Hungarian Politics

in 2017
Hungarian Politics in 2017
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Introduction

Policy Solutions has a long history of providing international audiences with in-depth analyses of Hungarian political life. Following the successful collaboration with the Friedrich-Ebert-Stiftung in the last three years, for the fourth time we present an annual review of Hungarian politics. This is a comprehensive overview of recent developments, events and trends in Hungary in 2017, and an outlook on what topics we expect to dominate Hungarian politics in 2018, the year of parliamentary elections.

The target audience of this publication is students and academics, journalists, diplomats or international organisations. In other words, anyone who has an interest in the political, economic and social landscape of Hungary in 2017, be it the government’s key public policies and PR campaigns, the state of the Hungarian opposition, major developments in foreign policy, the main economic trends or the increasing pressure on the civil society, academic freedom and independent media. It is important to stress that our review is not chronological and does not claim to be exhaustive in its scope, rather it reflects our selection of the major developments over the past twelve months.

In particular, we focus on five broad areas, presenting distinct developments in each. In the first section we review the year from the perspective of the Hungarian government, with a special emphasis on the issues and policies behind the stable lead of Viktor Orbán’s Fidesz party. In the second section we look at the opposition parties, their state and prospects. The third section focuses on foreign affairs, in particular the Orbán government’s relations with key European partners, and Hungary’s place in the Russo-American matrix. In the fourth section, we take a detailed look at how Fidesz’s policies have shaped the economy. Finally, some key developments of the Hungarian society – changes in the media landscape, new laws targeting the CEU and NGOs – are discussed. All of the sections conclude with a brief analysis of the issues which may come to the fore in 2018.
The Hungarian government in 2017
The overall theme of Fidesz continues to be that of protection at every level – from “Brussels” and other attempts at “foreign domination”, from unemployment and the other “vagaries of the market”, in particular the “nefarious multinational corporations”, from the “Soros Plan” and concomitant “Muslim invasion of Christian Hungary”, from demographic challenges and the risk of “Hungarians disappearing”, and from “domestic enemies” that seek to “undermine Hungary”. Seen from that angle, the refugee scare, the workfare programme, the various windfall taxes and many of Fidesz’s other policies add up to a coherent whole. In an increasingly tumultuous and rapidly changing world and economy, a government that can credibly promise this kind of nearly all-round protection has clearly tapped into the public psyche, even if many of the risks it professes to guard against have been artificially hyped up by its own propaganda.

Although surveys suggest that for the most part Hungarians are aware of some of the costs of this protection (e.g. the desolate state of the health and education systems, systemic corruption, rising inequality), they nevertheless accept that more than any other government since regime transition, this one has been willing to deliver what the public wants. This view prevails even beyond the large base of committed Fidesz supporters who are less interested in what the government does as opposed to what it rhetorically stands for.

Anti-Soros and anti-Brussels “national consultations”

In 2017, the Orbán government used its favourite PR tool extensively, and launched two “national consultations”. The aim of the campaign that started in the autumn was to investigate public views on the “Soros Plan”, which – according to the government – is to persuade Europe to accept migrants and tear down Hungary’s border fences. In the run up to the campaign, an image of the laughing 87-year-old American-Hungarian financier George Soros was put on billboard posters accompanied by a message urging Hungarians “not to let Soros have the last laugh”. Earlier in 2017, another national consultation campaign titled “Let’s stop Brussels!” asked citizens for advice on how to deal with European Union policies that the government said threatened the “independence” of Hungary.

The anti-Soros and anti-Brussels campaigns are the latest in a series of taxpayer-funded national consultations by the Orbán government, comprising questionnaires sent to households and accompanying mass media “public information” campaigns. The Hungarian government uses the results of these national consultation questionnaires, which are phrased to ensure that an overwhelming majority of respondents will select the government-supported answer, in order to demonstrate that its policies reflect the popular will of the citizens of Hungary. The experience of the last few years is that national consultations have a high impact on the public debate and public attitudes as well – these effects are clearly shown by the polls.
of carrots.

