily by the American and German diplomacy and from the president of the European Commission. The European Parliament and the Council of Europe adopted resolutions criticising the political reforms, determining that part of the Hungarian regulations were contrary to the European legal system. The resolutions recommended changes but did not resort to the use of stricter instruments, such as the launch of the procedure to suspend the member state's right to vote in the Council of the EU. The European Union has taken more lenient measures than were available to it when dealing with Hungary partly because Fidesz belongs to the European People's Party (EPP), the largest faction in European Parliament, though Orban's policy has also been criticised within the EPP. Moderation in evaluating the Hungarian government and support in view of disproportionately strong criticism have been manifested especially by Hungary's partners from the Visegrad Group.

Budapest has relinquished part of the planned changes or repealed the most controversial regulations under foreign pressure. As a rule, it made limited concessions when other countries insisted on them. Budapest was willing to cancel especially those changes in the case of which the European Commission would launch the EU infringement procedure, which could have ended in sanctions being imposed by the Court of Justice of the European Union, and also in those cases where Washington or Berlin insisted especially strongly. Nevertheless, most of the criticised changes have remained in force.

The controversies over Hungarian reforms and the government's moves adversely affecting foreign business have undermined

Hungary's international position and led to cooling relations with the states of Western Europe and the USA. These relations have been restricted to multilateral co-operation as part of the EU and NATO. Western politicians have bypassed Budapest, and the Hungarian diplomacy has found it difficult to organise the sparse visits by the Hungarian prime minister and president to Western European capitals (London and Berlin). Hungary's relations with Germany, its key trade partner and largest investor, have been tense. Berlin has reproached the Hungarian government for violating the standards of the European rule of law and has protested against regulations unfavourable to German companies present in Hungary. Criticism has even been heard from southern federal states of Germany, despite Hungary's engagement in Danube co-operation and the close contacts between the CSU and Fidesz. Nevertheless, relations between Budapest and Berlin have remained relatively stable, partly as a consequence of major efforts made by Hungary.

Tension in foreign relations did not harm Fidesz's popularity on the domestic scene. On the contrary, this contributed to a consolidation of the political right's electorate. The government presented the reservations regarding the Hungarian reforms as unreasonable interference in Hungary's sovereign decisions. Politicians from Fidesz suggested that Western countries were criticising the political changes in Hungary mainly due to the fact that the interests of Western companies had been affected by the government's moves and because the conservative changes were unwelcome to those holding liberal and leftist views. They presented the government's actions as the next stage in the long "struggle for freedom", making references for example to the Spring of Nations in 1948-49. In turn, Prime Minister Orban claimed during right-wing rallies that Brussels could not dictate to Hungary what it has to do, like Soviet Moscow or Habsburg Vienna had done¹⁹.

¹⁹ '1848 és 2010 is megújulást hozott', 15 March 2011, <http://www.kormany.hu/hu/miniszterelnokseg/miniszterelnok/beszedek-publikacioi-interjuk/1848-es-2010-is-megujulast-hozott>

Fidesz politicians found it easy to play down foreign criticism due to the tone of the attacks from some Western media and politicians, who aggressively attacked the Hungarian government or who presented the situation in Hungary in an unreliable manner. All this allowed the attention to be distracted from specific accusations from the European Commission and critical legal opinion of the political reforms, for example those presented by the Venice Commission (an advisory body to the Council of Europe on constitutional issues).

3. The policy on Central Europe

Given the sharp disputes with European institutions, the Hungarian government has shown an inclination to treat co-operation within the Visegrad Group not as a format which supplements the European integration process and which is a foundation for political coalitions inside the European Union, but rather as a group to counterbalance the ‘dictate’ of Brussels and the largest EU member states. Although Hungary’s approach was not backed by its partners, the country became engaged in co-operation as part of the V4, pointing out the Socialists’ negligence in this area. The Visegrad Group has proven to be a valuable co-operation format for Hungary as its relations with other EU member states and the European Commission have deteriorated.

Central European co-operation is a traditional component of the approach to foreign policy represented by part of Fidesz’s conservative elite. The Visegrad Group has been the basic platform of co-operation for Hungary, although Hungarians have also fostered collaboration as part of other formats, above all the EU’s strategy for the Danube region. Budapest has attached significance to developing energy and road infrastructure connections as part of the V4. Hungary has been above all promoting engagement in the Western Balkan region in the area of EU neighbourhood policy which is vital for the ‘Visegrad four’, although it has also backed actions with regard to the area covered by Eastern Partnership.

