



Hungarian Politics

in 2023

POLICYSOLUTIONS





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Photos: Page 6: The Hungarian Parliament - László Róka/MTI Fotó, Pages 10-11: Advertisement of the Hungarian government's National Consultation on „Defending sovereignty” in Budapest - Attila Kisbenedek/AFP, Pages 16-17: Prime Minister Viktor Orbán at a press conference in Budapest - Attila Kisbenedek/AFP, Page 25: MEP Klára Dobrev at an event of the Democratic Coalition's Shadow Government - Ádám Csomor/Népszava, Pages 28-29: Budapest Mayor Gergely Karácsony chairing a meeting of the Budapest City Council - Attila Kovács/MTI Fotó, Pages 36-37: Flags of Hungary and the European Union - István Fazekas/HVG, Pages 42-43: Meeting of Viktor Orbán and Vladimir Putin in Beijing - Grigory Sysoyev/AFP, Page 55: Construction site of the CATL battery factory in Debrecen - Zsolt Czeglédi/MTI Fotó, Pages 60-61: View of Pécs - Tamás Vasvári/MTI Fotó, Pages 64-65: The Rheinmetall plant in Zalaegerszeg - Szilárd Koszticsák/ MTI Fotó, Pages 68-69: Headquarters of Médiaworks - László Róka/MTI Fotó, Pages 74-75: Demonstration of students in Budapest - Szilárd Koszticsák/ MTI Fotó

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Table of contents

Introduction / 7

1 | The Hungarian government in 2023

1.1 | The Orbán government's priorities in 2023 / 9

1.2 | Why is Fidesz defying political gravity? / 15

1.3 | Outlook on the Hungarian government's prospects in 2024 / 20

2 | The Hungarian opposition in 2023

2.1 | Ahead of major elections in 2024, the Hungarian opposition is in a bad shape / 23

2.2 | In municipalities, opposition politicians struggle to hang on / 27

2.3 | Outlook on the Hungarian opposition in 2024 / 32

3 | Hungary's place in the world in 2023

3.1 | The state of Hungary-EU relations / 35

3.2 | Orbán's foreign policy between Russia, the USA and China / 40

3.3 | Outlook on Hungary's place in the world in 2024 / 46

4 | Hungary's economy in 2023

4.1 | Overview of the Hungarian economy / 49

4.2 | Social reality / 58

4.3 | Economic outlook for 2024 / 63

5 | The Hungarian society in 2023

5.1 | Hungary's media trends in 2023 / 67

5.2 | A failing Hungarian education system and a way out for some by the grace of Fidesz / 72

5.3 | Outlook on the Hungarian society in 2024 / 78

Conclusion / 80



Introduction

Policy Solutions has a long history of providing international audiences with in-depth analyses of Hungarian political life. For the tenth time, we publish our annual review of Hungarian politics. This is a comprehensive overview of recent developments, events and trends in Hungary in 2023, and an outlook on what topics we expect to dominate Hungarian politics in 2024.

The target audience of this publication is students and academics, journalists, diplomats or international organisations. In other words, anyone who has an interest in the political, economic and social landscape of Hungary in 2023, be it Fidesz's priorities and the strategic challenges of the government, the state of the opposition, the tense Hungary-EU relationship, the main economic trends or the main trends in Hungarian media. It is important to stress that our review is not chronological and does not claim to be exhaustive in its scope, rather it reflects our selection of the major developments over the past twelve months.

In particular, we focus on five broad areas, presenting distinct developments in each. In the first section we review the year from the perspective of the Hungarian government, with a special emphasis on the key issues of Fidesz, and the strategic situation of the government at the end of 2023. In the second section we look at the opposition parties, their state and prospects before the EP and municipal elections in 2024. The third section focuses on foreign affairs, in particular the developments between Hungary and the European Union, and the foreign policy strategy of the Orbán government. In the fourth section, we take a detailed look at how Fidesz's policies have shaped the economy over the past year. Finally, some key developments of the Hungarian society – media landscape, education – are discussed. All of the sections conclude with a brief analysis of the issues which may come to the fore in 2024.

1

The Hungarian government in 2023

1.1 | The Orbán government's priorities in 2023

Unlike some earlier years, 2023 has lacked a single-minded focus on one issue that defined Fidesz's agenda. In terms of government communication, the Russia-Ukraine war dominated in 2022. Fidesz relentlessly and successfully exploited the war for electoral purposes, casting itself as the party of peace and the Hungarian opposition and "Brussels" as warmongers that would drag the European Union into an armed conflict with Russia. In 2023, instead of one focal issue of the government's communication, we have seen a "best-of" compilation of the past decade.

Defending sovereignty

The most important issues for Fidesz tend to be the three broad topics which the government raises in its National Consultation on "defending sovereignty". That is the issue of war and peace, combatting alleged efforts at curtailing Hungary's economic policy autonomy, and migration. These have two key common features. First, all of them feature Brussels as Hungary's "enemy" that allegedly tries to foist policies on Hungary that are at odds with the interests of Hungarians. Second, none of them are new.

The Fidesz government has been pursuing economic policies at odds with the EU ever since it came to power in 2010. Going against the EU's migration policy mainstream has been a central message ever since the refugee crisis of 2015. And the claim that "Brussels" is mismanaging the EU's stance concerning the war and exacerbating the conflict with its unequivocal backing of Ukraine, has been a core issue for Fidesz ever since it developed a clear communications strategy after being briefly shocked into silence by the start of the Russia-Ukraine war in 2022.

The Hungarian government is moving away from European values – and is proud of that

While for a few years, George Soros was cast in the role of Hungary's "Enemy No. 1", in recent years "Brussels" has reclaimed the role it had held for most of the time since Fidesz has been in government over the past 13 years. The National Consultation, whose advertisements feature Ursula von der Leyen but also the son of George Soros, Alex Soros, highlights that the government has no intention of easing tensions with the EU.

The European Commission's perception that the Hungarian government is increasingly moving the country away from the EU's core values has not changed. On the whole, this impression persists despite a few legal changes introduced by the government in response to the conditions set out by the Commission. While the Fidesz government has strenuously sought to convey an air of optimism that, ultimately, it would be able to access the EU funds (access to EUR 10 billion has indeed been given the green light in December 2023), in recent months, the communication has also increasingly suggested that the Hungarian ruling party is looking for ways to plan the future without relying on EU money.

Financial independence or switching donors?

The idea is that in the long run, Hungary cannot make itself dependent on EU funds but must instead rely on a broader array of funding sources. This is another reason why nurturing good relations with the rising Eastern powers seems especially vital from the government's perspective. This narrative glosses over the fact that no one has ever suggested that either China or Russia would

fund anything in Hungary without demanding repayment (as many of the EU grants do), even as the government consistently harps on the allegedly high cost of EU money. The EU funds, thus the Fidesz government, are used to undermine Hungary's sovereignty and to further the migration and LGBTQ agenda of "Brussels".

Despite the government's insistence on sovereignty, Fidesz has continued to blame the EU for the low pay of Hungarian teachers, as if the European institutions were in charge of the Hungarian budget. For some reason, Fidesz suggests that this particular policy area falls within the remit of "Brussels"; hence, the government is washing its hands of the issue. In the meanwhile, the low pay in the education sector has led to a pervasive shortage of teachers and a growing crisis in education.

Actual spending reflects actual preferences

The communication about budget constraints when it comes to spending on teachers is also belied by the government's ongoing acquisition of major privately-owned Hungarian companies, including one of the top communications providers in Hungary, Vodafone, and the most recent plans to bring back the Budapest Airport into the public fold. The cost of these acquisitions far exceeds what it would take to adjust the pay of teachers.

What is evident on the whole is that the government also imitates the much-vaunted Eastern model in wanting to control a growing number of economic sectors, from banking over media all the way to telecommunications. While budget constraints are a major consideration for the government when it comes to education, healthcare or social services, they barely figure in the areas it considers most important.

Descent into anti-LGBTQ campaigns

Maybe the most surprising element in 2023 has been the increased focus (again) on LGBTQ issues. Although Hungarians tend to reject



transsexuality, general homophobia is not intense. To widen the appeal of its anti-gay propaganda, the government couches it in the language of children protection: this encompasses its recurring focus on protecting Hungarians from the multitude of dangers lurking amidst the vast change wrought by the 21st century.

In 2023, this issue has already escalated to an extent that would have been unforeseeable a few years ago. This year saw inspections and fines issued against bookstores that placed books containing LGBTQ characters or narratives on open display, as a reaction to which the largest book chain in Hungary – Libri, which was recently acquired by the Fidesz-aligned Mathias Corvinus Collegium – began wrapping such books in plastic to make sure their contents could not be viewed by minors in bookstores. Although the wrapping of many books considered mainstream literary fare in Western countries is widely seen as absurd, this phenomenon is here to stay as bookstores want to avoid fines.

November 2023 saw another low point highlighting that the issue that Fidesz unleashed had taken on a life of its own. A politician of the far-right Our Homeland party, Dóra Dúró – infamous for publicly shredding a children’s book intended for sensitising children to LGBTQ lifestyles – attacked the Hungarian National Museum for displaying a photo series of a senior home for LGBTQ persons in the Philippines as part of the World Press Photo exhibition. Dúró demanded that in line with the provisions of the “child protection” law, children should not be exposed to such images. To add more context, it bears pointing out that the images did not contain any sexual references.

The government asked the director of the National Museum, László L. Simon, to ensure compliance with the prevailing laws and that children would not see the impugned photographs. In response, the former Fidesz MP and junior minister said that they would comply but could not ask youths to produce an ID, and hence it would be difficult to enforce this policy. What L. Simon was apparently unprepared for was that he would be swiftly fired for his failure to comply with the government’s instructions fully.

Fidesz’s competition with Our Homeland

Another interesting aspect of this episode is that it likely would not have escalated had Dóra Dúró not pushed for a response from the government. Fidesz is now competing with Our Homeland for the support of the homophobic segment of the electorate, the emergence of which it has fostered by politicising the underlying issue. Fidesz believes it cannot afford to be labelled weak compared to the furthest-right party, even if previously there was no indication that anyone in the governing party took exception to this exhibition. To a significant extent, the issue has become politically potent because of Fidesz’s own communication.

The ruling party has made perceptions of sexual minorities and their rights into far more polarising issues than they had been previously. In the process, Fidesz has opened up itself to attacks not only from the left – which was critical of the government’s position on this issue from the start – but also from the right, to wit, the extremists in Our Homeland. That party thrives on wedge issues that are popular on the far-right and/or conspiracy theory-oriented (it also appealed to anti-vaxxers, for example) ends of the political spectrum.

Housing benefits reformed

Both the government’s increasing conservatism as well as the tight budget are reflected in the new changes to one of Fidesz’s signature policies, the housing benefit specially designed for families with children. Although it has not led to a persistent uptick in the number of children, which continues to decline overall, the massive subsidy (which, at its peak in terms of real value, was equivalent to about three years’ worth of an average net salary in grants and the same amount in fixed-rate government loans) was indeed popular with parents and parents-to-be, who could also claim the benefit.

The government will retain the support scheme, which makes it comparatively easy to claim the benefit, with only slightly amended

conditions in specific rural areas. However, for urban areas a new scheme will apply. Unlike the old scheme, the new benefit will be limited to married couples and only be extended to those who claim it for children not yet born. The amount will be vast, up from a total maximum of 20 million HUF (approx. EUR 50,000) to 50 million HUF (approx. EUR 125,000). This is a substantial increase even in real terms, especially since real estate prices are stagnating and have not followed the general trend of inflation for now. Although technically, the 50 million will be extended as a loan, the government will forgive 10 million HUF for each child subsequently born up to an amount of 30 million HUF.

Village, marriage and migration

The redesigned housing benefit aims to bolster rural areas while also steering young couples towards tying the knot. Asked specifically why the new scheme discriminates against non-married couples and single parents, the government responded that it believes in marriage as an underpinning of society.

The demographic change is also increasingly reflected in the labour market: in many sectors of the economy, the labour supply simply cannot keep up with demand. But as frustrated employers experience, to a considerable extent, this is no longer merely a function of pay but also reflects a decline in the pool of potential workers. In response, the foreign guest workers programme introduced by Fidesz has shifted into a higher gear in 2023.

Despite its apparent clash with Fidesz’s anti-migration stance – at the time of the refugee crisis, Fidesz claimed it was opposed to “economic migrants” as well – the growing number of Asian workers has thus far not had a significant impact on Fidesz’s standing in the polls. A backlash may yet occur, however, and to some extent, Fidesz seems to want to pre-empt this possibility with the recent introduction of a bill that would tighten the conditions applicable to the stay of guest workers. This is probably another instance of Fidesz reacting to pressure from Our Homeland.

An industrial policy without labour

Yet, the labour problem will persist, especially in the economic sectors that rely on physical labour. There are increasingly fewer people who are age-wise capable of performing physically demanding work. Furthermore, the problem is exacerbated by Fidesz’s own focus on attracting foreign investments, particularly in industries that rely on low-skilled labour.

While previously car producers were the main targets of the government’s special tax deals for FDI, Fidesz wants Hungary to specialise on car battery production now. The new focus has also been accompanied by a geographic shift: while the automobile manufacturers were primarily German, the countries targeted now tend to be Asian, especially China.

The government is proud of the massive volume of battery-related FDI in Hungary. More than 70% of the FDI in Hungary in 2022 was car production-related, the biggest slice of which was battery production. In 2023, the process intensified further. Hungary is now the fourth largest producer of car batteries, after China, Poland and the US.

On building battery factories, the public does not matter

Intense local protests have accompanied several investment projects because of environmental and health concerns. Furthermore, a poll by Policy Solutions showed that 62% of Hungarians disagree with building battery factories. Nevertheless, currently, it seems that this will join the list of issues where the public broadly disagrees with Fidesz’s policies (education and healthcare are other examples) but does not see this as an issue that will sway their vote in a national election.

What will be interesting is to see whether it has at least an impact on local elections, which will be held in June 2024. Fidesz currently governs several municipalities where new battery factories have

been or will be built. In rural areas, Our Homeland, which has organised its own protests against battery factories, may benefit especially from the bitterness of local Fidesz voters.

However, save for an unlikely massive electoral setback, nothing is going to sway Fidesz. The governing party has always said that it prioritises the economy over other policy areas, and by focusing on this niche, it hopes to balance the trends that point towards an economic decline. In terms of numbers (and bracketing the environmental damage), the battery-related investments are indeed impressive; but how much ordinary Hungarians will benefit from this on the whole remains a question, even if it likely improves some macro indicators.

2023 has shown that Fidesz's policy outlook remains broadly unchanged, but at the same time, it is consistently moving in a more right-wing direction. In this regard, it is not following "popular demand", so to speak – there is no evidence that Hungarians overall demand even more conservative policies – but shaping public opinion instead. Thus, this is an example of supply shaping demand. Since many voters consider for unrelated reasons that Fidesz is the only political formation capable of leading Hungary, in the long run, many of them may align their other political preferences to match those of Fidesz to make their vote less dissonant from their overall preferences. This will also serve to further intensify the already massive political polarisation of Hungarian society.

1.2 | Why is Fidesz defying political gravity?

After 13 years of the Orbán government, it is worth addressing a widespread perception in Hungary, namely that Fidesz has firmly established itself as the sole political force that can rule Hungary in the foreseeable future, and reviewing what can be considered the most important strategic causes and consequences of this position.

Most experts agree that a large segment of Hungarian society is highly committed to Fidesz and that these voters are basically out of reach for the opposition no matter what the opposition does. How large this segment remains a subject of disagreement, but everyone acknowledges that it is an immense electoral asset to have the stable support of such a large chunk of the electorate (even the lower estimates put it between 25-30% – with a much higher propensity to vote than the average citizens), whose trust in Viktor Orbán and the governing party is unassailable.

One of the most important indicators of the strength of this is that Hungarian society has experienced several crises in recent years, and yet none of them has led to a significant drop in Fidesz's support. At its lowest point, Fidesz was basically tied in the polls with the opposition alliance in 2021, making the race seem like a toss-up. Ultimately, the seeming competitiveness of that race was upended by the Russian invasion of Ukraine, which reinforced Fidesz's standing as the stable hand at a time of unprecedented social anxiety since the democratic transition in 1990.

Both polls and election results have consistently shown that save for a short period of post-election booms, Fidesz's support is around 50% of the electorate (active voters with a party preference, as the Hungarian polls call it), plus-minus a few points. While any democratic party would find this level of stable support enviable, it is also true that roughly half of the electorate has been

rejecting Fidesz consistently, even as they oscillated between the alternatives. It is fair to say that in light of Fidesz's recurring two-thirds majorities despite vote shares of around 50% (and even only 44% in 2014), the opposition has not made the best of the half of the electorate that remains up for grabs.

An integrated approach

Rather than breaking down Fidesz's success in maintaining such a high level of public support into individual elements, it may also be useful to look at it from another perspective: the superstructure in which these elements are embedded. Viktor Orbán's core belief, often reflected in his comments and statements by his advisers, is that political control is necessarily intertwined with control over the media, business, and public institutions. In other words, the governing party must be dominant in as many areas of social life as possible.