Moreover, the macro indicators are increasingly also manifesting the Hungarian government’s claims about its successful economic stewardship. Some analysts expect that growth will slow significantly in the next two years, but for the time being the international environment, domestic consumption and in particular construction are fuelling the Hungarian economy at a level that lends credibility to the government’s claims about its successful economic stewardship. Moreover, the macro indicators are increasingly also manifesting themselves directly in the lives of the general public. Unemployment figures are low and the controversial public works programmes provide a partial safety net for those who would otherwise find it difficult in the labour market (the programme has substantial flaws, of course). In fact, the sudden burst in economic activity has led to a largely unexpected problem in the labour market, which is suffering from a major shortage of workers, especially skilled manual labour and certain white-collar professions. For the time being, the negative impact of this development is mostly hidden to the general public, except for those who are trying to build homes or have something repaired.

In fact, for most voters the labour shortage has manifested itself in the form of a boon, as employers are forced to respond by jacking up wages. The result has been a rapid increase in pay. From the public’s perspective, increasing wages are itself in the form of a boon, as employers are forced to respond by jacking up wages. The result has been a rapid increase in pay. The increased interest in this policy clearly reflects both an economic optimism and the vibrant real estate market, which is suffering from a major shortage of workers, especially skilled manual labour and certain white-collar professions. For the time being, the negative impact of this development is mostly hidden to the general public, except for those who are trying to build homes or have something repaired.

In advance of the elections, Fidesz is also cutting taxes, though this has been too piecemeal to have a significant impact. Moreover, many of the small tax cuts appear to be geared towards the supply side of the economy, and thus their impact on the general public is likely to be indirect. The highest VAT rate in the EU is still in effect, and its increasingly effective enforcement – one of the great but probably less popular successes of the Fidesz government – plays a huge role in stabilising the central budget, which has thus far consistently defied the expectations of sceptics that Orbán’s unreformed policies would lead to a fiscal implosion.

Families and housing

Demand for Fidesz’s signature policy, the gargantuan housing subsidy (abbreviated as CSOK in Hungarian) for couples who commit to have children, is finally also picking up steam. Initially, the public appeared hesitant and experts expressed doubts as to whether the allure of easy money would be enough to entice people to commit to have more children. This fall, however, several banks reported an increase in the number of CSOK applications by 40% or more as compared to last year, and some financial institutions even reported increases of several 100%. Moreover, the construct is even popular among those who do not apply for the total potential maximum sum of 20 million forints (10 million in grants for a new house and another 10 million in low interest loans). The increased interest in this policy clearly reflects both an economic optimism and the vibrant real estate market, which is suffering from a major shortage of workers, especially skilled manual labour and certain white-collar professions. For the time being, the negative impact of this development is mostly hidden to the general public, except for those who are trying to build homes or have something repaired.

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Nevertheless, the 27% VAT rate has increasingly come to resemble a block of Swiss cheese, with an ever-growing number of confusing exemptions. Restaurateurs, for example, saw their VAT rates reduced to 18%. Similarly, the producers of both pork and chicken meat have seen a tax cut on their products, though some more cynical commentators saw this, too, as part of an effort to boost the business of the government’s favourite oligarch, Lőrinc Mészáros, who saw it fit to expand massively in the meat production market. VAT cuts have also been applied to internet service providers and fish. There have been also slight cuts in the income tax rate and in employers’ contributions, but these are negligible in their impact.

Sops to the poor
Most of Fidesz’s financial largesse has accrued to the wealthier segment of the middle classes. It is fairly obvious, for example, that those who are most likely to avail themselves of the most generous levels of housing subsidy must make a decent income to begin with, for new houses cost a lot more than the amount provided by the housing subsidy, and those in workfare programmes, for example, cannot even receive the allowance for new housing. Those with tax arrears or criminal records are also excluded.

Apart from its highly effective fear management in the context of the refugee issue, Fidesz has not done much for those with lower incomes. However, with the election approaching, Fidesz is putting more of an emphasis on this segment of the electorate. Pensioners, the largest voting bloc, received a 1% raise at the end of 2017 along with coupons that can be redeemed at stores, and early 2018 they can look forward to another round of inflation-adjustment coupled with a “premium” designed to kick in when annual GDP growth exceeds 3.5% (the relevant legislation was adopted under the Bajnai government in 2009 as a compensation for drastic cuts in pension at the time).