Hungary holding the presidency of the Visegrad Group (July 2013 – June 2014) has declared it is willing to continue the actions initiated under the Polish presidency, since Poland is viewed as Hungary's strategic partner in the region.

The issue of national minorities living in the countries bordering Hungary, a total of approximately 2.2 million people, has played a significantly more important role in foreign policy than it did under Socialist rule. The level of financial support for the minorities has been slightly increased. Furthermore, Budapest has become more engaged in the political life of Hungarian communities. The Orbán government has offered selective support to Hungarian parties in the neighbouring countries, backing those which insist more strongly on being given autonomy, standing firmly on the ground of collective minority rights. A simplified procedure for granting Hungarian citizenship was adopted. More than half a million ethnic Hungarians made use of this procedure between 2011 and 2013. The new electoral law granted active suffrage (albeit not to a full extent) to Hungarian citizens who have not registered residence in Hungary²⁰. The constitutional provisions have also been reinforced, stating firmly that the Hungarian state “bears responsibility” for the fate of ethnic Hungarians living abroad²¹.

The policy towards Hungarian minorities would at times give rise to tension in relations with the countries they are citizens of. At the beginning of its present term, parliament established ‘National Unity Day’ commemorating the anniversary of the signing the Treaty of Trianon on 4 June 1920, as a consequence of which

²⁰ As part of the proportional-majority voting system, Hungarian citizens who have no registered place of residence in Hungary are only eligible to vote for party lists, and not for individual candidates in single-member constituencies.

²¹ For more information see: M. Gniazdowski, A. Sadecki, ‘Constitution for a new Hungary – the domestic and regional implications’, *OSW Commentary*, No. 60 of 29 July 2011, http://www.osw.waw.pl/sites/default/files/commentary_60.pdf

Hungary lost lands which were then inhabited by over 3 million of its compatriots. Although the memory of Trianon had formed a constant element of the identity of the Hungarian political right, the Orban government has turned it into an element of the state's ideology. This has been criticised especially strongly by Slovakia. The Hungarian minority issue (460,000 people, 8.5% of the population) became a key topic of the election campaign in Slovakia in 2010. The Slovakian government, whose term was coming to an end, responded to the facilitated granting of Hungarian citizenship by passing regulations under which a person seeking another country's citizenship could have their Slovakian citizenship revoked. The atmosphere of Hungarian-Slovak relations improved significantly over the following years, even though the dispute at issue had not been resolved, and more pressure was put on collaboration in the area of energy and transport infrastructure and developing Visegrad co-operation and the community of interests in the EU.

Co-operation in the European Union and the Visegrad Group, including as part of the 'V4+' format, where others of Hungary's neighbours participated, allowed the controversies caused by Budapest's engagement in the political life of Hungarian communities in the neighbouring countries to be soothed. Nevertheless, relations with Romania, where the Hungarian community is the most numerous (1.23 million, 6.5% of Romania's population), became cooler in the second half of Orban's term. When Fidesz took power, a rapprochement between Hungary and Romania took place, and was additionally cemented by good relations between Prime Minister Orban and President Traian Basescu. Romania's centre-right government was able to sympathise with the Hungarian citizenship act, partly because the country had adopted similar solutions with regard to citizens of Moldova and Ukraine. However, the opposition criticised the presidential camp for concessions towards Hungary. This led to tension between the two countries at the time of the political crisis in Romania in 2012. Romania started responding with increasing resistance to

Budapest's support for the Hungarian minority's aspirations for autonomy. It also disliked the fact that politicians from Hungary, especially those from the openly revisionist Jobbik party, had been actively seeking the support of voters in Romania's Transylvania. Despite temporary tension linked to the dispute over the restitution of property lost after the war by Hungarians from Vojvodina (around 250,000), relations between Hungary and Serbia have been good, and Hungary has taken Serbia as a model for protecting the rights of national minorities.