Of course, many of Fidesz's actions since 2010 have been haphazard, distinct, and spontaneous changes to electoral or other institutional rules to immediately satisfy a particular political need. This has included, for example, the amendments of the election rules before the 2014 and 2022 parliamentary elections and the municipal elections of 2014 and 2024. But to assume that that is the essence of Fidesz's approach would obscure the overall picture, which is far more systematic.

Everything Everywhere All at Once

Even if there are disagreements among experts about just how much Fidesz has entrenched itself in Hungarian society, everyone realises this is happening and that this has had an impact on the governing party's electoral success, too. Fidesz's control over large

segments of the media, a growing slice of the economy, cultural and educational institutions, and much of the physical public space. The government's billboards, direct mails, and online messages are ubiquitous. Consuming information critical of the government takes an effort, which presumes an interest in and openness towards such information; many voters simply do not have that.

The two-thirds majority, the institutional control, the vast resources, and the fact that Fidesz is perceived by many as the natural party of governance mutually reinforce each other. And it is true that any departure from Fidesz as the governing party is now inherently fraught with the risk that the people who take over may be incompetent. The last time that another party was seen as competent in government was more than 15 years ago. Stepping out of what has been the "natural state" for many voters for 13 years will take a sense of adventure for some voters. This creates a vicious circle for the opposition that is difficult to break.

Presumed competence

For the governing party, in turn, this situation is ideal because it can dispense with the usual policy minutiae that democratic parties have to contend with. Fidesz's campaigns do not feature the party's detailed stances. Fidesz has not issued campaign manifestos since 2010; its "programme" is that they "will continue". Viktor Orbán's person and experience are the platform. Few people know what the government is up to except for some select flagship policies, such as the utility price controls or the child support programme for the middle classes. Its competence is simply presumed, even though it flies in the face of the widespread public perception that most educational and health institutions are either struggling or in a state of undiagnosed failure.

Governance based on pervasive fears

Aside from the empirical fact that it has been governing for a long time, Fidesz's aura of competence is based on its control over



information and its ability to stir the fears of Hungarians over the dangers lurking in the world (especially liberalism), assuring the public that there is a political force – and there can only be one – that can manage these.

The 2010s started with the empirical experience that the left had grossly mismanaged the economy. Fidesz, by contrast, caught one of the longest global economic boom periods on record. That was luck, but at least in the short term, they did not blow it, even if the long-term impact of the governing party's economic policy is questionable. The economic crisis management was followed by the refugee crisis. From the voters' perspective, the opposition could obviously not be expected to handle that better than Fidesz since by the time they even acknowledged that this was an issue, Fidesz had already built a fence and driven large segments of the population into intense fear that migrants would swamp Hungary.

Given its massive impact on the 2022 election, the war became another issue that ended up reinforcing the notion that Hungary needs Viktor Orbán's steady presence and resolute enforcement of the national interest: once again, the opposition refused to acknowledge the danger of Hungary being dragged into the war (there was no such danger), in fact, in Fidesz's widely disseminated false narrative, the opposition was actively pushing for Hungary's involvement in the war. We have strong reason to believe that this impacted the election based on polls and a considerable amount of anecdotal evidence from opposition representatives in rural canvassing boards. Many of these election observers reported that rural voters were genuinely afraid that Hungary might become a warring party if the opposition would go on to win the 2022 election.

A fragmented opposition

Among Fidesz's most significant strategic assets is that its opposition is divided. Given that winning the majority of the 106 seats allotted by majority vote is essential for an election victory, this in itself gives the ruling party an insurmountable edge. Even

if its support were to dip below 50%, maybe even significantly so, against a divided opposition, it would keep winning the vast majority of these seats and thus control a majority in parliament. This is simple math, and there is nothing to be done about math, it will not budge.

Orbán has no direct control over the opposition, but the last ten years have provided ample evidence that Fidesz does a lot to sustain the fragmentation of the latter. A recent revelation that a Fidesz mayoral candidate in a Budapest district tried to bribe an opposition politician of the satirical Two-Tailed Dog Party to run for mayor to divide the opposition vote came as a surprise to precisely no one.

Heavy negative campaigns

When an opposition figure or party is seen as becoming too strong, that is potentially even remotely competitive with Orbán or Fidesz, they will be subject to an immense torrent of coordinated government propaganda. That includes libellous fake stories, defamation and, of course, some factual mistakes, failures and transgressions, usually massively magnified. This is difficult to bear for most people.

Thus, for example, the Fidesz media claimed that Gábor Vona, the former leader of Jobbik, had been visiting a gay bar – not a popular image for a right-wing politician in a heterosexual marriage. There was never any objective evidence that he had done so, but that did not stop the government media from pounding away at this “news” while barely mentioning Vona's denials or the rebuttals of the purported evidence by independent news outlets.

Budapest mayor Gergely Karácsony, the former PM candidate Péter-Marki-Zay, and former PM Ferenc Gyurcsány have all experienced very similar concerted efforts at media storms that delved deeply into personal matters, often with unsubstantiated claims. Creating a potent challenger under such conditions will be tough, taking resources the opposition is unlikely to wield.

Physical presence

It is also important to point out that Fidesz is the only party with a pervasive local presence throughout Hungary. While it is often hard to measure the distinct impact of this factor, it is clearly relevant to the governing party's dominance of the political system. Even if one acknowledges that at this point, this is also a factor of Fidesz's vastly superior access to state resources, it must also be noted that the party was already actively and successfully building local networks while it was in opposition between 2002 and 2010, when the then-ruling left mostly squandered its local base. Building new local networks in the face of all the levers of power controlled by Fidesz seems daunting, to say the least.

Arguably, the most extensive damage to Fidesz is the often arrogant display of its vast power, which manifests in how it treats local publics that are otherwise Fidesz supporters but oppose particular local projects pursued by the governing party. This has led to the occasional backlash at the municipal level.

On the whole, Fidesz's dominance can be measured by the fact that the crises of the past years, including the mismanagement of the Covid pandemic, the massive inflation that was the worst in the EU, the cost-of-living crisis, and the failure to secure EU funds have barely made a dent in the ruling party's popularity. To some, this may seem like an unprecedented success for a democratic party; to others, with a direct view of the situation on the ground, it seems like the result of an increasingly authoritarian political regime.

The gift that keeps on giving: the supermajority

In closing, it is important to highlight once more the less conspicuous but crucial role of Fidesz's enduring two-thirds majority. As the governing party was weighing whether to amend the municipal election law once again to increase its own position in the coming elections, we were reminded that in the realm of political

competition, Fidesz makes the rules, implements, and interprets them. And it does so unflinchingly in its own favour.

The two-thirds majority has basically removed all outside control over Fidesz and has given a universal “get out of jail”-card that can be used to manipulate the political system endlessly. Part of coming to terms with the reality of the current situation in Hungary is that Viktor Orbán's political talent notwithstanding, many political players with this kind of majority could (and would) use the methods that underpin the dominance of Orbán's party.

1.3 | Outlook on the Hungarian government's prospects in 2024

The most important question for Fidesz in 2024 is only partially under its own control. The global economic climate, energy prices, the prices of other basic commodities, and the demand for the goods that the Hungarian export industry has specialised in (especially automobiles) will be among the most important issues shaping the political climate. Policy Solutions polls indicate that the cost-of-living crisis has affected vast segments of Hungarian society, including many Fidesz voters. The latter are buying into Fidesz's version of events, namely that the EU is to blame for rising energy prices and thus inflation.

For now, it does not matter that this message is incongruent with the fact that inflation and the decline in real incomes are far lower in most EU countries. In terms of its polling, Fidesz has thus far weathered the growing dissatisfaction with the economic situation. But Orbán is aware that financial security is the single most important issue for Hungarians and that he needs inflation to be reined in for economic growth to pick up.

But there is still time for Fidesz; whatever the polling is in 2024, it will not really matter in 2026. There are rare events with an impact that last years, such as the Őszöd speech of then-PM Ferenc Gyurcsány in 2006, which was the first stone in Fidesz's road towards a two-thirds majority. Given the innumerable scandals that the Fidesz government has survived, usually without a dent in its popularity, such an earth-shattering event seems highly unlikely.

Like other governments, Fidesz has tended to fare relatively worse at the mid-point of its term, and that may be the case again, even if its numbers remain impressive. But as the national parliamentary

elections draw closer, many of the voters who temporarily abandon Fidesz generally rally back to the governing party, their grievances shelved or forgotten.

Thus, what matters most for the 2026 election will be the economic dynamic in the year before the next general election. The developments in 2024 do not tell us much about the likely economic situation in mid-2025. Still pro-Fidesz media are desperately clinging to every piece of information allegedly showing that the economy is bouncing back from recession. Thus, they exulted over the fact that, as the Prime Minister had promised, inflation has dipped into single digits. Orbán is aware that in terms of real income, a substantial segment of the Hungarian public is worse off than before the crisis. Slight increases in the GDP will not change many voters' overall perception that they can afford less than previously.

Fidesz will closely monitor the EP and municipal election results in 2024 to gauge if there is growing public dissatisfaction. The amply funded communications department under Antal Rogán is likely an extremely sensitive seismograph of public opinion, continuously scanning for changes in the public's view. But despite the intense polling, election results are the best polls. Even if some voters traditionally use EP and municipal elections as opportunities to cast protest votes that they would not use in a parliamentary election, there may be swings large enough to indicate that something else is happening.

If the numbers show that the governing party's support is falling (in light of previous election results, anything below 45% would be disappointing for Fidesz at the European elections), we can expect

the second half of the year to yield intense changes in Fidesz's approach. What specific shape that would take is impossible to predict, but a central feature would definitely be that some foreign agent is responsible for all the problems. And we would probably see another large increase in the already vast communications budget.

What is clearly taking shape now is that the government's communication will focus on the issue of sovereignty. In various forms, this has been the focus for a while now, but the term "sovereignty protection" itself has only recently emerged as the defining issue in government campaigns. Highlighting its role is the recent introduction of the "Sovereignty Protection Act", which will establish a new authority to review the foreign influence in Hungarian politics, media, and the civil sphere. Due to the vagueness of the language in the bill and the lack of a detailed description of Fidesz's plans, not much is known yet about the new institution or the use of the law. What it does make clear is that Fidesz will make the alleged encroachment by foreigners on Hungary's sovereignty a central issue in the campaign, trying to find ways to make the opposition seem like the servants of sinister foreign interests.

2

The Hungarian opposition in 2023

2.1 | Ahead of major elections in 2024, the Hungarian opposition is in a bad shape

With less than half a year to go until the municipal and EP elections in June 2024, the Hungarian opposition is as divided and fragmented as it has ever been since Fidesz came to power in 2010. This is a phase of competition for representation in the EP and in municipalities across Hungary. These are, frankly, also financially important for many of the functionaries in the opposition parties. The latter is part of the explanation for why some of the small parties with low levels of popular support continue to persist in the Hungarian party system despite the widespread perception that they make the life of the opposition overall more difficult.

When we say that the opposition is in a phase of competition, we mean that they vie with each other for the division of the opposition electorate. The polls in autumn 2023 showed the roughly equal division of Hungarian society along the Fidesz-opposition lines. The current figures reflect almost every election result since 2010 when Fidesz and the total opposition received roughly similar percentages of the vote. The level of popular support for Fidesz continues to hover around 45-50%, the level we have seen in most elections. Since despite all the difficulties in the Hungarian economy, Fidesz's support has remained astonishingly stable, the opposition parties are left to do what they have been doing most of the time since 2010: they compete internally, trying to win over opposition voters to increase their support.

The Democratic Coalition has entrenched itself as the leading opposition party

While Fidesz has remained at the top of the polls for a long time, on the opposition side, the Democratic Coalition (DK) has

also established itself as the largest player, albeit with far more modest figures than Fidesz: it stands at 18-20% in the poll of likely voters. Nevertheless, that is nearly double the support of the next largest player.

The strategy is clear: DK wants to establish itself as the leading force by such a margin that whoever wants an alternative to Fidesz will have to vote for DK even if they intensely dislike the party's leader, former PM Ferenc Gyurcsány. The latter is still true for a significant slice of the opposition electorate (not to mention Fidesz supporters), especially in the age cohorts who were of voting age already in the 2000s when he left his biggest mark.

To make this already obvious aspiration even clearer, in 2022, DK announced the formation of a shadow cabinet led by Gyurcsány's wife, MEP Klára Dobrev, who was also the party's prime ministerial candidate in the opposition primaries in the fall of 2021. Dobrev has better numbers than Gyurcsány, and she is a political pro in her own right. So far, the party's rough tactics – which have involved actively recruiting politicians of other opposition parties – have worked well. DK is well-positioned to delegate the most opposition politicians to serve in the European Parliament in 2024. This is especially likely since both EP and municipal elections tend to be low-turnout ballots, which benefit parties with very disciplined bases, especially Fidesz and DK. Furthermore, given the Democratic Coalition's success in recruiting local politicians from other parties and its high level of support among opposition voters, it is likely that, relatively speaking, it will also do well in the municipal elections next year.

Opposition parties in a quiet crisis

Regardless of how DK's numbers end up in the EP election, it need not be concerned about failing the 5% threshold necessary for a seat. Based on the polls, the same has not been true for several of the existing parliamentary opposition parties, which have slightly or significantly trailed below that value for some time now. The big question for the 2024 EP elections is how many of the six parties that cooperated in the 2022 general elections will reach the 5% needed to get in. This is the stake of the election for the Hungarian Socialist Party (MSZP), Jobbik, LMP and Dialogue, of which the two Green parties, LMP and Dialogue, seem to be further away from this target, while MSZP and Jobbik are somewhat closer. Among the six-party opposition, besides DK, only Momentum is considered by pollsters to be certain to reach the threshold.

Despite the fact that, along with green-left Dialogue, it is the only clearly left-wing formation in the political arena, MSZP is finding it increasingly hard to formulate and successfully disseminate political messages that set it sufficiently apart from the rest of the opposition. While they may not be left-wing, the other opposition parties, too, claim to be committed to social justice, better education and healthcare, improved workers' rights, etc. – all the issues that are at the core of the social democratic position – at least at the level of communication. The fact that most of the opposition is perceived as left appears to obscure the fact that MSZP's manifesto is decisively more concerned with social justice than the other parties. Proving that MSZP is the real social democratic party will be the main challenge of the party's EP campaign, led by Kata Tüttő, Deputy Mayor of Budapest.

LMP is trying to carve out a niche for itself on the opposition spectrum by appealing to those voters who may be unhappy with the government but are put off by the visceral anti-Orbánism among opposition politicians. The party's chair, Péter Ungár, likes to trigger progressive audiences by criticising progressive stances on LBGQT issues, for example. He criticised the opposition for its

incessant focus on minor issues at the expense of the big picture and said that LMP is a constructive opposition party – setting it apart from the rest of the opposition, which is non-constructive by implication. For the time being, his middle-of-the-road approach appears to be the proverbial tree falling in the forest: either no one hears it or people just do not care, as LMP's numbers continue to hover well below the 5% threshold.

Momentum has lost momentum

On the plus side, unlike most of the other opposition parties, Momentum is clearly above the 5% threshold, and the party has retained some of its visibility, especially thanks to its EP lead candidate Anna Donáth. At the same time, the party is no longer on a rising trajectory. Momentum's strength is mostly rooted in the fact that there is a clear segment of the electorate (young liberal voters) who have no alternative to Momentum in the current spectrum of political parties. Moreover, Momentum's current situation lacks the promise of its early years when it seemed to have a forward trajectory. At the current rate, the party risks becoming another establishment party without much of a distinct vision or dynamism.

Jobbik's decline

Jobbik is another party that theoretically should have a following – conservatives who are put off by Fidesz's corruption and populism – but is struggling to win over new voters while it has lost most of its previously massive base, which used to be at the level at which DK is now. It's not the party's messages do not have a potential audience, but like the other parties, Jobbik is also suffering from the lack of a capable messenger. Its current leader, MEP Márton Gyöngyösi, is bland, and while the previous leader, Péter Jakab, relentlessly pursued media events, it appears that the current leadership is incapable in courting the public. Gyöngyösi also drew a clear line in the sand, declaring that they would no longer electorally cooperate with "left-wing parties" given the damage the previous efforts have done to the party. Talking about the upcoming municipal election – where



Jobbik candidates do not stand a chance unless they are supported by the voters of other opposition parties – Gyöngyösi did have one good idea: he said Jobbik candidates would run without a party logo.

Two issues that could help: guest workers and batteries

There are also sparks of hope for the opposition, although these are fragile hopes at best. Apart from the uncertainty concerning the economy and the cost-of-living crisis, two further issues could fuel anti-Fidesz sentiments. For one, it is unclear how the public views the large number of guest workers that the ruling party is letting in despite having spent years railing against immigration and refugees. Although there is as of yet no evidence that this will lead to a backlash against Fidesz, it is possible given the rising xenophobic sentiments in Hungary over the past decade, mostly fuelled by the governing party.

The one issue we already know elicits adverse reactions is the growing number of battery factories that the Fidesz government has attracted to Hungary. Although the government touts battery investments as the best means of ensuring that Hungary is connected to and plays a vital role in the 21st-century economy, these investments tend to be far less popular locally. Fearing health hazards, environmental degradation, and excessive water use, several of the investment projects have elicited major local protests.