The utility price cuts (the once ubiquitous rezsicsökkentés) no longer commands the central position in Fidesz’s communication as it did in the run-up to the 2014 election, but the government still touts it as one of the key achievements in terms of giving the public money back. In October, a government spokesman announced that since the introduction of the utility price controls four years ago the average Hungarian household has saved 170,000 forints ($570 euros). This calculation fails to capture, however, that a significant portion of these benefits accrued to households with far higher utility costs because of larger home sizes. Importantly, customer debts towards public utility providers have also dropped (by almost half), and there has been a decline in the number of households who had to be disconnected from public utility services due to non-payment (by almost 60%). Critics have pointed out that much of the utility price cut has proved sustainable because of the massive drop in global energy prices — and in some countries utility prices fell by similar or even higher levels even without regulatory intervention — and that once these prices rise, the current price regime would no longer be sustainable. At the moment, however, the government is contemplating another round of rezsicsökkentés, which might kick in next year.

Despite the government’s suggestion that Hungary is experiencing some sort of unique economic miracle as a result of its unorthodox economic policies, while the rest of the world is falling behind, eastern Europe on the whole and some segments of western Europe — especially Germany, whose economy is of vital importance to eastern Europe — are also booming despite their commitment to orthodox economics. The resultant demand for products is one of the reasons why Hungary is currently successful. In fact, most countries in the region grow more quickly than Hungary, with the result that Orbán’s success story needs to account for the fact that under his rule Hungary has fallen behind Slovakia and Poland economically. Moreover, Orbán’s economic model is also predicated on rising economic inequality, the scope of which is also increasingly distinguishing Hungary from other regional economies.

It would be difficult to predict how the public’s commitment to Orbán’s version of protection would fare under more challenging economic circumstances, be it a massive downturn or even a moderate recession. Putin’s endurable popularity during Russia’s economic crisis is partly from automatically tying the fate of a regime to economic performance only if a regime can successfully embed the economic story in a broader narrative of “us vs. the world” and comprehensive state-provided protection, then it might be able to weather economic downturns. Whether Hungarians are like Russians in this regard remains to be seen, though fortunately for Orbán and Fidesz, the imperviousness of the Hungarian public towards economic troubles is not likely to be tested anytime soon.
Fidesz has warned of unrest in advance of the 2018 election and predicted a hot fall. But already at the time many analysts suspected that the governing party would be the most likely of all political actors to sow unrest and then to try to pin it on George Soros and his alleged allies in Hungary, i.e. NGOs and the opposition. Despite its massive lead in the poll – it is in a better position now than it was at this time in the term four years ago, when it secured another two-thirds majority finishing almost twenty points ahead of its nearest competitor, the centre-left list – the governing party is treating this election as a life and death struggle with an unpredictable outcome. Speaking at a townhall event, László Kövér, the speaker of parliament, who has exhibited open disdain for the traditional impartiality expected of his high office, said that if his party were to lose the upcoming election, all its achievements would be undone.

It is hard to see why that would be the case given that Fidesz has steered the country for eight years now, a significant portion of it with a two-thirds majority that the opposition is extremely improbable to win even in the unlikely event that it will defeat Fidesz. Using this two-thirds majority, Fidesz has adopted a new constitution, a wide array of so-called cardinal laws that can only be changed by a supermajority, and it has appointed many leading public officials who can only be removed by a two-thirds majority (and even if they retire or their term expires, their successors, too, need to be elected by a supermajority). None of these can be easily reversed by an opposition victory, unless the opposition parties win by a two-thirds majority and can agree on the thorny details.