The rights of Hungarian minorities became the main issue in Hungary's relations with Ukraine (around 150,000 ethnic Hungarians live in Zakarpattia Oblast). Since the commencement of the protests on the Maidan in November 2013, reactions from Hungary were limited to official statements condemning violence. Hungary supported Kyiv's European aspirations, but its politicians demonstrated hardly any interest in the situation in Ukraine, their largest neighbour. The government in Budapest appreciated the concessions Yanukovych had made to national minorities (including the regional language act adopted) and feared the possible takeover of power by nationalist movements. A more decided tone could be heard following the Russian intervention in Crimea, which was condemned by the Minister of Foreign Affairs Janos Martonyi, who stood up for sovereignty of Ukraine and the inviolability of its borders. Prime Minister Orban, however, emphasised Hungary's neutrality, stating that the security of Zakarpattian Hungarians was the most important issue. Concern for the national minority also provided a good excuse for Hungary's neutral stance on the conflict and allowed it to reject the accusation levelled by the left-wing opposition that the government was being submissive to Russia.

4. The Eastern opening

The Orban government granted high political significance to the 'Eastern opening' strategy. Given the economic crisis which

Hungary's traditional Western partners were experiencing, this strategy assumed establishing closer co-operation with the emerging economic powers, especially China, Azerbaijan, Saudi Arabia and over time also Russia. In addition to boosting trade, which had already been growing under the Socialist government, the 'Eastern opening' was intended to attract investments and gain new sources for the financing of the Hungarian debt. Building bonds with Eastern partners was accompanied by assurances of an inescapable decomposition of the EU and Western civilisation, and the opportunities the 'Eastern wind' were offering Hungary.

The intensification of diplomatic relations failed to bring the promised quick effects, although this could have a positive effect on the diversification of Hungary's economic relations in the longer term. China and the Arab states were not interested in buying Hungary's high-risk bonds. No spectacular influx of investments from the East was seen, either. Although a number of letters of intent have been signed, including one concerning China's investments in railroads in Hungary, their implementation is yet to progress beyond the planning stages. Exports to non-EU member states have been gradually increasing. However, European markets are still the main export direction, with Hungary selling around 75% of its exports there. The 'Eastern opening' policy and establishing closer relations with countries governed by authoritarian regimes have also revealed some threats. Soon after Orbán's visit to Baku in 2012, Hungary deported Azerbaijani colonel, Ramil Safarov, who had been serving a jail sentence in Hungary for brutally murdering an Armenian officer during a NATO training course in Budapest in 2004. Safarov was immediately pardoned in Azerbaijan. This gave rise to Armenia freezing relations with Hungary and criticism from the international community. The Orbán government is searching for an ideological foundation for the 'Eastern opening' policy by attempts to draw upon the mythical union of Hungarians and Huns and other Turanian peoples, a theory which has a long tradition among the Hungarian political right, and which is especially popular among radical circles.

Over time, Russia became the leading state in the ‘Eastern opening’ policy. Although when it was in opposition Fidesz had severely criticised the left-wing government for its submissiveness to Moscow, especially for the consent to participate in the South Stream gas pipeline project, it continued its predecessors’ policy after the election. Firm support for the construction of South Stream was upheld, and the Orban government was the first to withdraw its support for the rival Nabucco gas pipeline project. The government also decided to entrust Russia’s state-controlled company Rosatom with implementing Hungary’s largest investment since 1989, without holding a tender. In January 2014, an agreement envisaging the construction of new reactors for the Paks nuclear power plant was signed in Moscow, and a 30-year loan of around 10 billion euros is expected to be granted by Russian banks. Energy co-operation has been accompanied by the establishment of closer political, economic and cultural relations, and Prime Minister Orban has expressed the opinion that the EU and NATO should enhance co-operation with Russia. Official contacts at various levels have also been intense; Prime Minister Orban himself has made three visits to Moscow²². A greater part of the right-wing electorate have put their faith in Orban that he is able to take due care of Hungary’s interests in relations with Russia, although he had demonstrated a sceptical attitude towards Russia for years, and the memory of the 1956 uprising suppressed by Soviet troops had been an essential element of Fidesz’s identity.

The political rapprochement with Russia is an effect of the desire to find a comprehensive solution to the challenges which the Hungarian energy sector has been facing, and of the wish to treat

²² Closer co-operation with Russia has also extended to establishing closer contacts between the two countries’ government parties. For example, Fidesz politicians have taken part in party congresses of the United Russia. In 2013, Viktor Zubkov, the Chairman of Gazprom’s Board of Directors and former prime minister, was awarded with the Order of Merit of the Republic of Hungary (incidentally, Prime Minister Gyurcsány awarded a similar order in 2005 to the president of Gazprom, Alexey Miller).