Anti-vaxxer and anti-battery: the furthest right in Hungary

It is no surprise that the far-right Our Homeland party, which often sides with the government on key issues, is using the battery as one of the key wedge issues that help distinguish it from Fidesz. Vaccinations were another, as the far-right party quickly realised that it could profit from appealing to the large segment of anti-vaxxers in Hungarian society. Our Homeland, which is particularly supportive of the government's anti-refugee and anti-LGBTQ

policies, has played a key role locally in organising anti-battery protests, giving those who dislike the environmentally risky projects a staunchly right-wing protest alternative.

After a surprisingly strong finish in the parliamentary election in 2022 (about 6% nationally), Our Homeland has steadily expanded its support and now stands at 10% in the polls among likely voters. It seems probable that Our Homeland is benefitting from the small decline in Fidesz's support, as many of the government party's supporters regard the far-right party as the next best alternative. For the mainstream opposition, this is an ominous sign: even if Fidesz's numbers were to drop substantially, it is likely that Our Homeland would pick up a sizeable chunk of those votes. Essentially, these votes would find their way back into the Fidesz fold as, in a crunch, Our Homeland would be likely to support a Fidesz government.

The anti-establishment opposition

The other beneficiary of the current trends is the Two-Tailed Dog Party (MKKP), a satirical, mostly liberal political outfit that is critical of Fidesz but also rejects the mainstream opposition. MKKP has always been criticised as a spoiler by the mainstream opposition parties, but as the hopes of ousting Fidesz shrink and disillusionment with the mainstream opposition is on the rise MKKP's support has been steadily increasing. For the time being, the party is around the parliamentary threshold and might well send a delegate to Brussels next year. Although the MKKP has often been an effective critic of Fidesz's governance, its unwillingness to cooperate with others against the ruling party means that growing support for the satirists will make it harder for the opposition to challenge the ruling party.

On the whole, going into the 14th year of successive governance, Fidesz's position looks unassailable in light of both its own strong base of support and the increasingly extreme division of those who are opposed to the government.

2.2 | In municipalities, opposition politicians struggle to hang on

The next election in Hungary in June 2024 will concern the last vestiges of opposition influence at the executive level in Hungary. In the municipal election of 2019, the opposition achieved its most significant breakthrough since 2010, capturing Budapest and about half of the largest cities in Hungary. It was widely hoped that control over these municipal governments would be a stepping stone to future electoral success against Fidesz, a model of how governance could work if the opposition alliance were to win the national election in 2022. After almost a decade of Fidesz rule, opposition politicians sorely needed to demonstrate practical experience. Municipal governments provided the only opening for them to do so, and hence, the 2019 election was a major ray of hope after a long series of electoral setbacks. It proved that the opposition parties could cooperate for a common purpose and win, too.

A mixed record

However, from the first moment there were major doubts about whether the project could succeed. Firstly, it was predictable that Fidesz would try to make life impossible for opposition-led municipalities by slashing their funding and narrowing their scope of authority, which is precisely what ended up happening. Covid and the subsequent inflation crisis provided ample pretext and opportunity for the government to take revenue away from municipal governments. While smaller municipalities were partially compensated across the board, and Fidesz-led larger municipalities received money in the form of project-based funding, opposition municipalities went almost universally empty-handed when it came to targeted subsidies from the central government.

The opposition municipalities have a mixed record, but while the most spectacular failures were amplified by the media, knowledge of the success stories is mostly limited to locals. The idea of the municipalities serving as the springboard to further success in the national election proved to be a pipedream; in April 2022, outside Budapest, the opposition lost in almost all municipalities where it had won in 2019.

Playing defence

Rather than using the municipalities to play offence in 2022, the opposition finds itself playing defence in 2024 as many local opposition-led mayors and assemblypersons are struggling to hang on to their seats. Part of the challenge is now that two parties that are dead-set against any cooperation with the other opposition parties have recently emerged as major players within the opposition scene: the far-right Our Homeland party and the satirical Two-Tailed Dog Party, are the second and third most popular opposition parties right now. Based on the current polls, they could receive between 20-30% of the total opposition vote: in many municipalities, this could be more than enough to tilt the election towards Fidesz even if the ruling party's candidates receive far less than a majority of the votes.

What could favour opposition candidates in the municipal elections is the increased polarisation of the Hungarian electorate – the anti-Fidesz sentiments may be in the minority, but they are intense, too, and in the majority in some urban centres of Hungary. Furthermore, although Fidesz has suffered only a very slight setback among likely voters, some of its voters in April 2022



has moved into the column without a partisan preference. Some of these will likely vote next year and they might find municipal ballots a tempting opportunity to give Fidesz a wake-up call without giving the opposition any real influence.

A four-year retrospective also offers an opportunity to see what has worked for opposition mayors and council and what has not. Unsurprisingly, the most popular local politicians tend to be those whom voters have come to perceive as competent and hands-on leaders who focus on local problems and make sure to communicate this effectively. This includes several municipalities (such as Szeged, Budaörs, and the 13th district in Budapest), where the success of the opposition predated the modest wave that swept many other opposition politicians into municipal office. In all of these municipalities, the popularity of the municipal leaders far outweighs the support of the opposition overall.

The 2019 election has allowed some local opposition politicians to establish themselves as competent, locally focused leaders in a similar fashion to their counterparts in the municipalities mentioned above. The most prominent example is, of course, the Budapest mayor Gergely Karácsony.

Karácsony is not as unequivocally successful as some mayors of smaller municipalities, but that is partly due to objective factors outside his control. Because of the vital importance of the capital, Karácsony was hampered more than other opposition politicians by the government's efforts to sabotage municipalities. At the same time, one impressive feat achievement of Karácsony has been that the cooperation between the opposition parties worked relatively smoothly under his leadership. The conflicts in the background were mostly not aired publicly, and as compared to the municipalities where the opposition parties continuously bickered, this made the Budapest leadership appear more disciplined and effective.

In Budapest, Fidesz is still behind the opposition

In part, the fact that Karácsony is favoured to win re-election also owes to the distribution of partisan preferences in the capital: despite losing throughout almost the entire country, the opposition won all but one Budapest district even in April 2022, its low point. Fidesz remains far less popular in the capital than elsewhere in the country, and the divide between Budapest and the rest is deepening.

Although this overall trend will make it more challenging for some of Karácsony's colleagues in other cities, the prevalence of the "anything but Fidesz"-sentiment in Budapest will benefit the incumbent opposition mayor. Still, while his re-election seems likely, it should not be taken for granted.

The other central question for Karácsony and the mainstream opposition in Budapest will be whether they can retain their majority in the assembly, which was vital to the effective operation of the city. Following a proposal by Our Homeland, Fidesz has tinkered with the election rules in the capital to try to keep the opposition alliance from controlling a majority in the city council. If Our Homeland emerges as the party that controls the median vote in the assembly, that could lead to a stalemate between the mayor and a hostile assembly, massively undermining Karácsony's chances of making headway.

Successful and unsuccessful models of leadership

A widely mentioned example of a successful new local politician is the Socialist mayor of the second district, Gergely Órsi, who has a very good chance at winning another term in an otherwise heavily conservative area of Budapest. Órsi's focus on local issues, coupled with a lack of interest in national politics, might cement his position. Similarly, the independents Krisztina Baranyi and András Pikó in the 9th and 8th, respectively, are also widely seen as having been

effective mayors. What makes these districts stand out is that they are not otherwise safe seats for the opposition but areas that were either mostly right-wing in the past (2nd) or swing districts in close elections (8th and 9th).

While most opposition mayors in Budapest are likely to be re-elected, the battle will be more intense in rural areas, especially in regions where the opposition is deeply divided. High-profile failures of the opposition alliance included the cities of Eger, Tatabánya, and Göd, all of which are critical areas in the opposition's efforts to (re)gain electoral strongholds; the fractures within the alliance have already led to a Fidesz takeover in Göd, and the others might follow suit.

In many cases, the outcome of the municipal vote will simply hinge on national partisan preferences, which play a heavy role in the selection of local officials as well. However, recent experience shows that for the opposition, their candidates' successes and failures will also depend on two other significant factors. First, a focus on local issues. In areas where the opposition is more popular than Fidesz, this does not necessarily imply the total exclusion of national issues. But there are only a few regions outside Budapest where the opposition is more popular than Fidesz, so in most of Hungary, opposition candidates would be well advised to focus exclusively on local issues. Local voters' perception needs to be that their mayors are mayors first, that they are aware of local problems and are trying to tackle them.

Backroom politics is actually popular

A second crucial issue is the effective cooperation between the opposition parties in the assembly. In municipalities where the opposition parties were at each other's throats, sometimes even cooperating with Fidesz rather than each other, opposition politicians are less likely to be re-elected. In the most successful examples of opposition-led municipalities, the local assemblies functioned smoothly and allowed the mayor to operate effectively.

It is improbable that this meant that there were no major disagreements between the parties involved. However, they were generally able to settle these outside of public sight.

One interesting question will be whether the opposition can improve its results in the areas that were the sites of public protests against battery production plant investments, which tend to be unpopular with locals. Two major municipalities that are affected, Debrecen and Győr, are Fidesz strongholds and thus highly unlikely to give the opposition victories. Nevertheless, it remains to be seen whether Fidesz's casual dismissal of local concerns will be reflected in the election results, at least in terms of the margins. Considering that Fidesz still controls far more of Hungary's 3,200 municipalities than the opposition, a surprising number of municipalities that have been designated as battery factory sites are controlled by the opposition. Although hardly the guarantee of a victory, the battery issue might boost opposition incumbents and candidates against Fidesz's nominees.

Is opposition control of municipalities sustainable?

Another key question is whether opposition control of municipalities is sustainable in the long term. The failure to clinch control of the central government at the 2022 elections has put in question the very functioning of many municipal governments that are currently controlled by the opposition. In a democracy, at worst, the central government does not help municipalities effectively, leaving them to wrestle with major problems on their own. However, in Hungary, the government is actively undermining opposition-led municipalities and is very honest about this, too. Alluding to campaign funding for the opposition from abroad, the Minister for Construction, János Lázár, remarked that "we will not provide any money from the budget to people who serve foreign interests, and these municipalities will be worse off for it. In my opinion, it is more honest to say this silently than trying to conceal it".

The Fidesz central government appears stable, and it has the tools and the desire to undermine opposition-led municipalities consistently. In the long run, this could become an objective reason why opposition mayors can't do well, no matter how competent and committed they are. This may become a genuine dilemma for local politicians and voters alike. In a democracy, such a quandary would not exist, but the way Fidesz has hollowed out municipal autonomy highlights that this is very much an issue in Hungary.

2.3 | Outlook on the Hungarian opposition in 2024

Looking at the bright side for the Hungarian opposition, one might say their situation can hardly get worse. But the truth is that it could. Indeed, April 2022 was a low point, and its devastating impact has not subsided yet. It seemed that the opposition had pulled out its last ace, and it proved worthless. Now, in 2024, it must at least defend whatever little influence it has through its municipal positions. Even that will be a challenge, given that in 2019, the mainstream opposition ran together and monopolised almost the entire anti-Fidesz vote.

This time, there will not be an alliance of all major opposition parties against Fidesz. In many municipalities, mainstream left-liberal opposition will be competing against two other relatively strong opposition parties – the far-right Our Homeland and the satirical Two-Tailed Dog Party – that further fragment the “anything but Fidesz” segment of the electorate. A draw, that is a roughly similar result in the EP and the municipal elections as five years ago, would be a success for the opposition. From a communications perspective, Fidesz will almost certainly be the winner of the elections: even if it loses a few points in terms of its national support as compared to the 2022 elections – and that appears likely – it will portray itself as the largest party without a genuine rival in the Hungarian system. And that will be true. If the opposition’s votes cannot be aggregated into a joint tally, it lags far behind Fidesz.

For the European elections, the opposition parties will be vying with one another, each hoping to secure a relatively larger piece of the pie left over to them by Fidesz. For Our Homeland and the Two-Tailed Dog Party, the EP election may prove to be a breakthrough. Still, the municipal election is unlikely to offer them much success outside Budapest, where Fidesz’s recent amendment of the election rules will make it easier for them to clinch seats in the city

assembly. In some rural areas, Our Homeland is likely to gain control of municipalities, capitalising on ethnic friction.

For analysts and voters alike, it is increasingly difficult to get excited about the question of which opposition party receives a few points more than the other. The relevant development is whether, eventually, at some point in the future, one party will grow large enough to dominate the opposition, become similar in size to Fidesz and thus emerge as a genuine alternative. 2024 will not be that year. Still, the coming elections may be crucial for several parties. Jobbik, MSZP, LMP and Dialogue are all at risk of losing many of their remaining positions. The EP election will show whether any of them have enough support to carry them across the five-percent threshold that would qualify them for a seat. Although the polls show that Momentum will get into the EP, there is a real risk that they may not repeat their excellent 2019 results.

For the opposition, the question of how they perform relative to each other (and to the absolute 5% threshold, of course) will be the most crucial. Parties that reach the threshold for the EP elections will certainly have a more important role in the electoral coordination for the 2026 parliamentary elections. Based on opinion polls at the end of 2023, it seems likely that the Democratic Coalition will have the strongest position in that process.

At the same time, it is also possible that the Hungarian party system may be experiencing another transformation as it did between 2006 and 2010 when Jobbik and LMP grew out of the crisis of the mainstream left. The 2022 election had several parallels to 2010, and the breakthrough performance of Our Homeland was one. Similarly, for many opposition voters, 2022 may have marked the point when, for the time being, they gave up on the hope that the

opposition could succeed in Hungary. This makes the Two-Tailed Dog Party more of a viable alternative for those voters who already sympathised with it but did not want to waste their vote. If they see their vote as wasted anyway, they will be more likely to give it to the funny brigade instead.

What is not likely to change in 2024 is that the opposition overall has no viable strategy to challenge Fidesz. Nevertheless, within the given constraints, the opposition could improve its position and at least seem prepared for a potential scenario where some kind of unexpected political implosion propels it to power. One of its biggest liabilities is its inability to be perceived as a genuine alternative that one could think of as an effective governmental power.

At the same time, it is important to acknowledge that this can only work if those on the opposition side are overwhelmingly convinced that ousting Fidesz is the single most important objective that trumps all other ideological or political considerations, allowing them to ally with strange bedfellows. For a large slice of the opposition electorate, that is true. For a significant minority, it is not. The same division characterises the political class as well. These are legitimate differences, of course, but as long as they persist, any major political change can only occur as a result of an implosion in Fidesz’s support.

3

Hungary's place in the world in 2023

3.1 | The state of Hungary-EU relations

The year 2023 ends with a gesture that is highly symbolic of Hungarian-EU relations in general: Viktor Orbán walks out of the EU summit after eight hours of fruitless negotiations, effectively allowing the remaining member states to launch Ukraine's EU accession process despite his opposition. It is symbolic because a walkout represents how the Hungarian PM relates to the European Union on the whole. At the same time, it was also symbolic because it was a charade. It was not a real protest but a weird compromise since it was clear to everyone that on this issue, at least, Orbán had essentially submitted to the will of the other 26 member states. This is not unusual for Viktor Orbán, who has railed consistently against the series of EU sanctions imposed on Russia in response to the war in Ukraine but ultimately ended up voting for these sanctions.

Playing with vetos

However, no matter how much Orbán's critics wish it to be true, the idea that Orbán caved and was bought off once again does not capture the December EU summit, which made the historical decision to start membership talks with Ukraine. Instead, the December summit was mostly a win for the Hungarian government, albeit not an unmitigated one – victories in international politics hardly ever are. Although the initiation of membership talks is an important milestone for Ukraine, for the time being, it is mostly a symbolic breakthrough. Even assuming that the actual process will be completed eventually, there is still the key matter of the European Council having to approve membership (as well as the intermediate stages of the accession process). The example of Sweden's NATO membership shows that the Hungarian government could well play hardball even in situations when the benefits of allowing a country to join an international organisation are so unequivocal that Fidesz politicians, too, do not dispute them.

On the most substantial issues for him at the summit, Orbán has won the upper hand for now. He continues to block aid for Ukraine, which he says is the more pressing issue for Hungary's eastern neighbour (that is hard to deny given that the country is at war). The day before the summit, there was also the good news that €10 billion of EU funding had been released from the previously frozen funds. This is still far from the full 32-billion-euro package (this includes funds from the Recovery and Resilience Facility as well). But it is an important start for him, especially seeing that the adjustments he had to make to his regime in order to secure the release of these funds were important but hardly a major political threat for Orbán. By blocking the aid for Ukraine, the Hungarian PM has not released his key ace, and he has illustrated once again that he wields disproportionate influence on EU decision-making.

On Ukraine, only Orbán undermines the EU's unity

That is not to say that the EU's performance on Ukraine has been a disaster; on the contrary. Even the initial strong united stance of the EU countries in response to Putin's aggression was noteworthy, as was the rapid speed at which most member states weaned themselves off Russian energy imports to render Putin's key tool of blackmail ineffectual. That this unity persists almost two years into the war, despite changes in government in some member states and the poor prospects of a Ukrainian breakthrough, is a surprising and positive testament to the commitment of most EU member states to resisting aggression. What is especially remarkable is that the unity regarding Ukraine has not been undermined even by populist governments that were otherwise sympathetic to Orbán. This includes the recent election

in Slovakia of Robert Fico, the first politician to be elected since the war who has openly spoken out against supporting Ukraine, explicitly endorsing Orbán's stance.