The Fidesz campaign is going to be rooted in the same logic that has defined the party’s communication and campaigns ever since the first round of the parliamentary election of 2002, when Viktor Orbán and his party were shocked to discover that they were likely to lose an election they had clearly expected to win. In the event, they did lose, but not before staging the most astonishing turnaround in the brief history of post-1990 democracy: the left led the first round of the election by 6.5 points and almost 400,000 votes, and seemed headed for a massive victory with a lead in ca. 100 of 176 constituencies. However, in the end they eked out

It’s always a war

What Kövér most likely meant was that the dominance of Fidesz is not full yet, some of the ordinary courts show signs of independent decision-making, while the emergence of the so-called “national capital class” is also still in development. The latter refers to the Fidesz-created class of a few super-rich oligarchs and a larger group of moderately wealthy persons who are supposed to simultaneously provide the core of the new Hungarian elite and to ensure that Fidesz remains well-funded even if it ever spends a stint in opposition. The problem is, of course, that the enrichment of this class might not always stand up to intense legal or ethical scrutiny, and the political situation in Hungary remains volatile enough to allow for the possibility that the opposition will execute corresponding investigations with vigour. This is a very unlikely scenario, to be sure – even Fidesz with its vast powers has found it very hard to prosecute corruption cases, despite the fact that few doubt that corruption existed under the previous governments as well.

The strategic dilemmas of the governing party before the elections

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the barest of majorities in the National Assembly after Fidesz massively won the second round. The huge success of Fidesz’s ultra-aggressive campaign in the two weeks between the first and the second round convinced Viktor Orbán and other leading Fidesz strategists that they should have treated the campaign as a war all along. This logic, taken to further extremes, has been driving Fidesz’s politics and communication ever since – not only in campaign periods because Orbán’s team does not believe that there is such a thing as a distinct campaign period (and on that count, it may well be right).

How do you maintain the balance?

The strategic dilemma for Fidesz is that for its traditional strategy of staying above a divided opposition to work, it must ensure that the opposition remains divided and that neither side becomes too weak to stop the other from monopolising those voters who are opposed to Fidesz no matter what. This involves especially the problem of how to treat the player that is down, and how to intervene in the processes of other parties. That may be precisely what the crisis in MSZP (Hungarian Socialist Party) calls for, and especially the Socialists – as unworthy of debate, and this is striking: Fidesz has consistently treated all opposition parties – and especially the Socialists – as unworthy of debate, and this strong feelings of its inhabitants concerning refugees have now made it exhibit No. 1 for why Fidesz’s hold over rural Hungary is unassailable.

Can Fidesz be too far to the right?

A further complication in Fidesz’s current position is that it has comprehensively abandoned the political centre it had once sought to monopolise in its quest to become the “central force” in Hungarian politics, dominating a “radical” right and an “unpartisan” left. By latching on to the refugee issue, Fidesz has reversed its declining fortune in 2015 and has defined Hungarian politics and public discourse for years. It has also stabilised and expanded its lead in the polls, and there is no question that if Fidesz wins the election of 2018, then this will owe almost exclusively to its uncompromising exploitation of the refugee issue. The only downside of this strategy is that any pretension to being a centrist party is almost completely gone. The reason that this has caused it no electoral pain thus far is simply that Fidesz have shifted public discourse successfully to the right.

Nevertheless, its extremism is causing Fidesz a growing number of defections among previously loyal intellectuals, who would like to remain in the centre. There is a widespread perception that in particular the anti-CEU campaign, coupled with the vulgarity of the anti-refugee and anti-EU propaganda, has substantially diminished Fidesz’s support among the most educated segments. Fidesz has long decided, of course, that electoral victories are not won in salons but among ordinary folk, and especially among the rural public who decide the fate of the majority of Hungary’s 106 single-member constituencies.

Events in Ócsény drive this point home: the little village in southwestern Hungary became infamous during the autumn when villagers subjected a local B&B owner to harsh verbal attacks and even death threats – and someone even slashed the tires of his car – after he offered to host a few refugees (recognised as such by the very restrictive Hungarian authorities) for a short vacation.

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Fidesz’s plan rests on the assumption that the impact of intellectuals on public opinion formation is far lower than is assumed by many, and correspondingly it need not be concerned by the criticisms of high profile former conservatives – including many members of Hungary’s first post-transition government (including former minister for industry and trade, Péter Ákos Bod), and a growing number of former Fidesz-affiliated intellectuals and public figures, such as constitutional court judge István Stumpf, once one of Orbán’s close confidantes, and Attila Chikán, György Mátécsy’s predecessor as Fidesz’s economic guru. The evidence thus far suggests that electorally speaking, the Fidesz strategy is right.