Russia as a major and a reliable partner. Russian gas prices are among the most important political topics for the government in Budapest, given the great impact of natural gas on the Hungarian economy²³. Hungary is also facing the challenge of developing its only nuclear power plant, since the deadline for decommissioning the four reactors currently in operation will expire between 2032 and 2037. Furthermore, closer co-operation with Russia fits in with the process of building strong players on the domestic energy scene. The role of the state-owned corporation MVM has significantly increased under Orban's rule, and this may contribute to Hungary's negotiating position being strengthened in its dealings with Russia. MVM has been put in charge of all issues to be negotiated with Moscow (the development of the nuclear power plant, the gas contract and the construction of South Stream). Negotiations on the new contract for the supply of gas are set to begin soon (the present one expires at the end of 2015).

²³ At the same time, the government led by Orban has continued the previous cabinet's efforts to diversify gas supplies in order to temper the country's dependence on Russian gas (e.g. the construction of interconnectors).

CONCLUSION AND FORECASTS

Despite multiple constitutional and economic changes, harsh criticism at home and abroad, and the difficult economic situation, Fidesz as the government party has been able to retain a significant part of its electorate and has led in all the polls throughout its entire term. The party's popularity has not been adversely affected by the fact that it has been using the law as it deems fit or because of the plagiarism scandal which culminated in the resignation of the president who had been nominated by Fidesz. International criticism and the government's disputes with EU institutions, the Council of Europe and the USA have had hardly any impact on Fidesz's domestic support levels.

One of the reasons why the support for Orbán's party has not fallen is the fact that the reforms have not seriously harmed the interests of any social group. Those better-off, who form an essential part of Fidesz's electorate, have benefited from the flat-rate tax. At the same time, the government has raised the minimum wage, which has been an important gesture for those on lower incomes. Despite the dire straits faced by public finances, pension indexations were carried out every year. This has allowed Fidesz to maintain the support of pensioners, who form a group of around two million. The energy price cuts for individual clients made in the last year of the government's term have distracted the attention from tax rises and economic stagnation. This move has positively affected all consumers. The government has thus been able to avoid public unrest. Demonstrations have been held only in the capital and concerned issues which have no direct impact on citizens' everyday life, such as the protection of the freedom of speech, the rule of law and the separation of power.

Additional fiscal burdens have been imposed on large companies from the economic sectors where foreign capital predominates. This has provoked negative reactions abroad and may adversely

affect the investment climate and Hungary's international position in the longer term. However, Fidesz has been able to capitalise on tension in relations with its foreign partners and thus consolidate its electorate using slogans about defending the country's sovereignty. It has also been able to maintain high support levels through a constant mobilisation of its electorate manifested for example by marches of support for the government (so-called "peace marches"), signature collecting actions to support Fidesz's projects, letters sent by the prime minister to citizens and the government's advertising campaigns. The continuing popularity of Prime Minister Orban himself has also been an important factor.

Fidesz also owes its strong position to the weakness of the opposition. The political left has been unable to successfully dissociate itself from the negatively evaluated rule in 2002-2010 and to offer a more appealing alternative to Orban's rule. New initiatives, such as technocrat Gordon Bajnai entering politics, have only attracted a small section of the centrist electorate disillusioned with Fidesz's rule. In January 2014, the key left-wing and liberal parties decided to draw up a common election list and to put forward joint candidates in single-member constituencies, to thus increase their chances for success. However, the presence of discredited politicians, such as former prime minister Ferenc Gyurcsany, is a serious burden for this alliance. The radical right Jobbik party, which is currently the third strongest political force in parliament, has maintained its previous level of support. Since Fidesz has implemented part of the radical right's proposals and has strongly emphasised national and historic issues, Jobbik's chances of improving the result achieved four years ago are now lower.

If Fidesz wins the parliamentary election, as expected, it will most probably focus on strengthening the state's role in the economy in the coming years. The most controversial political changes have already been made in the present term, so Hungary's disputes

with its Western partners are likely to be mitigated, though incidental tension may appear. However, if relations with partners in the EU and NATO deteriorate, it cannot be ruled out that Hungary will make more active attempts to search for allies in the East.

ANDRZEJ SADECKI

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