Keeping 26 member states in line for such a long period is an impressive achievement and is at least a temporary setback for Orbán, who had anticipated that the EU member states would fracture quickly and that he would be a trendsetter on Ukraine as he had been on the refugee issue. So far, this has not happened.

The withholding of funds has had an impact

The Hungarian government is definitely feeling the crunch of lacking EU funds. Although the economic impact was quickly discernible, initially the lack of EU funds was not felt directly by the public. Still, the government was quick to blame "Brussels" for all the economic and financial problems experienced by Hungary, as if the Hungarian economy was completely dependent on the EU.

Thus, for example, the government insists that although it would like to, it cannot afford to pay for the raise of teachers because it is up to "Brussels" to provide the funding. This is an odd argument, especially in light of major optional projects that cost considerable amounts of money and in light of the sovereignty rhetoric. How sovereign can a country be if it can't afford to pay its teachers?

Citizens, in particular youth, also feel the impact of the European Commission's concerns about Hungary through the suspension of Erasmus and Horizon funding, which is crucial for Hungarian higher education. The EU made clear that this decision was linked specifically to the Hungarian government's decision to privatise virtually most of the higher education system into the hands of Fidesz-controlled foundations, but as with every other issue in Hungary, the perception of the public is hugely influenced by partisan preferences.



Harshly anti-EU communication is becoming the norm

Viktor Orbán's bold disregard for the opinion of the EU institutions and EU partners is manifest in the continued campaigns against "Brussels" and specific EU officials, most recently Ursula von der Leyen. The campaigns are ugly by any measure, often veering into the zone of personal denigration and insults. The Prime Minister often demands greater respect for Hungary when his controversial policies are criticised by foreign actors (and it is important to add that the criticisms are typically courteous and not disrespectful of Hungary). Yet, he shows no respect for his critics. He is openly disdainful of those who disagree with him, calling the EU's decision on Ukraine "absurd, ridiculous and lacking in seriousness" and Ursula von der Leyen a Soros lackey, to mention just two prominent recent examples. And many commentators in the Fidesz media make Orbán seem downright polite. It is unclear what Fidesz means by respectful communication, but one can infer that it does not include any criticism of its policies and that it is highly asymmetrical.

The communication of Fidesz and its media also continues to delegitimise the EU as a set of institutions and a community, tearing away at the once solid fabric of Hungarian society's commitment to remain in the EU. Large parts of the Fidesz base have followed their party into adopting a more critical stance towards the European Union, and there is a growing segment (though still a minority) within the electorate who no longer automatically reject the idea of leaving the EU.

Staying in and trying to change the European Union

For now, it just does not make sense to leave, Orbán argues. Instead, the goal should be a pioneering role in changing the European Union. And while it is highly unlikely to move completely in the direction the Hungarian PM wants, the EU has been forced to adapt to Orbán over the years and will continue to have to do so. Orbán has made

clear that if the EU wants to make progress on the most crucial issues currently on the table, especially Ukraine, it will have to pay him the money allocated to Hungary in the EU budget despite the assessment of the European Parliament and the European Commission that the Fidesz government has failed to comply with the rule of law requirements on which the payment is conditional.

But the backroom deals that ultimately netted Hungary 10 billion euros of the funds it seeks from the EU constitute another example that confirms the Hungarian PM's view of the EU rather than the vision of those who would prefer that long-term, value-based commitments and institutions exert a greater influence on EU decision-making. This is not at all to say that horse trading is new to the EU; it would not have progressed the way it did without a long series of bargains, often very pragmatic ones that struck critics as odious. What Orbán is doing at Council summits – using his veto as a bargaining chip to gain advantages on matters unrelated to the issue at hand – is not unprecedented.

Stuck

Nevertheless, on the whole, the Hungarian PM is an unprecedented challenge for the EU. At this point, the EU must at least consider the possibility that it will be confronted with Orbán for a long time. Making progress on integration with the current rules in place will be virtually impossible. The EU will not be able to put up 10 billion euros each time it wants to prevent an Orbán veto on a major matter. And the Hungarian PM is also unprecedented in terms of his willingness to exercise his veto power, which he does far more than any other leader in the EU. As long as Orbán's veto is around, progress on integration will be extremely limited and slow since he has made clear that this runs counter to his vision of Europe. This approach benefits him domestically without causing enough harm internationally to give him an incentive to change.

Opening the process of Ukraine's accession despite Hungarian government's massive resistance was indeed a major coup, but

what has it achieved? An affirmative vote or at least a "coffee break" will be needed at several points throughout the accession process, which gives the Hungarian PM immense leverage. His refusal to accept the EU's continued aid to Ukraine at the same time was already evidence that despite the huge cost to the EU financially and in terms of credibility, the Hungarian concession was effectively very limited.

In battle mode

Nor is there hope for a grand bargain, some major arrangement that will allow the EU to move forward while Orbán either rolls along or agrees to stay on the sidelines in return for, say, an acceptance of his regime and a promise of non-interference. The Hungarian PM has been in battle mode for a while, and his experience is that no one, not the EU, not the US, nor anyone else to the West of Hungary, has enough leverage to stop him.

Some major feat of ingenuity would be needed to get the Hungarian-EU relations out of the ditch where the Hungarian PM's policies and rhetoric have driven them. In fact, massive creativity and innovation will be needed to move integration along while Orbán is part of the European Council. Ending the unanimity requirement in those policy areas where it still applies has been desired by many pro-Europeans for a while now. Although it was not his intention, Orbán makes a very powerful case for abolishing the veto. Yet, this appears to be a Catch-22 situation as he will not surrender his most important weapon against the EU.

To tackle this problem in the long term, pragmatic solutions featuring multi-track European integration seem more realistic than sidelining or reigning the Hungarian government in. If other countries agree to closer cooperation on certain issues, the Hungarian PM will not be able to block them. Concluding bilateral aid agreements with Ukraine based on a collective decision of the 26 member states is one example of how this could be done. But it is an onerous process, far more complicated than the already

complicated manner of hammering out agreements in the European Council. For the time being, European integration will be held hostage by the Hungarian government, and solving this conundrum is among the most important challenges facing the EU right now.

Visegrád cooperation is on halt

The election in Poland will have a major impact on Hungary's foreign policy situation. For one, Poland is the largest member of the V4, its population is bigger than that of the other V4 countries combined. Although Orbán and the PiS government were at odds on how to deal with the Russian war against Ukraine, on almost every other issue they agreed, making PiS a key ally for Orbán. By contrast, the new prime minister, Donald Tusk of the centrist Civic Platform, is one of Orbán's fiercest critics.

Still, the Slovakian election turned out in Orbán's favour, with Robert Fico winning handily. Crucially for the Hungarian PM, the new head of government in Slovakia is also openly critical of the EU's support for Ukraine. Still, Fico is pragmatic, and at the EU summit in December, he voted in favour of launching Ukraine's accession process and has also accepted the aid package for Ukraine, which Orbán vetoed.

Fico is thus not a reliable partner for the Hungarian government. Moreover, with the current Polish and Czech governments, the V4 countries are massively divided and that will not change in the near future. Although technical cooperation is likely to continue, the joint political project – which was weak to begin with – is on halt.

3.2 | Orbán's foreign policy between Russia, the USA and China

We have in previous years referred to Viktor Orbán's efforts to nurture close ties with the Putin regime in Russia and with the People's Republic of China as a gamble. Orbán is obviously aware of Hungary's heavy economic dependence on the West, and in our interpretation he is hoping that the Western partners would nevertheless acquiesce to his sprawling political and business ties with the authoritarian regimes which are perceived as the biggest security challenges by the Western allies. Russia's bloodless occupation of Ukraine's Crimean Peninsula in 2014 was the first indication that this gamble may go awry; the Hungarian PM found himself isolated within the EU at the time because he refused to condemn the land grab in the clearest terms. Frustration about his foreign policy orientation was coupled with growing irritation with Orbán's authoritarian domestic policies.

Ultimately, capitalizing on some changes in government in the region and the political dividends of the 2015 refugee crisis, Orbán dug himself out of his diplomatic isolation. Even as the rift between his government and the vast majority of Western EU member state governments continued to deepen, he became increasingly popular among many of his regional counterparts in Central and Eastern Europe who liked his populist rhetoric and the success of his methods.

For the time being, Russia's extreme step of invading mainland Ukraine has isolated Orbán once again as he decided to remain loyal to the Putin regime even as his erstwhile allies clearly sided with Ukraine. So once again, given his unwavering commitment to Putin, Orbán can only hope that just as the situation of Crimea ultimately normalised without forcing him to turn on Russia, there will be some

semblance of normalisation of the war, too, which would make his unrelenting loyalty to Putin sustainable.

No alternative really contemplated

There is a vital element of chance in this policy, namely Orbán's hope that ultimately the conflict between Russia and the West will not deteriorate to a level where Hungary will be forced to choose sides because its pretended neutrality can no longer be tolerated by its formal allies in the West. However, now it seems that for the Hungarian PM this is far more than a gamble. At this point, it looks like that it is a reflection of a strategic commitment to Russia and China, no matter the cost.

The Hungarian government's commitment to maintaining and deepening ties with authoritarian regimes and populist leaders – primarily Russia and China, but also a host of other countries across the globe, including Turkey, Azerbaijan and Turkmenistan – is its main foreign policy doctrine now. This is the area where Hungarian diplomacy is exerting itself especially, even while the traditional intergovernmental alliances are neglected.

Textbook controversy

A good example of how intense the ties have become is the recent scandal surrounding an official Russian textbook which tries to conflate the revolutionaries of 1956 with the Hungarian fascist militias during World War II, suggesting that the latter played a key role in instigating the revolution. The book also claims that the revolutionaries murdered civilians because of the latter's alleged

affiliation with the communists. The deployment of Soviet troops in response, thus the textbook, was fully justified.

This is an officially sanctioned historical narrative that would hardly get a pass from the Hungarian government if it were presented in a country that is officially friendly with Hungary. In this respect, Russia enjoys a distinctly privileged status: while PM Viktor Orbán and FM Péter Szijjártó relentlessly call out whatever they deem disrespectful comments by official sources in other countries, in this case, they were visibly silent. The modest response was instead delegated to a state secretary in the Foreign Ministry, who did not refer specifically to the Russian textbook or Russia but merely asserted that the interpretation of 1956 as an anti-communist revolution is unequivocal and not subject to debate.

Even at a time when the Putin regime's actions are more controversial globally than at any time since Viktor Orbán's long career in politics, the Hungarian government is going out of its way to avoid seeming critical of Putin or Russia. Even the few comments by Orbán that vaguely express sympathy for the suffering of Ukrainians strictly avoid referring to Russia's role in bringing this about. In fact, the government's communication implies that through their obstinacy, the Ukrainians themselves are at fault, along with the Western allies who fuel the Ukrainian resistance.

Friends on the fringes

It is not entirely accurate to say that the Orbán government neglects the West altogether. This applies to governmental relations with countries that have mainstream governments; in other words, the vast majority of Hungary's Western partners. At the same time, the Hungarian government is intensely building ties with like-minded anti-liberal populist parties in the West. Often, these are parties that are at the fringe of the political spectrum, and thus, while they may be influential, they are unlikely to take the reins of government in the near future. Yet, some of these formerly fringe parties have established themselves as serious competitors of the mainstream

parties (e.g., the National Rally in France) and some have even become successful enough electorally to clinch governmental positions (e.g., the Brothers of Italy and the League in Italy or the Freedom Party in Austria).

Orbán's most successful partner in a democratic context also happens to be the most influential. The Hungarian prime minister is a staunch supporter of Donald Trump in the US. In recent years, Orbán's endorsement of Trump has become ever more vocal, as has his intense loathing of the Biden administration and the Democratic Party. For a government that professes to be continuously outraged about other countries' comments on Hungarian affairs as undue interference in domestic matters, the Hungarian PM has no qualms about continuously voicing his partisan stances in the context of US politics, calling for a return of Trump and criticising the Democratic administration. He also said in an interview with far-right US political commentator Tucker Carlson that the only solution to the Ukraine crisis would be to bring Trump back, who would have prevented the war in the first place and would be vital in ending it. Such comments reaffirm that the Hungarian PM does not have the slightest desire to improve relations with the US as long as the Democrats hold the White House.

Broken fences

Trump's return into office would indeed be a huge foreign policy boost for Orbán, and in fact, any Republican administration would likely take a considerably warmer view towards the Fidesz government. It is also true that Orbán has no backup strategy. That is, as long as the Democrats stay in power, he considers the US administration an enemy – unlike the Putin administration.

As a result, Hungarian-American relations are at lows unseen since the regime transition. Among the many results is the US's unilateral decision to cancel the double taxation agreement with Hungary, as well as the recent restriction of Hungarians' access to the popular visa waiver programme. The US ambassador in Hungary, David



Pressman, has been more willing to publicly call out the Fidesz government, which has led to harsh recriminations of him by Fidesz politicians and pro-government media. Pressman's willingness to counterattack (though not in the vulgar style in which he is treated by Fidesz and its media) indicates that he has the backing of the State Department and the Biden administration in his tougher line.

Blocking Sweden's NATO accession

What has vexed many minds is that Hungary has still not given its consent to Sweden's accession to NATO. The government claims to support it, and it has acknowledged the strategic benefit of having the northern country in the alliance. Orbán has also said that Hungary will not be the last country to ratify Sweden's NATO accession, but with one and a half years since the start of the ratification process, that is increasingly irrelevant. The government claims, implausibly, that the Fidesz parliamentary group is divided on the issue because Sweden has been critical of Hungary in the past. There is a lack of respect for Hungary, thus the Orbán government.

No one believes the government's claims that the hold-up has anything to do with the parliamentary faction. However, Orbán's motivation on this question is indeed a mystery; the only certain thing is that the official reasons cited do not reflect reality. There are various theories as to why he would do this. The most obvious explanation is that Russia is staunchly opposed to making Sweden a NATO member, although one must add that this was also true of Finland, which the Orbán government agreed to accede to NATO. It seems almost certain that Orbán will relent once Turkey does, but who knows when and if that will happen.

Vision of a China-led world

While the conflict in Ukraine and hence Russia continues to be at the forefront of public interest in Europe, the Hungarian PM has quietly moved on. Even as he insists on Putin's staying power and continued relevance in the international arena, his open admiration

is reserved for China. He has been saying for many years now that the global future lies in China. In his most recent annual strategy speech at Tusnádfürdő, where Fidesz visits every year to celebrate itself surrounded by ethnic Hungarians in Romania, Orbán delivered a paean to China's progress, making it clear that China has already overtaken the US or will do so in the near future.

He went on to praise China for its core values, concluding that it was more than a match for the US: "And it has the best weapon to counter the US's main weapon. The soft power weapon of the US that we refer to as universal values. Well, the Chinese simply laugh about this and argue that that's a Western myth and that in reality, all the talk about universal values is just a philosophy of hostility towards other, non-Western civilisations. And seen from their perspective, there is some truth in that." Given how harshly Orbán tends to speak about Western values and the West in general, saying that the Chinese position has "some truth" was unusually cautious of him.

Although less splashy than his pre-war summits with Vladimir Putin, or Foreign Minister Péter Szijjártó's continued discussions with the Russian leadership, the ties with China are nevertheless intensifying clearly. The first foreign trip of the newly installed Chinese foreign minister, Wang Yi, included several major European countries, to wit Italy, France, Germany and Russia – as well as Hungary. This was a major coup for Hungarian diplomacy and a recognition of the role Hungary plays for China: it was the only country not included because of its size or economic heft but because it has become a close ally of China in Europe.

Supercharged

The closer ties are also manifesting themselves in the form of Chinese investments in Hungary, especially in car battery production, which the Hungarian government promotes, often despite intense local resistance. The role once played by German car production, namely that of the most important new foreign investor, has now been taken by Chinese (and other) battery producers.

Although the Hungarian government has tabled the Fudan University in Budapest project for now due to the stir it caused before the 2022 election, it is no secret that more intense ties with China continue to be a priority for the Hungarian government, even at the cost of putting the country at odds with its Western partners. The Fudan issue will likely be reintroduced at some point.

Recently, the critical online site Válasz reported that over 60% of the foreign policy vetoes in the EU over the last six years had been exercised by Hungary, predominantly in the defence of Russia and China. From a Western perspective, at this point Russia is the more problematic partner for the Hungarian government, but in the future that may change. Orbán is right that the assessment of Russia in crucial parts of the West might well change if another Trump (or Trump-like) administration is elected in the US in 2024. The same does not necessarily hold for China.

One of Trump's key arguments was that US relations with China primarily benefitted the latter, and even as he found a friendly tone with many authoritarian leaders across the globe, relations with China remained tense during Trump's term. Many in the Republican leadership view China as the most important strategic challenge for the US. Moreover, this is one of the very few issues on which the foreign policy consensus still holds in the US. Democrats, too, are concerned about the global influence and potential military aspirations of China. Similarly, increasing concerns in Europe about China's aggressive posturing also translate into scepticism about Orbán's attitude – not that that's anything new. So although that is a slight worry for the Hungarian PM, he can still hope that even if tensions between China and the West rise, Hungary will not be important enough to be seen as a major piece on the board that the players will be concerned with at the time.