Fidesz’s edge in places like Ócsény is what the governing party must hold on to in the months of the campaign. Since Fidesz has found that despite the aura of crude propaganda surrounding them, on the whole its anti-refugee and anti-Soros communication campaigns have served it fairly well in rural Hungary, it is unlikely to let go of these, neither in style nor in substance. It is up to the opposition whether it can exploit the one potential flaw in Fidesz’s superbly designed system: for a near certain victory, Fidesz depends on a divided opposition. Some sort of effective electoral alliance or at least coordination involving all major opposition forces might squeeze Fidesz, as long as the former can win at least some key pockets of rural Hungary. The opposition parties must grapple intellectually with this reality, while they must at the same time also brace themselves for Fidesz’s active interventions in their internal affairs to help ensure the continued division of the opposition.
Fidesz is on the way to a decisive election victory in 2018. The current polls speak an unequivocal language: Fidesz’s support stands at astounding levels. The opposition keeps talking about the fact that the majority of the public is still not for Fidesz, which is technically true but irrelevant. This statistic includes a substantial minority who are unlikely to participate because they never or rarely vote. Moreover, the hypothetical non-Fidesz majority would only be relevant if it yielded at least a plurality of voters united behind one major challenger. Absent that, what remains is a governing party that is above 50% among decided voters and will likely sweep most of the single-member districts.

If the election were held in December 2017, another two-thirds majority would be likely.

Even four months can be an eternity in politics, but that does not change the odds. Four years ago, Fidesz was re-elected by a substantial majority based on an economy that barely turned the corner in time for re-election and still produced only modest growth. At the time, the governing party was boosted by an opposition that looked weak and listless, failing to capitalise on the government’s conspicuous flaws. A few months later, when the polls showed a significant drop in Fidesz’s support and a series of defeats in by-elections, the government went on full alert, trying to find ways of stabilising its support. Along came the refugee issue, and the rest is history.
The Hungarian government in 2017

With 2018 looming, the economy is in much better shape than it was in 2014 (with a lot of caveats including sustainability, inequality, poverty, crumbling healthcare and education), and the opposition is far more fragmented and disorganised than it was four years ago. This would be enough, but with the refugee issue Fidesz has also discovered the gift that keeps on giving: the Hungarian public appears to have a sheer insatiable appetite for fear of migrants, no matter how overhyped the threat may be. Given that large segments of the Hungarian public appear to have decided that corruption is irremediably part and parcel of the way Hungarian politics operates, and that the formal rules of democracy are overrated, there just are not that many reasons left not to vote for Fidesz.

For now, the more pertinent question is how Fidesz will react to what is likely to be a decisive victory. Will it finally feel magnanimous with an opposition that appears to pose no threat or will it interpret the win as a mandate to further suppress dissent? Nothing in the past seven years suggests that generosity will be on the agenda. The weakness of the party political opposition is likely to keep Fidesz focused on NGOs, the Central European University and critical media, and make moves towards reducing the role of local governments.

While it is neither domestic nor international policy, in Hungary the question of our relationship to the European Union has emerged mostly as a domestic policy issue. Fidesz has maintained a curious duality on the European Union, which combines repeated commitments to EU membership with harsh criticisms of “Brussels” – a term that pollsters have apparently identified as being more negatively perceived than “European Union”. Fidesz has made criticisms of “Brussels” in particular and western Europe in general one of the cornerstones of its campaign, and the question now arises whether this was an election gimmick or part of a sustained strategy to undermine Hungary’s western integration.

Far more signs point to the latter. It is unlikely, therefore, that the relentless propaganda against “Brussels” will cease, though the negotiations on the next EU budget might put a temporary damper on the vilification of the institution that funds a significant portion of Hungarian infrastructural and other public investments.