On Israel's side

Since returning to office in 2010, Viktor Orbán has developed intense ties with the Israeli Benjamin Netanyahu, whom he sees

as an ideological ally. The government has condemned the terror attack of October 7, and Viktor Orbán said he would not allow "sympathy demonstrations" in support of Hamas. At the same time, the Hungarian government has not been vocal on this issue, it does not widely advertise its position. They realise that pushing the pro-Netanyahu position does not play well for the government's effort to maintain friendly ties with the Arab world. Still, in the UN General Assembly, Hungary voted against a resolution calling for a cease-fire, arguing that it was not strong enough in its condemnation of the October 7 terror attack.

The Hungarian PM would prefer to keep this issue out of his foreign policy agenda, he has little to gain from the international exposure of his opinion. But he has used it for domestic political purposes: in an interview after the attack, he said the goal of his anti-migration policy was to make sure that Hungary does not become a "mini-Gaza".

3.3 | Outlook on Hungary's place in the world 2024

Despite a setback in Poland, the international tides are not necessarily unfavourable for Fidesz. The Russia-Ukraine war is stuck, and given the strong Russian defences, Western support does not appear capable of tilting the war massively in favour of Ukraine. Unless Putin aggravates his assault in some way – which remains a possibility, especially after the presidential election – the war is likely to drop somewhat as a priority item on the EU's agenda, which is all the better for Orbán. After all, this is the issue that most isolates him within the European Union. In another favourable trend for the Hungarian PM, like-minded populists are gaining ground in several countries. In addition to the recent election of Putin-friendly Robert Fico in Slovakia, 2023 also saw the massive success in the Netherlands of another close Orbán ally, Geert Wilders, and the election of Javier Milei, a highly controversial populist in Argentina. In many countries, such as France and Germany, the populist right's support is also at record heights.

And there will be several elections in 2024 that will influence the Hungarian government's international position. The most important is, of course, the US presidential election, where the Hungarian PM placed his bets early: he went all in on Trump a while ago, and it is no longer considered a crazy bet. A Trump victory would give the Hungarian government a few years of breathing room with a key ally in the White House. There will also be national elections in two neighbouring countries, Croatia and Austria. In the latter, another pro-Russian Fidesz ally, the Freedom Party, is likely to win – although that does not necessarily mean they get to form the government.

Orbán hopes that history repeats itself, and just as after 2014, his isolation within the EU will gradually fade. If the balance in the European Council shifts in a direction that is less hostile to him, the European Commission might also relent on many issues on which

it has been pushing the Hungarian government. Especially so since although news reports often focus on the European Commission's pressure on the Hungarian government by withholding the EU funds, the fact is that Orbán, too, has an instrument of pressure: his veto power, which he wields liberally. This is effectively blocking the EU's policies on many issues.

A change in Hungary's relations with Russia does not appear likely. The Hungarian PM remains deferential to Putin and has given no indication that his position might change. It is possible that the Hungarian government views Putin as a liability now because of the deep rift it has generated between Hungary and its traditional partners. But Orbán made the fateful decision to stand by Putin after the invasion, and this resolve persisted despite Mariupol, despite Bucha, and despite the bombing of civilian areas even far away from the war zone. In light of the above, except for an attack on a NATO member state, there are few realistically conceivable scenarios that would lead to Orbán changing his mind about Putin.

There are increasing signs that China appreciates the Hungary's efforts to deepen the ties between the two countries, and the Chinese foreign policy establishment has certainly noticed how steadfast the Hungarian government has been in defence of Putin's foreign policy interests. Having a partner in the EU that it could count upon to deflect or soften a joint stance in response to potential measures directed at China in the event of a clash over contentious issues, be the latter geopolitical or economic, is naturally a major asset to China (as it has been for Russia).

Somewhat ironically, given the Hungarian PM's preference for Trump, for China Hungary may become even more relevant if a Republican administration takes power in the US in 2025, a scenario that Orbán

is clamouring for. The Republicans believe that US foreign policy should focus on containing China rather than Russia, and Republicans have accused the Biden administration of being soft on the former. The Hungarian government is opposed to any sort of confrontational stance towards China, but it probably hopes that even a Republican administration would gloss over the dissonance between the Fidesz and the GOP position, as Trump did between 2016 and 2020. And that's probably realistic, at least until a conflict escalates.

While everyone hopes that with the invasion of Ukraine by Russia we have seen the worst escalation of the East-West conflict for a while, the war has certainly brought Western countries closer together; see, for example, the previously unlikely application by Finland and Sweden to join NATO after a long history of neutrality that persisted even in more fraught times than the current one. For his part, the Hungarian PM has made clear that he does not want to strengthen these alliances but wants them to appease the Eastern powers no matter the price. There is no other interpretation of his ongoing refusal to allow Sweden to join NATO even though his government explicitly acknowledges that this would strengthen the alliance. Whether or not he ultimately greenlights Sweden's NATO accession, that is the general approach that will continue to define his foreign policy in 2024 and likely beyond.

Meanwhile, the Hungarian PM continues to push the idea that he is not only a prophet for Hungary but also a spokesman for a vast global popular movement against the global liberal elite. As he said at a recent conference of the Hungarian Institute of International Affairs (an institution that has recently been placed under the control of the Prime Minister's political director), "History has ordained that Hungary must set itself more ambitious [foreign policy] goals than would follow from its size or economic achievements; and it has been wont to do so anyway". As the staff of the Institute now works directly for the PM, it will be up to them to help Orbán realise his historic vision.

4

Hungary's economy in 2023

4.1 | Overview of the Hungarian economy

Post-pandemic and wartime economy, still

From an economic perspective, 2023 essentially extended the trends observed in 2022. Challenges that surfaced the preceding year persisted into the new year, often with heightened intensity, while certain issues remained unresolved. Inflation emerged as a paramount economic concern, notably in Hungary, where levels not witnessed since the 1990s were experienced. The consequential escalation in the cost-of-living permeated various sectors of the economy, precipitating a recession and a decline in real wages. This pronounced economic downturn in Hungary can be primarily attributed to its substantial reliance on Russian energy resources (especially, oil and natural gas). The monopolistic control exerted by the Eurasian giant over the country's fuel supply compelled Hungary to pay prices above the market rate for its energy imports. Consequently, the double-digit inflation of 2023 led to a substantial decrease in private consumption, an increase in interest rates, and a decline in private investment.

Notably, the only sectors making positive contributions to the GDP were predominantly those dominated by multinational corporations in exports and, to a lesser extent, agriculture. The figures in the European Commission's forecast (Table 1) illustrate the intricate relationships between these economic indicators.

Hungary's GDP growth data warrants further discussion in the introduction. In the Commission's projection from the previous year, an expectation was set that the Hungarian economy would encounter challenges in 2023, with a mere 0.1% GDP growth forecast for the country. However, by the close of 2023, the Commission found it necessary to revise this projection downward, characterizing the economic situation as a recession and predicting

a contraction of 0.7%. Given four consecutive quarters of negative growth from the end of 2022 to August 2023, the Commission's foresight is increasingly likely to be affirmed by the year-end.

The principal query now revolves around the depth of the economic decline rather than its inevitability. Notably, according to the latest data from the Hungarian Statistical Office, the recession purportedly concluded in the third quarter of 2023, with GDP showing a 0.4% growth. Nevertheless, industry experts remain perplexed by this sudden reversal of fortune, as none of the underlying indicators have exhibited changes that could account for such a shift. What has changed, however, is the individual responsible for calculating Hungary's economic performance indicators for the past 27 years; he was replaced by an economist with strong ties to the government shortly before the publication of the last quarter's data.

Despite the myriad challenges of 2023, consumers have remained more optimistic about the future than a year ago. The confidence index, which gauges their optimism regarding the economy's performance, has steadily increased since January 2023. However, there is limited cause for celebration, as the corresponding value, while improved, has only marginally shifted from an all-time low of -55.7 in December 2022 to a higher, yet still notably pessimistic, -36.7. These results are on par with the ones taken a month after the onset of the COVID-19 pandemic or with those two months after the Russia-Ukraine war erupted. Based on the underlying survey, the public maintains a bleak outlook on their financial prospects.

Conversely, the business sphere has exhibited less pessimism regarding the economy's future, although their metric has not ventured into positive territory since the middle of 2022. Following a moderate uptick to around -7 in January 2023, the value has

Table 1. Key indicators of the Hungarian economy (annual percent change 2022-2025)

Indicators	2022	2023	2024	2025
GDP growth (%)	4.6	-0.7	2.4	3.6
Gross fixed capital formation	0.1	-9.6	2.6	8.2
Private Consumption	6.5	-3.9	3.0	4.4
Export	12.6	0.5	3.7	5.1
Import	11.6	-6.0	3.6	6.6
Inflation (%)	15.3	17.2	5.2	4.1
Unemployment (%)	3.6	4.1	4.2	4.1
Public budget balance (% of GDP)	-6.2	-5.8	-4.3	-3.8
Gross public debt (% of GDP)	73.9	69.9	71.7	70.3

Source: European Commission 2023 Autumn Forecast

plateaued. This mixed result can be attributed to a confluence of contrasting impacts. On the positive side, energy prices have seen a noticeable decrease. However, on the negative side, there has been a substantial decline in private consumption and increased prices.

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

In 2022, European governments grappled with an unprecedented crisis within the continent for decades: a war between two nations. On 24 February 2022, Russia launched an attack on Ukraine. Considering Russia's pivotal role in the European supply chains at that time, the conflict had an almost immediate and far-reaching impact on all facets of the economy, extending well beyond the Ukrainian front lines. Given Russia's trade profile, no other sector bore the brunt of the repercussions more severely than the energy sector.

Before the war, Russia was the largest exporter of oil and the second-largest of crude oil in the world. The European countries represented almost half the product's target markets. Conversely,

Western demand for Russia's natural gas was even more prominent. Nearly two-thirds of Russian exports went primarily to EU countries (and Turkey), while the EU covered over 40% of its consumption. Its share was not evenly balanced within the region, however. Eastern European nations (and Germany) absorbed most Russian gas exports.

According to data from 2020, Hungary was the fourth most dependent on Russian oil in the world, with 44.6% of its overall consumption supplied by its Eastern partner, while close to 90% of its natural gas consumption was based on Russian sources. The three most dominant sources of the country's total final energy consumption were oil at 37%, natural gas at 30%, and electricity at 17%. The latter is also heavily dependent on Russia since around half the country's power supply is produced by the Soviet-built Paks nuclear power plant that receives all its fuel from Moscow.

In 2022 and 2023, most of Europe was occupied with finding alternative suppliers for the energy resources Russia was responsible for until then. According to the most recent data, they

achieved that objective, as Russia's 40-50% share decreased to a mere 12.9% by November 2023. Meanwhile, most of Europe's natural gas storage facilities were also filled up for the first time above 90% (many at total capacity) by October, making the markets much less nervous about the prospects of rolling blackouts and Europeans freezing due to shortages. The prices reflected this new mentality: by August 2023, they were 88% lower than a year before, around 35 euros, rising gradually to 49 euros in November 2023 due to the onset of winter.

Nevertheless, Hungary was heavily impacted by the brutal price increases of 2022 across Europe. Despite maintaining a strong relationship with Russia (even after it started its invasion), Hungary could not gain better terms for its natural gas imports than any other country in Europe. Independent analysis by the Hungarian Statistical Office (HSO) showed that, like any other government, Hungary has been paying the same TTF price but with a 2-month lag.

Record-high inflation

Even prior to the onset of Covid-19 in 2020 and the initiation of the Russia-Ukraine war in 2022, inflation in Hungary was notably high. For three consecutive years spanning from 2019 to 2021, the country consistently held the second-highest inflation rate within the entire EU, with the top spot fluctuating among different nations each year (2019: 3.4%, 2020: 3.3%, 2021: 5.1%). The year 2022 witnessed a surge in price increases across Europe, particularly impacting nations heavily dependent on Russian energy. This time, owing to the results of the Baltic countries and Czechia, Hungary only came fourth in the inflation race but with a staggeringly high rate at 14.5%. Moreover, from September onwards, the monthly rate climbed above 20% until July 2023, reaching its peak at 25.7% in January 2023.

Hungary managed to go from almost constant second to first place in European comparison, as the country persistently produced the highest inflation rate each month within the EU from September 2022 until the latest available data in October 2023. Despite a

return to single-digit inflation growth at 9.9% in October, this result can be attributed partly to base effects, lower commodity prices, and weak consumer demand. The cumulative inflation between January 2021 and October 2023 amounted to 41.6%.

The surge in inflation can be attributed to a myriad of external and internal factors. Externally, the escalation of energy prices, corporations raising prices above inflation, and disruptions in global supply chains have played pivotal roles. Internally, contributing factors include a deteriorating exchange rate, pro-cyclical policies involving one-time handouts (such as income tax cuts and pension bonuses) aimed at appeasing the electorate ahead of the 2022 general elections, and, most significantly, Hungary's heavy reliance on Russia's energy supply.

When the war commenced, the government initially exhibited uncertainty regarding its stance and communication strategy, having oscillated between years of anti-EU rhetoric and a more subtle pro-Russia, pro-Putin discourse. However, by the summer, a shift occurred, and the government reverted to its prior habits by attributing the record consumer price hikes in Hungary to "Brussels' sanctions." Notably, Hungary voted in favor of these very sanctions. Nonetheless, no concrete evidence has emerged to suggest that EU sanctions contributed to the sharp rise in energy prices and, consequently, inflation, especially considering they do not encompass the most crucial energy source: natural gas. Moreover, countries outside the EU, such as Serbia, with robust ties to Russia, have also experienced double-digit inflation rates. Additionally, as emphasized earlier, well before the onset of the war, the upward trajectory of the consumer price index was already a pressing concern in Hungary.

Inflation, especially when it is double-digit, is easy to experience but always difficult to measure. Statisticians use a complex basket of goods they look at each month to see how each item's price has changed over a year and/or month. In Hungary, the price of basic necessities like food and energy dramatically increased. Between

January of 2022 and 2023, food prices grew by 44%, everyday items like bread (80.6%), eggs (79.4%), cheese (76.1%), milk products (75.8%) and others went through staggering cost increases. In the meantime, household energy prices increased by 52.4%, especially natural gas (88.6%), firewood (58.6%) and electricity (27.7%) were impacted. Hungary had the 12th largest increase in food prices globally, behind countries like Zimbabwe, Venezuela or Sri Lanka.

Yet as the winter started ending and Europe adjusted to the new reality of the Russia–Ukraine war with all its economic and energy supply caveats, while international supply chains also rearranged, the pressures on Hungarian prices gradually alleviated. From its 2023 peak in January, year-on-year food inflation decreased to its fourth by October, at 10.4%. Besides the improved external environment, the positive shift in the country's food inflation rate can be attributed to a specific policy measure. The government mandated retailers to promote particular food items in their supermarkets, including poultry meat, pork, beef, milk, cheese, bread, fruits, and more. While this regulation provided short-term benefits to consumers, it also caused inflation to remain artificially suppressed, potentially resurfacing once the obligation is not there anymore.

In the case of energy, inflation has not only receded but reversed, and market prices have decreased at least on a year-on-year basis. Yet Hungarian households have experienced minimal relief from this new trend. That is because, in August of 2022, the government reshaped its almost decade-old residential energy subsidy program ("rezsicsökkentés") to balance its budget. Within the program, residential users (and later SMEs) originally received natural gas and electricity at government-set prices that in 2022 were well below the global market prices. It soon proved unsustainable to finance; thus, the government decided to provide the state-mandated prices for households up to a predetermined average consumption level (1729 m³/year for gas, and 2523 kWh/year for electricity), beyond which they would have to pay an equally state-mandated, but elevated price for each unit of energy consumed. For electricity, the price was doubled for every extra kw/h consumed, whereas, for natural

gas, the multiplier was seven for each additional cubic meter. Between August 2022 and 2023, European natural gas index price (TTF) fell by 88%. Meanwhile, the residential prices in Hungary have not changed one bit. Yet, the statistical office claims that residential prices have decreased yearly by 16.1% by November 2023 because the ratio of people consuming energy below the set consumption levels has supposedly increased during the same period.

More importantly, the residential energy subsidy program changes also represented one of the most significant base effects in 2023. The reason for this is that inflation is compared by examining how prices changed from a year ago. In August 2022, residential energy was still very cheap as natural gas and power were still fully subsidized. Upon the transformation of the subsidy program prices also went up steeply by the next month in September. This new, more elevated base did not appear in the inflation statistics until September 2023. When it did, however, it instantly reduced the annual inflation rate. In other words, with elevated prices kicking in overnight in September 2022, the 2023 base also substantially rose, and it was bound to impact the inflation rate positively in the same month of this year. Therefore, it is not some elaborate government policy but statistical trickery that has contributed perhaps the most to the significant decrease in inflation by November 2023.

According to the Minister of Economic Development, Márton Nagy, the projected inflation rate for 2024 is expected to be around 5–6%. This projection aligns with the Commission's expectations but falls below the IMF's forecast of 6.6%. In either case, this level would pose additional challenges for the Hungarian economy as it surpasses the 4% ceiling set by the Hungarian National Bank's (MNB) mandate, triggering the need for intervention. Consequently, the anticipation of a 5–7% inflation rate forewarns an economic environment in 2024 characterized by elevated interest rates.

This forecast follows almost a year and a half, during which Hungary maintained the highest interest rates in Europe. Starting from 5.4% in April 2022, it peaked at 13% (remaining at that level for 12 months)

and subsequently moderated to 11.5% by November 2023. Despite a decline since the autumn of 2023, this rate remains 4.5 percentage points higher than the second-highest rate in the Czech Republic at 7% and 7 percentage points higher than the Euro area's average of 4.5%. These fluctuations are distinctly observable in the mortgage market, with mortgage costs experiencing a 53% increase between 2020 and 2023. This mirrors a situation Hungary faced in the 2000s when its interest rates surpassed those of most European countries, significantly hindering the growth opportunities of Hungarian firms compared to their European competitors.

Stabilized but fragile: the Hungarian Forint

In 2022, a significant loss of confidence among most Western investors in Hungary's economy ensued, primarily attributable to the nation's heavy dependence on Russian energy and the escalating costs of the unsustainable residential energy subsidy program ('rezsicsökkentés'). Compounding the issue was the Hungarian government's inability to access both the Recovery and Resilience Facility (RRF) and the new round of cohesion funds, stemming from disputes related to the systematic misuse of EU-provided financing.

However, the most critical concern was the swift deterioration of Hungary's trade balance. From the beginning of 2021 until the start of 2023, the country consistently imported more than it exported in value terms. The unprecedentedly high natural gas prices necessitated substantial expenditures on energy imports, surpassing the country's export capacity. At its zenith in late 2022, the net export figure plummeted to almost 10%. Hungary restored a positive trade balance only with the subsequent easing of natural gas prices. Nevertheless, the continuous escalation of the country's foreign currency requirements for natural gas imports exerted downward pressure on its foreign exchange rate against major currencies. A weakened currency, in turn, contributed to the inflationary uptick through the increased costs of imports.

In 2023, a measure of stability returned to the Forint's exchange rate. Throughout most of the year, the Hungarian currency fluctuated within the range of HUF 370–390 against the Euro, a notable improvement compared to the period between September and December in 2022, when it consistently surpassed HUF 400. Despite this relative moderation, the current foreign exchange level remains higher than what was considered normal before the onset of the energy crisis.

The struggle of the Hungarian currency is the most evident when its performance is compared against other regional currencies. While most other non-euro EU currencies lost their value against the dominant international currencies, no other has fared as poorly as the Hungarian Forint. In the first days of January 2022, 1 euro was worth 26 Czech koruna, 4.6 Polish zlotys, 4.9 Romanian lei, and 7.5 Croatian Kunas. By November 2023, their exchange rates were 24 Czech koruna, 4.3 Polish zlotys, and 5 Romanian lei. While Croatia introduced the Euro, its last exchange rate for the Croatian Kuna on 31 December 2022 was 7.5. In other words, while the other regional currencies were able to regain their pre-war strengths, the Hungarian depreciated even against them.

Externalities: EU funds and corporate tax breaks

Since Viktor Orbán rose to power in 2010, the role of foreign investment in Hungary's economic dynamism has declined, while EU transfers became more prominent. European subsidies represent a significant part of the country's Gross National Income (GNI), used to hover around 4–5%. According to a report by the European Commission, between 2004 and 2020, the European structural and investment funds financed investments in Hungary at 55.2 billion euros. During the EU's financial cycle between 2021 and 2027, the country was set to receive around 22 billion euros in the form of cohesion funds, while on top of that, 5.8 billion euros in grants and 3.9 billion euros in discounted credit from the NextGenerationEU program designed to help countries recover from the economic shock of the Covid-19 pandemic. However, there

have been significant twists and setbacks in the latest round of the funding cycle, not by choice but through pressure.

For years, NGOs, civil society, and politicians across Europe called on the Commission to stop “financing” the Hungarian government if it systematically breaks down the pillars of democracy while misappropriating EU funds to benefit its cronies. Finally, in 2022, the Commission changed its approach and decided to attach institutional requirements for member states to access the funds. This spelled trouble for the Hungarian government because the Commission could withhold money from member states unless it found them fit to receive them. The government was forced into negotiations, and after spending the better part of 2022 with it, it finally put together a list of 17 measures by September that aimed to weed out corruption. The Commission accepted it as “collateral” in exchange for releasing the NextGenerationEU funds but later added a further 10 requirements and at first gave the government until March 2023 to implement them. It did not comply by then, and 2023 dragged on with rounds of discussions between the Commission and government representatives. Finally, in December 2023, the EU gave the approval for access to €10 billion of EU funds, but 2024 starts with more than two-thirds of the funds still frozen.

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

Given that favorable tax rates for large corporations represent one of the essential pillars of the Orbán government's economic policy, it came as little surprise that it was not in favor of the US-proposed

15% minimum corporate income tax rate. Hungary was the only OECD country to veto the globally applicable tax in June 2022. Moreover, it was the only EU member state to do so. Yet it gave in by the end of 2022, and from 2024, it should be applied across Europe.

In its most recent move to appease large multinationals, Hungary's government has been courting investment from Asian countries like China and South Korea, especially in the battery production sector. China's CATL, the world's largest battery producer, is expected to create 9,000 jobs in Debrecen; Sunwoda in July announced a new battery factory will be built in Nyiregyhaza, creating a thousand jobs; and a third Chinese battery firm, Eve Power, signaled another 1,000 jobs at its new factory in Debrecen.

So far, around 40 battery production-related projects have been brought to Hungary in the value of HUF 8000 billion (~ EUR 21.1 billion). The government aims to turn Hungary into a global battery production center. According to its latest plans, by 2030, the country should produce batteries with a capacity of 250 GWh. According to estimates, this would require introducing new power supplies equaling around half of the current Paks nuclear power plant's or 6-10 TWh per annum. That is a 15-25% increase from what is available in Hungary in 2023.

Hungary's image among international investors and financiers changed in 2023, representing a break from the previous year when the dominant trend was the weakening of the Forint as foreign investors lost confidence in the Hungarian economy. While it is true that the Forint reached a low level in the summer of 2023, it has made a comeback since. The stabilization of the HUF is down mainly to three short-term factors: record-level interest rates, austerity, and the spectre of having an agreement for at least part of the EU funds. Furthermore, the positive FDI results were hardly due to the Hungarian economy's performance and had more to do with the government's willingness to subsidize these investors. For example, the Chinese CATL battery factory alone has received HUF 320 billion in subsidies since the pandemic.



It is likely that the government's heavy emphasis on attracting new FDI is at least in part due to the budgetary hole that the lack of EU funds has caused. The uncertainty surrounding the EU funds nevertheless represents a significant risk for economic recovery, as Hungary heavily depends on the continued availability of European resources.

Orbán's deficit dream versus reality

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

The government has been forced to give up on its achievements and increase spending to mitigate the dire consequences of the lockdowns and sudden fallback in the value of international trade. It, therefore, put together an "economic protection plan." Measures included introducing a modest form of the Austrian Kurzarbeit (wage supplement for a few select businesses) and financial aid. The debt to GDP ratio rose to 79.6% by the end of 2020. In 2021, Hungary once again rode the global wave of economic recovery. Rising GDP led to a cutback in the country's debt-to-GDP ratio, reducing it to 76.8%. In 2022, the ratio declined to 73.9% and is expected to continue to follow a downward trajectory in 2023, going just under 70%. Yet there is little to celebrate, as the decline is due to the elevated inflation environment and not positive policy measures.

The government initially calculated a 3.9% budget deficit due to the positive turn in energy prices. By the end of 2023, it soon had to

revise it closer to what the Commission forecasted (5.8%) recently and increase the target to 5.2%. This was not only due to the elevated energy expenses and lack of EU funds. Interest payments increased dramatically from around 2% of GDP in 2022 to 4.4% in 2023. The sudden increase has been due to the two rounds of foreign currency bond issuances: in January 2023, in the value of \$4.25 billion and in September 2023, in the value of €1.75 billion. The former had an interest rate of 5.375% as opposed to the loan in the NextGenerationEU, where interest rates are between 0-0.5%. The comparison is fitting, given that the bond issuances have been used as an alternative to the stuck EU funds. Meanwhile, VAT income was much less than expected on the revenue side, given that consumption suffered a 2.7% setback in the year's first half. Thus, upon seeing the deteriorating state of the state coffers in 2022, the government decided to adjust the budget and try to increase the revenues through more traditional means (beyond bond issuances), i.e., by raising taxes.

Budget rebalancing with new taxes

In its quest to increase revenue, the government either increased or created new sectoral so-called "surplus taxes" (Table 2). They were expected to bring in an additional HUF 815 billion (~EUR 2 billion) in 2022 and HUF 1.02 trillion (~EUR 2.5 billion) in 2023.

The extension of the surplus taxes into 2024 has raised eyebrows, given that they were promised to be temporary for a maximum of two years. Instead, only specific sectors received concessions by halving their burdens, representing, at best, a partial phase-out for 2024. This contradicts the promise made by the government in December 2022 in the RRF document to the European Commission. According to the government's latest promise, when the surplus tax regulation was updated in the spring of 2023, the phase-out will occur by January 2025.

Table 2. Surplus taxes of the Orbán government

Tax category	Details
Retail tax	In 2022, retailers had to pay 80% of their income tax on top of paying their original income tax. In 2023, the rates were further increased, and especially for those that had a net revenue base above HUF 30 billion (mainly multinationals), the rates doubled.
Energy surplus tax	It primarily affects MOL, the Hungarian automobile fuel provider giant, since that is the only energy-providing company that has had surpluses due to margins between the much cheaper Russian sourced Ural type of oil it has used to supply fuel vis-à-vis the much higher valued (in price terms) Brent that serve as benchmark however for pricing at the gas stations. Its rate is set to 25%.
Airline tax	Originally, depending on the destination, the tax entailed an extra sum the airline must pay per passenger. For most European destinations, it was around HUF 3900; for the ones outside of the continent, it was HUF 9750. In 2023, the tax was transformed in line with EU standards, and instead of passengers, the tax was based on the emission of the planes. The tax for aircraft with an emission value per seat of less than 10.50 kilograms is HUF 1600, while for the ones with an emission value of 17.50 kilograms or higher per seat will be charged HUF 5100, whereas between the two categories HUF 3900 if they fly inside Europe. For destinations outside the continent, rates will range between HUF 3900 and 15 600.
Pharmaceutical tax	From 2024 onwards, the rates will be lowered compared to 2023 based on the following tiered allocation of the tax base: a) 0.5% on the portion not exceeding HUF 50 billion, b) 1.5% on the portion exceeding HUF 50 billion but not exceeding HUF 150 billion, c) 4% on the portion exceeding HUF 150 billion Meanwhile, for the producer-priced medicines exceeding HUF 10,000, the reimbursement rate increases from 28% to 40%, whereas for those under this threshold, the rate will remain 18% in 2024.
Insurance surplus tax	The set of taxed insurance products was extended, and those that provided non-life insurance had to pay between 2-12%, whereas those who provided life insurance had to pay between 1-5% based on a tiered system. The taxes will stay intact for 2024.
Mining royalty	According to the regulations, mining companies must extract at least the same amount from their mines in 2022 and 2023 as in 2021. If not, they must pay a penalty at the rate equivalent to the mining royalty. This was extended to 2024. Those producing natural gas were given a few concessions. Most importantly, the tax rate was halved depending on when the mine was opened (per or post-2008).
Processing industry tax	Since 2022, bioethanol producers, starch and starch product manufacturers, and sunflower oil producers have been subject to special taxes. The state tax authority determines the tax prepayment for the tax year 2024 through self-assessment based on the tax payable for the tax year 2023.
Company car tax	Companies will have to pay close to double the tax rate they did until June 2022 after their company cars.
Telecommunications surcharge	Based on the company's tax base, the surplus tax ranges from 0% (under HUF 1 billion) to 7% (over HUF 100 billion).
Financial transaction tax	The maximum duty per transaction (e.g., transfers between residents) increased in 2022 from HUF 6000 to 10,000. Securities trading was also charged when buying and not when selling.
Oil producers	Oil producers and sellers must pay a 25% tax based on the difference in Brent and Russian oil prices.
Banks	Originally, based on the financial institutions' net income in the previous year, in 2022, they had to pay a 10% surplus tax, and in 2023, 8%. In 2024, the tax base will be the financial institution's EBITDA in 2022, and the tax rate is 13% on the portion not exceeding HUF 20 billion and 30% on the amount above this (this is the case for the second half of 2023 as well, with only half the threshold lower, at HUF 10 billion)

4.2 | Social reality

No country for poor people

In a European comparison, the Hungarian population lives in relative poverty. Approximately 10% of the working population lives on less than HUF 100,000 (~EUR 247) monthly. Inequality is not outstanding (although rising), yet even that result is only partially positive since it is primarily because people belonging to the top 20% best earning strata made very little in European comparison. A HUF 502,000 (~EUR 1321) gross monthly income was enough to enter the top two deciles of the Hungarian income spectrum.

Nevertheless, they still make almost twice as much as the following strata of society. The upper middle class gets HUF 278,000 (~EUR 732). In contrast, the average for the middle quintile is HUF 227,000 (~EUR 597); for the poorest quintile, it is only HUF 104,000 (~EUR 274). Hungary's average monthly net income per capita was HUF 187 000 (~EUR 492) in 2022, representing a HUF 27 000 (~EUR 71) increase from 2021. However, when adjusted for inflation, the average real income of households only grew by 2%. The income gap between the richest and poorest quintiles increased from 4.3 times in 2021 to 4.8 times in 2022.

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

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

- a limited wage guarantee scheme modeled along Austria's "Kurzarbeit" that was discontinued in 2022
- a debt repayment moratorium for all borrowers in September 2021, extended until the middle of 2022 for a more limited set of potential claimants, and completely phased out from the start of 2023
- a projected increase in the number of public workers and military intake
- a one-off bonus for health workers
- the extension and slight transformation of various maternity entitlements
- temporary suspension of evictions, confiscations, and tax-related cases
- a "pension bonus" in November 2021 and a "13th-month pension" paid out in February 2022 and again in February 2023
- interest rate freeze on loans with a variable interest rate, extended until the middle of 2024
- price caps for certain essential food items and motor fuel, which were both phased out and, in the former's case, replaced with obligatory promotions on foodstuffs in the supermarkets

In the meantime, the government refuses to extend the record-low three-month unemployment benefit. No new social policy tools have been introduced to ease the burden on impoverished people. On the contrary, if someone had debt accumulated against the state based on a new law in 2021, they were no longer entitled to social security. In less than a year, the number of people without this basic benefit went from 55,000 to 141,000. The unemployed and those working in the informal sector do not receive any additional help. In October 2023, there were 202,000 unemployed, the average length of finding a job was 9 months, and at least 36% of job seekers were unsuccessful in securing employment for more than a year. Nearly half (41.9%) of all job seekers received no financial assistance from the state. Meanwhile, in its latest legislation at the end of 2022, the government declared that a person's social security is primarily their own responsibility, then their relatives', then the municipalities,' and only in the last instance is it the state's responsibility.

After years of improvement, poverty indicators worsened for the first time. A returning and negative trend in 2022 was the increase in the number of people at risk of poverty or social exclusion. According to the HSO, 19.6% of the population, or 1.86 million people, faced one or two. This marked a reversal of the declining trend observed in the years prior.

The government's limited appetite for social assistance is also reflected in the fact that it has one of the lowest social benefits expenditures in Europe as a percentage of GDP. Sports, however, have a special place in the heart of the decision-makers, with a large share used for developing private sports club infrastructure. Even during a visibly leaner year in 2023, it has planned to allocate EUR 1.3 billion to this end according to its budget.

The tactics of bread and circus seem to work as, according to the survey conducted by the HSO, despite economic challenges, people reported an increase in overall life satisfaction, with an average rating of 7.2 out of 10, suggesting a complex relationship between income levels and subjective well-being.

Workers' oppression and wages

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

During the 2017-2019 economic boom, the increasing labor shortage improved workers' bargaining positions, which led to significant wage growth. However, this growth did not compensate for the lag accumulated during the previous six years. The minimum wage has doubled since 2010; its net value was 154,280 HUF (~405 EUR) in January 2023. Despite the seemingly extraordinary rise in absolute terms, relatively speaking, Hungary's minimum wage increase was not particularly outstanding. Between 2011 and 2022, the average annual rate of change was slightly over 5%, while in the other V4 countries, it was 6% or above, never mind Romania, where the rate reached 12%. This trend continued in 2022 as well, when average wages grew by 16.4%, the highest rate in Europe. Yet when the Forint is converted into Euros, the same wage growth only amounts to 6.6%. Meanwhile, Romania, Bulgaria, Croatia, Slovakia, Poland, the Baltic states and even Serbia is ahead of Hungary. This is all without accounting for the record inflation.

The Orbán government increased the minimum wage by 19.4% between 2021 and 2022 and 16% for 2023. The 2024 minimum wage level was introduced a month earlier, with a 15% increase in December 2023. Yet, even so, the Hungarian minimum wage was



still the third lowest in Europe after Bulgaria and Latvia. Moreover, hourly labor cost — measured in nominal terms or PPP — is the third lowest in the EU. This partly helps explain why, according to a recent study by GKI Economic Research, since 2009, Hungary has seen the lowest productivity growth among the Visegrád countries, as well as Germany and Romania.