For the long term, however, the vital issue is whether Fidesz even intends to keep Hungary in the EU, and if so how much interference in his increasingly authoritarian policies Orbán will tolerate to make continued membership possible. It is unclear how much lambasting the EU has helped Fidesz in the polls, but at least for now the effort could be interpreted as being part of the election campaign which the governing party clearly regards as a life and death situation. Absent such a “justification”, a decision to continue in the same vein after April 2018 would be a clear message that the Orbán government is at least seriously contemplating a life outside the European Union.
2.1 | The state of the left before election

The Hungarian Socialist Party (MSZP), still the leading force on the left, started 2017 by making an effort to boost its popular appeal. Their most decisive move was to select the successful mayor of Szeged, László Botka, as their candidate for prime minister. Under the “tax the rich” slogan Botka moved the party to the left, though in effect what the slogan meant was merely the restoration of a progressive tax regime, which is a fairly mainstream demand. Still, MSZP’s emphasis under Botka was clearly on reasserting the party’s leftwing credentials after years of centrist economic policy, which was a reasonable strategy shift. MSZP’s candidate was more popular than his party, but as is often the case, Botka’s personal appeal did not rub off on his party.

The Botka story

Botka is very popular in Szeged but remains an outsider within the party and he was only willing to accept the nomination under strict conditions. These conditions were a joint opposition list, a selection of constituency candidates based on their ability to attract votes rather than party affiliation, and an agreement about what he termed a “new leftwing politics”. Later Botka added a further precondition by making clear that he only wanted to ally his party with the centre-left/liberal Democratic Coalition (DK) if the party’s chairman, former PM Ferenc Gyurcsány, withdraws from politics. Botka’s assumption was that by clearly positioning himself against Gyurcsány, he could open up his party to potential alliances with some parties who consider the former prime minister an anathema. In practice, however, the problem was that neither LMP nor Momentum – the parties for which Gyurcsány would be a deal breaker – seemed inclined to cooperate with the Socialists. After it became clear that no joint opposition list would be possible, a cooperation with DK, but without Gyurcsány would be impossible, and MSZP did not manage to rise in the polls, László Botka resigned from his candidacy in October.

Following the resignation of Botka, MSZP launched a search for a new candidate, but this time outside of the party. In December, the Socialists found one, and their presidium formally backed the candidacy of Zsóka major (a district of Budapest) and Dialogue for Hungary (a small green-left party) co-chair Gergely Karácsony for prime minister. Karácsony is one of the most popular politicians in Hungary (a small green-left party) co-chair Gergely Karácsony for prime minister. Karácsony is one of the most popular politicians in Hungary.

A major transformation underneath the surface

A few months before the election, the opposition to the left before election appears to have resigned itself to another massive victory for Viktor Orbán and his party. On the face of it, the situation of the opposition, and supporting him could be considered a logical choice from MSZP in this difficult situation (there was no further potential candidate within the Socialist Party).

The biggest story is of course the crisis afflicting the centre-left Hungarian Socialist Party, the formation that had dominated the centre-left for two decades between 1990 and 2010, and once seemed destined to do so forever. MSZP has been challenged by a rising number of new formations on the left, primarily the one led by Gyurcsány, DK. While MSZP has remained the strongest party on the left, the smaller formations have been chipping away at its lead for years now, and by December 2017 MSZP was barely ahead of DK in most polls. In some polls the green formation LMP also came relatively close, and lagged far behind far right Jobbik as the main Fidesz challenger.

The challengers...

MSZP’s shaky situation opened up the space for a variety of players throughout the political spectrum who are in the process of making a play for its voters. Fidesz is wooing elderly voters aggressively in the run-up to the 2018 election, and the polling company ZRI has reported that the ruling party has already doubled its support among pensioners since the summer, which explains much of its recent surge in the polls. Jobbik, too, is increasingly open in its courting of leftwing voters. For Gábor Vona, the issue is likely one of...
survival: if his "centrist" course fails to improve on the party’s 2014 results, then it is unlikely that he can hold on to his position, the seething resentments about his "Jew and liberal friendly" course is likely to break out in the open and sweep him away.

But centrist and leftwing challengers are also seeking to capitalise on the situation. LMP (Greens) and DK are most active in trying to expand their base, and they have both registered modest increases in support in 2017. Nevertheless, even though everyone is scheming to improve their standing in the election, in reality the political actors on the left are positioning themselves for the post-April 2018 struggle for dominance on the left.