Wages have always been a thorny issue, but they have come to the forefront of political discourse, especially in the past 2 years' high inflation environment. It is by no means a surprise. According to HSO's data, real wages were constantly declining in Hungary between July 2022 and 2023 and only managed to turn positive in August 2023 by 1.7%.

Despite the negative trends in regional comparison, the government did not try to alleviate the tensions by introducing a more labor-friendly policy environment. It decided instead to stick to its old habits and try to ensure low wages for the multinationals through new means: guest workers. According to the prime minister, the country would need 500,000 extra workers in the coming years to supply all the latest additions to manufacturing centers with an ample workforce. Yet, as labor reserves in the near neighborhood are already exhausted, recruiting agencies are now venturing as far as the Philippines, Thailand, Indonesia, and Mongolia. After years of constant anti-migrant propaganda, selling to the public the idea of foreign workers entering the country en masse to work at factories is proving to be difficult, especially with the ruling party's voters. Nevertheless, while there have been minor political backlashes for the government due to its new, more lenient immigration policy, it has not yet reached a level of significance where it could have hurt its popularity meaningfully. That is partly because only about 100,000 workers from abroad currently work in Hungary. Most of them are in the more high-end, white-collar workplaces. Keeping them in Hungary is a challenge as it is.

Instead of fearing mass immigration, the ensuing crises since 2020, deteriorating living conditions, and stagnating wages have all

contributed to the largest emigration wave from the country since 2017. In 2022, 26,500 people left the country to work elsewhere, leading to a net loss in the country's potential workforce. Meanwhile, 57% of the current entrants into the workforce see themselves working abroad on a 10-year horizon due to the better salary and general working conditions.

No education, no future

In 2023, rising inflation and deteriorating living standards caused surprisingly little social upheaval. Among the few, the most prominent was the schoolteachers' continued and visible demonstrations. Their primary grievance with the government has been the extremely low wages and the lack of long-term perspective in the field.

Teachers' feeling of neglect is by no means a surprise. The Orbán government's spending record on the field is disheartening. Education expenditure as a percentage of GDP has been among the lowest within the European Union, staying well below the EU average for most years. According to the OECD, an average Hungarian teacher with 15 years of experience earns the second lowest among OECD members — only teachers in Slovakia are worse off.

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

The government's lack of aspirations within the field is also visible at the other end of the educational spectrum, as fewer people in the country gain a degree. 32.9% of people between 25 and 34

had university degrees, only ahead of Italy (28.3%) and Romania (23.3%). When Viktor Orbán rose to power in 2010, Hungary was ahead of nine countries in this regard. In 2013, the ratio of students in higher education was 3.63%, but by 2021, it had fallen to 2.88%. In value terms, this represented 48,500 fewer students receiving an education at a university than 8 years prior. Should the trend continue, Hungary will have the least educated population in Europe within a decade.

In the meantime, the latest PISA results are no cause for encouragement either. Hungarian students have never performed as badly in mathematics as they did in 2022. Hungarian pupils also performed worse in reading comprehension. In this area, they scored the second worst ever in the history of the PISA tests in Hungary. A small consolation is that in the third area, natural sciences, Hungarian students performed a little better than in the last test taken in 2018. The fairness of the Hungarian education system remains extremely low, and significant shortcomings exist in reducing social inequalities. The PISA results show a persistently high performance gap between students from the most disadvantaged backgrounds and those with better living conditions.

The dire numbers of the education system are not the result of unfortunate circumstances or pure neglect. Instead, they reflect the government's policy of maintaining a low-skilled, easily exploitable, low-wage workforce focusing on blue-collar manufacturing instead of white-collar R&D work. Hungary spends the fourth lowest amount per person on R&D in the EU and is the 20th in the number of patents per million inhabitants (10). Finally, in 2021, it had only three highly cited researchers. This number is even less than in Slovakia, a country with half of Hungary's population.

4.3 | Economic outlook for 2024

The prospects for Hungary's economy in 2024 appear favorable compared to the challenges faced in 2023. With inflation showing signs of receding and economic growth expected to resume next year, the outlook is certainly more favorable. According to the current forecast by the European Commission, GDP is projected to increase by 2.4% in 2024 and continue growing by 3.6% in 2025. However, public finances are anticipated to deviate from the government's current expectations of a budget deficit under 3%, with a projected deficit of around -4.3% in 2024 and -3.8% in 2025. Despite inflation decreasing and public spending remaining high, the debt level as a percentage of GDP will likely hover around 70% in the coming years.

Private consumption is expected to increase with more moderate price increases, but it is unlikely to return to pre-2023 levels within the next two years. Notably, 2024 is still expected to contend with persistently high inflation, albeit more consolidated than 2023. Taming inflation to acceptable levels (under at least 4%) poses a challenge for the National Bank and the government, potentially leading to conflicts over the appropriate tools to address it. The delicate economic policy balance is further complicated by the need for government spending to stimulate growth while fighting inflation typically entails a reduction in spending.

The government's focus on subsidizing manufacturing businesses underscores its priority, providing significant policy support to private investment through grants, cheap financing, and tax cuts. Despite these efforts, gross capital formation is forecasted to make a slow comeback, growing by no more than 2.6% in the coming years, considerably lower than pre-2022 levels. Net exports are expected to have a just-about-positive balance in 2024, but by 2025, following the current trajectory, they may turn negative

again. Nevertheless, their contribution to GDP growth remains significant relative to other factors.

In the long term, Hungary's economic potential appears challenging. The government's recognition of the need to reduce economic dualism by decreasing the role of transnational corporations and increasing domestic value-added has not translated into a policy environment conducive to long-term economic upgrading. The capacity of Hungarian-owned companies to participate in global value chains remains low, and domestic producers' innovation capacity has declined. Disparities in productivity between foreign- and domestic-owned companies have increased, contributing to a decline in the knowledge intensity of the Hungarian economy.

The potential reduction of EU funds in the medium to long run poses a significant threat to Hungary's economy. While the ongoing dispute around rule-of-law conditionality raises uncertainties, Hungary's access to the EU budget and the pandemic recovery fund remains crucial for economic development beyond 2023. Despite the country's relatively better financial position than heavily indebted nations, securing access to EU funds will be instrumental in navigating the economic landscape in the coming year.

 RHEINMETALL



5

The Hungarian society in 2023

5.1 | Hungary's media trends in 2023

For critical media in Hungary, 2023 has been relatively free of new crackdowns. Nor has Fidesz made any overt attempts recently to take over more of the remaining independent outlets in Hungary. Instead, until the end of the year the governing party was more focused on consolidating its own media empire. That is not to say that the past year has been easy for the media in Hungary. As production costs have risen massively and consumer spending has tightened – which had likely affected “luxury” products such as news more severely – Hungarian media organisations, many of which were financially struggling to begin with, find themselves in a struggle to survive.

And at the end of the year, Fidesz once again adopted a legal change that could be used to interfere with the free operation of independent media. The “Sovereignty Protection Act” is supposedly primarily meant to prevent, investigate, and penalise foreign interference in domestic campaigns. While its primary targets are politicians who accept foreign funding, the Sovereignty Protection Authority – a new public authority that will be established to implement the goals of the law – would also be called upon to investigate any foreign influence on Hungarian public opinion. Such a vague provision would make it possible for the authority to investigate media that receive foreign funding since they, too, influence public opinion.

The government has been complaining about independent media for a while now, often claiming that they serve foreign interests that want to undermine Hungary's sovereignty. While it is unclear how the organisations that receive foreign funding would be treated if they influence public opinion outside the context and period of election campaigns, the authority will have the tools to harass media outlets, even if criminal charges against them seem unlikely for now. What constitutes foreign influence is also vague, given

that foreign media investors might also be seen as undermining Hungary's sovereignty and its “Christian culture”.

For pro-government media, the situation is less dire on the whole since they are likely protected by the government's willingness to use taxpayer money to keep them afloat. Still, in a sign that the era of unlimited money supply for all segments of pro-Fidesz media is nearing its end, the huge pro-government media empire has seen some cutbacks in funding over the past year.

For now, Index remains an unusual piece in Fidesz's media empire

It is likely that among the many hostile takeovers that Fidesz oligarchs have achieved since 2010, the acquisition of the leading online news site Index was the most momentous one. The takeover of Index in 2020 after a prolonged struggle that saw the entire newsroom resisting, was the last major Fidesz-engineered mix-up of the Hungarian media landscape thus far. Even though many Index readers followed the staff to the newly-created Telex, media audits suggest that Index has remained among the most popular news sites, doing especially well among the most educated readers.

Index was transformed into a clearly pro-government outlet, but the process took long – longer than usual – and even at its peak thus far, one of Hungary's most popular online newspapers remains a different animal from other pro-Fidesz media. When it touts the government's achievements, as it does increasingly openly, its tone is more measured and neutral, a contrast to the generally fawning language towards the government in pro-Fidesz media. Nevertheless, over time the articles that were critical of the government have become extremely rare on Index,

while supposedly neutral articles often uncritically reflect the government's points, while they fail to present alternative views or mainstream criticisms of the government's claims. From a communication perspective, leaving Index in this unusual category of subtle supporting the government was a suave move; it extends the range of Fidesz's influence to readers who would be put off by open propaganda.

Megafon expands

While Index retains an air of ambiguity, Megafon, an increasingly visible collective of right-wing influencers, is anything but ambiguous: it is among the most openly partisan components of the pro-Fidesz media empire. In an era of widespread cutbacks even in previously amply funded pro-government media, Megafon has been awash with money, showing that Fidesz sees social media campaigns as the most promising new field of its media activity.

Although Megafon influencers theoretically produce their contents independently, and they have to some extent different (if often overlapping) audiences which reflect the different personae of the individuals behind the channels, in fact their contents are often nearly identical. When they pick up major news (generally something that is embarrassing for the opposition), Megafon's influencers produce videos that feature the same elements.

Spending like there's no tomorrow

Owing to massive advertising of their videos, Megafon has done fairly well – at the cost of spending a considerable chunk of the 2.7 billion HUF (about 7 million euros) it received in outside funding in 2022, on its operations (including, presumably, production costs) and Facebook ads. It had spent a whole billion on Facebook ads already by the end of March, the final stage of the 2022 Hungarian election campaign. At a somewhat reduced rate, the social media spending spree continued in 2023, an election-free year: a report showed that the spending by Megafon stood at about 70 million



HUF (ca. 185.000 euros) in the political off-season of July 2023, when politicians tend to be on vacation and parliament is not in session. This figure lagged barely behind the advertising spending of the two largest parties in Spain, which competed in a general election campaign during the same period, in a country five times the size of Hungary and wealthier by capita. As the report noted, the money spent by the Hungarian pro-government initiative would have been enough to saturate a far larger market.

Megafon gives Fidesz access to audiences that the ruling party has found hardest to reach through its media empire, which mostly comprises legacy media. The lack of offerings for young readers is also apparent in the demographic breakdown of voting behaviour, as Fidesz struggles with young voters. Part of that is a substance problem, in that Fidesz is unpopular with youths because many young people disagree with specific policies (primarily education) or the underlying values (e.g. the campaign against sexual minorities). But another part is that where Fidesz has thus far concentrated most of its media funds simply often missed young voters, for whom social media is a key source of news. Orbán's campaign crew is said to have realised how the governing party is behind in social media after the 2019 municipal elections, when Fidesz suffered its first major defeat since 2006, which was partly attributed to the opposition's effective social media presence.

Digital attacks against independent media

As we noted above, the past year has been unusual in the post-2010 period in that it has featured little overt media repression by the government. At the same time, a mysterious wave of Denial-of-Service attacks have plagued independent media in Hungary since May 2023. Around three dozen online news sites were temporarily shut down in the spring and summer of this year with coordinated attacks by botnets. The attacks have affected most of the leading critical sites, namely Hvg.hu, Telex.hu, 444.hu, Atv.hu, along with many local and more specialised sites, including Media1, which specialises on media matters, and the partisan Nyugati Fény,

which is close to the opposition party Democratic Coalition. No evidence has emerged thus far concerning the likely culprits. The fact that pro-government sites have not been affected has fuelled speculations that the government may have been complicit, but in the absence of any concrete evidence, the government can shrug off such accusations.

Despite waves of departures at major independent sites, critical digital media are strong

Two of the leading critical digital news sites, Telex and 444, have been hit by a wave of departures. Within the span of a few weeks, Telex saw the resignation of both editors-in-chief and their two deputies, with three of the four leaving the online newspaper altogether, and Szabolcs Dull, one of the editors-in-chief and a co-owner, continuing in a non-editorial capacity. Other staff also quit. Cryptic comments by the departed editors made clear that they had left because of conflicts at the newspaper, but the reason was not clear. Several journalists also quit 444, allegedly because someone in the management had created a toxic working environment.

Despite the shake-ups and the financial problems, digital media have established themselves as the leading source of critical reporting about the Orbán government. They continue to churn out investigative pieces that highlight corruption and policy failures, showing that the government's efforts to suppress critical reporting about the moral failings of the political leadership have had limited success only: although they have managed to push investigative efforts out of legacy media, which still play a major role in Hungary, they have not managed to get rid of it altogether.

Media consumption patterns: a generational shift

However, Fidesz's political success owes also to the ongoing popularity of legacy media, especially among the government's own

supporters. A 2023 survey performed by Mérték Media Monitor in collaboration with the polling company Medián revealed that an overwhelming majority (over 60%) of citizens over the age of 50 still primarily consume legacy media (especially television with 57%), and among those over 60 the share of those who primarily rely on digital news is very small at about 15%. As Fidesz is especially dominant among older voters, this meshes with the results showing that among the ruling party's supporters, television trumps online media by a ratio of over 2-1 (58% vs. 27%), while among opposition supporters, online news sources dominate 56% vs. 41%.

Given time, however, the dominance of digital media appears unstoppable as about 80% of those under 39 see online news (digital newspapers or social media) as their primary source of news, while only about 20% of younger adults rely primarily on television. The survey also highlighted the key role of digital media for the opposition, as four of the top 10 most frequently consulted news sources were critical online newspapers (24.hu, Hvg.hu, Telex.hu and 444.hu).

Polarisation with glimmers of hope

On the whole, the results of the Mérték-Medián survey were roughly in line with what one would expect; that is, an overwhelming majority of respondents (88% overall) said that Fidesz enjoyed a dominance in the media, and even Fidesz supporters were very likely to agree (76%). As expected, there was also a massive polarisation with respect to the question of which media outlets were regarded as credible, without a single news source being considered reliable by the majority of both government and opposition supporters.

There were two modest pieces of good news in the survey. For one, even though they were not exactly popular, the leading critical news sites enjoyed a fair amount of confidence among Fidesz voters, with the television channels RTL and ATV, the weekly HVG and the online newspaper 24.hu all received scores of 40 among Fidesz supporters when respondents were asked to rate the credibility

of individual news outlets on a scale from 1-100. Index.hu proved the lowest common denominator, as it received scores of 45 and 46, respectively, among government and opposition supporters. The second good news was that many respondents (41%) also said that they consult news sources that they consider untrustworthy, which suggests that even in the current polarised atmosphere, there remains some overlap in the news consumption of politically divided Hungarians.

Gracious toleration of online media – for now

For the time being, the digital space abounds with media that are critical of the ruling party. While critical reporting is rare in the legacy media, the selection of online media is much more diverse. Throughout most of 2023, the government did not show any indication that it intended to intervene massively in the media market, as it has done before. However, the "Sovereignty Protection Act" would give the government a pretext for doing so in the future. Given Fidesz's intolerance of critical views, it would not be surprising if such a law were used to suppress critical voices in the media, too.

5.2 | A failing Hungarian education system and a way out for some by the grace of Fidesz

No matter how the ongoing tension between large segments of Hungary's teachers and the Fidesz government ultimately turns out, the so-called Status Law adopted by the ruling party in July 2023 will be a major milestone. Some envisioned the passing of the law as an indication that the movement to get the government to pay teachers more and improve their work conditions has definitely failed. The government has defeated the teachers, adding insult to injury by passing what the critics call the "Revenge Law". Others perceived it mainly as a provocation by an overconfident government, which would result in pushing many teachers over the edge and leading them to quit. The resignation was not an empty threat by many teachers: in 2023, more than 4000 teachers left the profession in state-run schools. There are school districts where one in ten teachers have left. This last, desperate move underlines the fact that the protests have failed to wrest any meaningful concessions from the government.

Although all the polls on the issue have consistently shown that the majority of Hungarians agree with many of the key demands put forth by the teachers' unions, the election results in April 2022 and the polls of party preferences since then have also unequivocally demonstrated that this has no discernible impact on voting decisions. Furthermore, attendance at pro-teacher demonstrations has been lacklustre and there are no major signs of widespread social solidarity with the teachers. The government's decision to double down on the Status Law clearly indicates confidence about the potential political repercussions.

What does the Status Law do?

The Status Law is a stick adorned with a few carrots; the government's spokespersons use the latter to portray the law as a boon to teachers. The main carrot is pay: the government promises a substantial pay increase in 2025, assuming that "Brussels" will pay the government the funds allocated to Hungary in the 2021-2027 budget. This, argues the government, requires the cooperation of the left-wing opposition, which is allegedly keeping the EU from funding Hungarian teachers.

This reasoning is seriously misleading at many levels. Thus, for example, neither "Brussels' " contribution nor the opposition's support was relevant when the government recently acquired the Hungarian arm of the digital telecommunications provider Vodafone for HUF 700 billion, a staggering amount by Hungarian standards that would cover years of pay increases for teachers. Furthermore, hundreds of billions of forints in public funds have also been funnelled to the Fidesz-affiliated Mathias Corvinus Collegium, an increasingly influential educational institution we will discuss in more detail below.

As its name suggests, the law reclassifies the status of teachers: instead of being public employees, they now have a whole distinct status from other public employees (and the laws that specifically apply to those) as "public education employees." Several provisions have been designed specifically to make strikes and/or civil disobedience harder. Among these is the rule that the academic year may be extended by a whole month into the summer, which is a not-so-veiled threat that if some type of labour action were successful in halting education, the punishment would take the form of a massively reduced summer break.

The same is true for the possibility of redirecting teachers to other schools within the same riding for periods of up to nine months (i.e. an academic year), which given the problems of local public transportation in many areas (not to mention other issues such as institutional attachment and the like) could be a substantial burden if enforced. This, too, gives the government the tool to potentially address problems stemming from local work stoppages by effectively punishing teachers and students, as well as to remedy local shortages of educators by compelling teachers to move to schools where they might not want to teach.

The government also replaced the previous framework of requiring teachers to spend 22-26 hours a week in the classroom with a uniform number of 24 hours instead. While this reduces the maximum hours of teaching, at the same time it also removes much-needed flexibility from the system. In international comparison, the teaching time of Hungarian teachers is not high, but it needs to be put in context: the pay is so low in both Hungarian and global comparison (in the region, only Slovakia pays teachers less) that unless they are in fortunate circumstances, many teachers are either simply poor or have to take side jobs. Either way, coupled with large class sizes and many administrative burdens, burnout in the profession is high and young people have overwhelmingly responded by eschewing the profession.

Various measures are aimed at removing what remains of school autonomy and effectively giving the government greater control over the schools' operations. The control of the government's Klebelsberg Institution Maintenance Centre over education, and its interference in local school matters, has been lamented by educators for a while now, and now the government has reacted by pulling the strings even tighter.

No tangible positive changes

There is another, less obvious negative aspect, which may be the most important one: apart from a hazy promise of pay rises in the future

(with many caveats), the law has not reacted to any of the major concerns raised by teachers and their professional organisations over the past years. In fact, the law seems deliberately oblivious to the major problems that plague the Hungarian education system, which many teachers, students and parents sought to highlight in over a year of bitter protests.

The optimists – for lack of a better word – among the critics believe that the education system is a house of cards that will collapse under the weight of the incompetent central management, resulting in a spectacular breakdown that will compel the government to compromise. The more government-friendly perspective considers that the problems are overblown anyway and the vast majority of the teachers will ultimately submit to the new law while the educational system will remain functional.

While either scenario is broadly plausible, we would propose an intermediate one: although the system is highly dysfunctional, it could remain operational despite progressively worse performance. This is typical of Fidesz's management of the public sector. The flip side of the argument that teachers over fifty are vastly overrepresented is that even if they would like to, most of them cannot quit easily, they might be forced to pull through at least until retirement. And even once they reach retirement age, the question for many of them will be if they can just quit on a pension based on many years of low pay.

Private education will help sustain the system

So is that sustainable? Well, as long as voters do not see education as a voting issue, it definitely is. Second, it is worth looking at what is happening in the education system. We have written about the creeping privatisation of health and education in Hungary for many years now, and at this point the Hungarian education system is a patchwork with substantial chunks that have been legally or effectively privatised.



Private schools not affiliated with churches are a small, albeit growing slice of the education system. They are especially popular among the urban upper classes, but middle-class parents whose kids do not make it into good schools are also increasingly interested because, in terms of student performance, the gap between strong state schools and weak state schools in Hungary is among the most pronounced in the developed world.

When you factor in ecclesiastical schools, which receive ample public funding, in 2020 these schools educated almost 20% of elementary school students and over 40% of those in secondary schools. The latter figure in particular highlights that when parents consider that students get to the point where their performance could have a major impact on their further education, they will be most likely to look for private alternatives. It is very likely that the impact of the Covid pandemic and the controversy surrounding the quality of state education has continued to fuel the migration towards private schools.

Fidesz has also fuelled this overall trend with the decision to essentially privatise most of the previously state-owned higher education system. Most public universities and colleges have been turned over to foundation boards that are nominally independent but in fact controlled by Fidesz cronies. While pressure from the EU has eliminated at least the most blatant manifestation of government control – ministers and other government officials have resigned from the university boards – it is no secret that most of higher education is still under the effective control of the ruling party through board members who are loyal to Fidesz, even if they do not have formal ties with the party.

This issue has become enough of a red flag for the European Commission to take drastic measures even at the risk of upsetting Hungarian youths. For the time being, the recently privatised institutions of higher education have been denied access to Erasmus+ and Horizon Europe funds, which are vital resources for students and scholars across Europe. Thus far, the European

Commission has found that the measures taken by the government to remedy its concerns are insufficient to ensure the independent operation of the affected institutions of higher education.

A new star on the education horizon

The immense neglect of the government, and the demotion of education in terms of public policy is obvious. The minister in charge, the former police chief turned interior minister, Sándor Pinter, as expected, has evinced little interest in the area since it was foisted on him by the Prime Minister after the 2022 election.

Yet the lack of interest in fixing the myriad of problems that plague state education does not mean that the government is entirely uninterested in education. The government is very interested in developing its own alternative educational system, in which it has even greater latitude to shape the students. The strengthening of ecclesiastical schools, which began early in the post-2010 period, was one instrument towards that end. The privatisation of most institutions of higher education also serves this purpose. But the main area of interest for the government is elite education, and thus the most important player on the education front is now undoubtedly the Mathias Corvinus Collegium (MCC). MCC is such a vast empire that capturing its diverse activities would require a whole new analysis: Telex, a leading independent news site in Hungary, recently devoted a vast four-part series of long reads to tell the MCC story.

A business and education empire

The following quote from the Telex series captures just how much money MCC has: “The value of the government’s gift to MCC is on par with the entire sum that the state spent that year [2020] on the entire higher education system. In other words, even as Hungarian public education is chronically bereft of funds, the government has given the elite training institution assets that amount to the same value as the universities and colleges operated by the state

received in total.” In addition to a 10% stake in two of Hungary’s largest corporations, the oil company MOL and the pharmaceutical company Richter Gedeon, this included vast real estate holdings as well. MCC was also in the news in 2023 for taking full ownership of Hungary’s largest book chain, Libri, after acquiring a minority stake with veto rights in 2021.

But to be clear, MCC does not provide actual school education thus far (although, as part of its spending spree, it has also acquired an Austrian private university). Instead, it provides extracurricular educational activities complementing the education of gifted university and high school students with outside classes, conferences, events and the like. Furthermore, it also operates six research institutions.

While it was originally focused on students in higher education, MCC is also rapidly expanding in secondary education. At this point, an estimated 7,000 students are enrolled in the various MCC programmes, but the reach of the programme is continuously expanding and is projected to reach over 10,000 soon. These are significant figures in a small country, especially considering they are aimed at the most gifted segment of the student population. In many cases, they especially provide youths from lower-middle-class backgrounds unique opportunities they might otherwise not be able to afford.

However, there are two key caveats. One, the extraordinary amount of public funds MCC receives casts a dark shadow over its activities and influence. Even in and of itself, it is worth asking why an institution headed by a senior government official, Balázs Orbán, who is also the prime minister’s main advisor, receives such vast funding at a time when the entire education system is underfunded. Or why it can pay instructors handsomely while even government party politicians admit that teachers are woefully underpaid. It is difficult to imagine a democratic country in which the government sets up a vast government-friendly educational network using public funds.

Second, although MCC is not pushing indoctrination per se, it plays a major role in mainstreaming far-right views. MCC has become a home to some experts with centre-right positions who hold nuanced positions on issues where Fidesz has embraced staunchly populist stances, such as the war between Russia and Ukraine. At the same time, by having these figures lecture and teach together with figures who are clearly on the far right of the spectrum – including many visitors who are representatives of the alt-right in Western Europe and the US – the moderates end up making the populists appear like just any other participants of a normal discourse rather than the extremists they actually are. At this point, this includes figures who spout anti-LGBTQ views, as well as anti-refugee and pro-Russian/anti-Ukrainian positions that are far out of the mainstream in Western societies.

“Cultural hegemony”

As expressed by several Fidesz-affiliated ideologues, the long-term goal is to achieve “cultural hegemony” through the MCC and similar institutions. This requires a long-term perspective and gradual institution-building. Some gains cannot be achieved by brute force; they require subtle propaganda and co-optation through institutions that espouse a reasonable attitude, especially when juxtaposed with the standard government discourse.

To those who see Fidesz’s campaigns as aggressive and who have reservations about the simplistic hatemongering in the message disseminated by the government in the media and on billboards, MCC looks like an altogether different animal. In reality, however, it is just a different, cosier-looking piece in the vast machine that Fidesz has assembled in the hopes of controlling Hungarian society in the long run.

5.3 | Outlook on the Hungarian society in 2024

How are Hungarians dealing with the fact that they increasingly see their healthcare system as failing? An IPSOS Survey of 34 countries in September 2022 found that Hungarians were by far the most likely to think of their healthcare system as “poor”. A meagre 14% (also a low in global comparison) are happy with the healthcare system.

Our own survey on the “Hopes, Aspirations and Fears” of Hungarians indicates that the high cost of living continues to be the most frequently cited problem in the country, followed by the state of healthcare.

And how are they grappling with the fact that two-thirds of them are unhappy with their education system, too? An IPSOS survey of 29 countries in September 2023 found that Hungarians were the most likely (67%) to say their education system was “poor.” A mere 8% (also the lowest in international comparison) think it is good.

How do they assess the fact that according to a survey by Medián in October 2023, 68% of Hungarians said that financial abuses are characteristic or very characteristic of their country’s leadership? Furthermore, Transparency International’s survey asking businesspeople for their perceptions about corruption also had Hungary in last place in the EU.

The list could go on for a while. These results show that on numerous critical issues, the public perceptions and the facts about Hungary clash with the government’s claims about the reality. Much of what Fidesz has been doing is trying to gain greater control of the public institutions that shape the public’s perceptions of reality. Effectively, the Hungarian government is acting in the interest of a minority who are generally happy with their healthcare, education, financial and business experience, etc.

So how is it that despite the government’s strong influence in the media, on many issues a majority of Hungarians take a different view of the social reality? The answer is complex, but one key aspect is that the government has managed to put other issues into the foreground, such as war, migration, sovereignty, and “Brussels” and “Soros”. Hence, the issues where Hungarians’ perceptions differ significantly from that of the government are less likely to appear in the political discourse.

Fidesz needs to ensure that it stays this way and that the public perception remains that the governing party is the only competent force on the key issues of today. For Fidesz to remain this popular, Hungarians at the ballot box need to be more concerned about imaginary struggles concerning sovereignty, foreign manipulation by hostile billionaires, and Brussels’ allegedly aggressive attitude towards Russia than about the policy developments concerning which they experience first-hand that Hungary is not doing as well as claimed by the government.

The dominance over the public agenda is an effort for which the government needs a pliant media, supplemented in the long run with educational and cultural institutions that convey this image despite the realities of everyday perceptions. Generally speaking, the more an issue is present in their own personal life (e.g. healthcare, education, cost of living, etc.), the more likely Hungarians are to be unhappy with the reality, while the more remote it is from their everyday experience (e.g. Soros, migrants, the attack on Hungarian sovereignty, etc.), the more likely they are to perceive the government as doing a good job at handling it.

Maintaining this perception is the job of the Fidesz government’s most important department, the communications division. And an

essential part of their job is to control social perceptions through the media and other institutions. The Prime Minister’s political director, Balázs Orbán, said it most clearly when he asserted that “Whoever controls the media controls the country”. Fidesz strenuously denies that it controls the majority of Hungarian media, once again despite the overwhelming perception of the public. But to look at Balázs Orbán’s logic from the other side: since whoever controls the media controls the country, whoever controls the country also controls the media.

Fidesz has been in control of Hungary with a legislative supermajority for 13 years now, and its control over the media and other public institutions has steadily increased over time. It is difficult to predict what is next for Fidesz in terms of expanding its social control; the only thing we know for certain based on the past 13 years is that the process will continue. Another important question to track is how long the Hungarian public will accept the gap between its own assessment of the institutions that play a vital role in their everyday life and Fidesz’s vastly different presentation of these.

Conclusion

An intense end to a lacklustre year

By the standards of the past 13 years, 2023 was a relatively mellow year in Hungarian politics. No major media outlets were shut down or taken over by pro-government businessmen. Until the last months of the year, even the permanent campaigns against the opposition were less forceful when compared to the peak periods of these campaigns. Significantly, fear of the war has diminished. As the frontlines in Ukraine hardened, it became increasingly unlikely that the war would spill over into other countries. Sadly, this is a reflection of the normalisation of the war, but that phenomenon is not limited to Hungary. Fidesz's communication machine has continued to spread disinformation about the attitude of the opposition and the European Union towards the war, but still, the public fears of becoming directly implicated in the war are at substantially lower levels than last year.

However, it is important to put the term "mellow" into perspective to highlight just how far Hungary has moved away from how democracies normally work. Independent media and NGOs active in a wide variety of areas, such as human rights, anti-corruption, and environmental organisations, and especially advocacy organisations for sexual minorities, have found themselves under pressure from the government. Among the many events that have shaped the last year, Fidesz has adopted the so-called "Sovereignty Protection Act". This is expected to be used to stigmatise and pressure organisations that receive funding from abroad, casting them as agents of the West that want to undermine Hungary's freedom.

Also, it is part of a "mellower" year in Hungary that bookstores were forced to wrap books including any kind of LGBTQ issues or

characters in plastic to make sure that kids cannot leaf through them in the bookstores, lest they see "homosexual propaganda". Furthermore, the director of the National Museum, a long-time Fidesz politician, was sacked following the protests of a politician of the far-right Our Homeland party, who invoked Fidesz's child protection law, because a section of the World Press Photo exhibition at the museum featured pictures of a senior home for elderly gay persons. This is a level of absurdity that even when Fidesz's anti-LGBTQ campaigns began a few years ago, few people found conceivable. But as sexual minorities are constitutionally barred from marriage and adoption, and the possibilities of publicly representing their lifestyles diminish, forcing them to hide, the law is effectively stigmatising them and restricting their liberties.

The tinkering with the municipal election law just before the end of the year shows that the political machine never stops undermining democracy. It is crucial to note that the timing of the most recent amendment of the election law, as well as the "Sovereignty Protection Act" and the most recent national consultation (which included a long line of attacks against the European Union), coincided with news reports that the European Commission planned to release a substantial chunk of the frozen EU funds. While the issue of EU funds to Hungary will remain an important topic in 2024, it is clear that even the super milestones requested by the European Commission cannot halt the continuous erosion of democracy and the rule of law.

For now, large segments of the Hungarian public are either relaxed about these policies or completely unaware of the risks they pose. However, on occasion, even some Fidesz supporters have run

up against the arrogance of the ruling party when the latter was implementing changes that affected them negatively in their own lives. A good recent example is the building of the new battery factory near Debrecen, traditionally a bastion of the ruling party. Large numbers of local citizens turned out to protest the factory because of environmental and health concerns, but the government dismissed the protests. Their rejection of the public's concerns did not follow a lengthy process of public persuasion; instead of seriously engaging with the citizens of Debrecen, the ruling party left the city's Fidesz mayor to fend for himself.

The Orbán government continues to spend immense amounts on communication. Little of the "information" spending includes actual information of citizens; most of it is incitement against the European Union, Soros, opposition politicians and sexual minorities. Fidesz is focusing on shaping the fears and concerns of Hungarians so that it can present itself as the sole saviour of Hungary's independence, which is threatened by global forces (e.g., migration, "gender ideology", Brussels). The power the ruling party claims as the presumed safeguard of Hungary's sovereignty includes the right to ignore the public's needs in a variety of other areas, such as education, healthcare, welfare, or environmental issues. Large segments of the Hungarian public have bought into this bargain, but the question is whether they will be able to opt out when and if they ever want change.

Step by step, Fidesz will go on building its regime. The next year, featuring EP and municipal elections, will be another testing ground for the ruling party to gauge whether it has been successful. On the one hand, the stakes are relatively low. In the EP election, at the maximum, they could lead to a shift of a few EP seats between Fidesz and the opposition. Except for the politicians elected, this is a symbolic matter.

While local governments have a direct impact on the Hungarian public, there is no reason to expect a major shift there, either. Fidesz already controls all county assemblies outside Budapest, and at the utmost, in an optimistic scenario for the opposition, a few of these assemblies and some cities might shift. This, too, would be largely inconsequential. A more likely scenario, however, is that while Fidesz is not expected to do well in Budapest, it will take back control of some of the urban municipalities it lost in 2019.

Either way, if the result of the election is that Fidesz's support has decreased, then the ruling party may well perceive this as an indication that its communication has not been pervasive enough or that its treatment of real and imagined "enemies" has not been sufficiently harsh. Experience shows that this would speed up the process of limiting the rights of the opposition, civil society, and the media. Fidesz's regime-building is a vehicle that features different speeds but no reverse gear.

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