And their strategies

Gyurcsány’s goal at this point is likely a variation on his previously proposed idea of unifying the entire centre-left opposition into an umbrella party, following the model of the Italian Partito Democratico. As part of this strategy, he is likely to try to unify at least the major parties on left, MSZP and DK, which would leave him as the most recognised leadership figure with a base of maybe 15-20%. Moreover, if he can project strength and is perceived as the most influential figure, that is enough even if the party is still fairly weak in the polls, but it seems very likely that they will do better by a few percentage points than in 2014.

Momentum is in a more precarious situation. It insists on going it alone, but its support is still far below the 5% threshold. Unless they take that threshold and manage to grab at least a few seats in parliament, they will have to continue building their movement without all the visibility and financial perks that a bridgehead in parliament provides. The odds are slim that Momentum will be the formation that can rise to become the dominant political formation to the left of Fidesz, but truth be told this applies to every single leftwing formation currently known.

The strict refusal on the part of both LMP and Momentum to ally with any of the existing centre-left formations is of course also tenable because everyone appears to have given up on the 2018 election and is merely interested in cannibalising the other centre-left formations. The only rare sign of openness towards refugees (it called for the electronic monitoring of asylum seekers; for example, similarly to the system used for people under house arrest), for instance, makes this claim credible. Gyurcsány’s DK is also difficult to classify, as it is basically business-friendly but still on the left on many issues. Several smaller parties, to set Egyszőtt (Together) and the Liberals are all classical liberal/conservative parties, and without much clout anyway. The only genuinely leftwing party apart from MSZP is Dialogue (Párbeszéd), a small green party split-off from LMP. In effect, therefore, in a party system in which there is still a substantial segment of leftwing voters who need representation, the latter have but few options.

Few leftwing alternatives

A particular irony is that even though the so-called left in Hungary is teeming with parties, outside MSZP there is not much that is actually really leftwing on that side of the political spectrum. The new Momentum Movement, which is in vogue, refuses to be pigeonholed as leftwing, and substantially it is right, seen from a European perspective its proposed policies are a mix, even though in the peculiar Hungarian context they clearly lean left. LMP also eschews a classification as a leftwing party, and its shifting stance towards refugees (it called for the electronic monitoring of asylum seekers; for example, similarly to the system used for people under house arrest), for instance, makes this claim credible. Gyurcsány’s DK is also difficult to classify, as it is basically business-friendly but still on the left on many issues. Several smaller parties, to set Egyszőtt (Together) and the Liberals are all classical liberal/conservative parties, and without much clout anyway. The only genuinely leftwing party apart from MSZP is Dialogue (Párbeszéd), a small green party split-off from LMP.

As we have seen it in 2017, all the centre-left splinter parties easily say no to the representative of another party. Individual short term strategies can explain this. However, in the long term, only cooperation can be a road to success in the current electoral system. If the opposition parties are not able to cooperate, a heavy defeat can be guaranteed. Though the chances of a leftwing victory remain small, the emergence of a clear challenger might prevent another two-thirds victory for Fidesz and could help the left save face.

Will there be a clear challenger on the left?

The most basic unanswered question for the next election is whether the left will be able to field a joint candidate who can be seen as a viable alternative to Orbán. It is clear that at least for now, the parties have none on offer. If Szájer, Karcsonyi or Momentum’s András Fekete-Győr, for example, can build their reputation to turn into serious challengers, then this process probably will take longer than the few months remaining until April 2018. It has always been the left’s particular challenge that it failed to develop strong leaders internally. That’s why MSZP turned to the independent banker Pálter Medgyessy in 2002, that’s why it warmed easily to the premiership of Gordon Bajnai in 2009, and that’s why in 2004 it ultimately chose Ferenc Gyurcsány who – though he was formally a party member – was de facto a neophyte within the Socialist Party. In a parliamentary democracy this is an unusual “vote of no confidence” in the left’s own ability to produce popular leaders – which stands in stark contrast especially to Fidesz’s unapologetically assertive leadership.

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It’s Jobbik’s turn now

It became clear in 2014 that Jobbik could not hope to win power unless it readjusted its strategy to attract a broader base. Thus Gábor Vona announced a radical turn in the party’s political communication and general outlook: Jobbik would become a mainstream “people’s party”, competing with the governing party for the moderate centre ground in Hungarian politics which – thus Viktor Orbán – Fidesz wants to occupy for a period of 15-20 years. At the time, Gábor Vona emphasised that this would not result in a substantial shift in the policies endorsed by the far-right party, all the more so, he said, because Jobbik’s policies had never been extremist or racist in the first place. All that needed to change, according to him, was the communication, which had to be able to appeal to the mainstream.

The fundamental dilemma facing the ruling party remains unchanged. It needs the opposition to be divided into at least two but ideally more parties, neither of which may be strong enough to mount a genuine challenge to Fidesz or weak enough to disintegrate. Maintaining this balance is cardinal and Fidesz cannot do so by focusing exclusively on its own campaign and direct communication with voters; it must intervene by various means in the affairs of the opposition parties, especially when one of them threatens to pull away.

2.2 | Jobbik: squeezed between Fidesz and a hard place

This is no insignificant challenge for Fidesz, and the markedly hostile shift in the ruling party’s attitude towards Jobbik has shown that the governing party takes it seriously. Previously, Viktor Orbán had referred to Jobbik politicians as fundamentally decent but temperamentally unfit (because of their radicalism). This generous attitude is a thing of the past. Fidesz is now openly hostile to Jobbik – even as its attitude towards the centre-left MSZP, the largest party on the left that it once considered a mortal enemy, has become remarkably relaxed. In the absence of a left-wing competitor, Jobbik’s campaign strategists have designated Jobbik and the party’s leader, Gábor Vona, as the chief target of their attacks. The vast Fidesz media are engaged in a massive campaign to discredit Jobbik, and in the process they do not shy away from delving into character assassination and sleazy personal details. Gábor Vona was repeatedly “accused” of homosexuality on national television, and the party’s parliamentary chairman, János Volner, was followed by photographers who claimed to have caught him cheating on his wife. Fidesz’s lashing out against the party it once considered a constructive opposition is the safest indicator that the government is treating Jobbik as a serious threat, even if the polls do not yet warrant any great concern for the powerful ruling party.

The biggest attack on Jobbik came in December, only four months before the parliamentary election, when Jobbik was fined by the State Audit Office – the institution is led by a former Fidesz MP, László Domokos – 331 million forints (11 million euros), and it will be docked another 331 million from the funds that the party is supposed to get from the budget this year. The reason behind this huge fine is that Jobbik is charged with acquiring surfaces for its billboards below “market price”, which is the price the State Audit Office decided was the market price. A further problem is that the State Audit Office did not even look at the actual documentation on the basis of which it arrived at its verdict. Of course, Jobbik has no 11 million euros in its bank account, and therefore it claims that under these circumstances it simply cannot compete fairly in the 2018 election campaign. Unless a ban or a full bankruptcy actually becomes reality, the speculation about this is most welcome for Jobbik, which can cast itself as a victim of unreasonable and unfair state persecution while pointing out that these actions by the authorities implicitly verifies their claim to be the main opposition force and the only real threat to the governing party. Fidesz’s actions have even stirred some voices on the left who grudgingly say they would have no choice but to protest in the name of democracy if the far-right party were banned. Importantly, this feeds into Gábor Vona’s play for leftwing voters, which took on a new urgency after MSZP’s prime ministerial candidate, László Botka, withdrew his candidacy in October. Vona immediately published an open letter calling on leftwing voters to abandon their fears and embrace his candidacy as the only viable alternative to Viktor Orbán and Fidesz.

Jobbik’s own oligarch?

One interesting shift in Hungarian public life is the speculation about the budding relationship between the man who was once Fidesz’s leading oligarch, Lajos Simicska, and Jobbik. Since his spectacular break with his erstwhile friend Viktor Orbán, the former Fidesz treasurer has sought to undermine the ruling party, while the latter has in turn sought to cut the Simicska media and business empire down to size. It is now evident that he views Jobbik and Gábor Vona as the most promising alternatives to the ruling party and Viktor Orbán, respectively. In the meanwhile, Simicska’s media also has shown indications of being sympathetic to Jobbik, but this is far from the open propaganda it used to engage in on behalf of Fidesz. Just as importantly, Simicska could be a fount of damaging information about Fidesz, and his media are also crucial potential assets for Jobbik.

Gábor Vona has denied any connection between his party and the oligarch, but he has admitted to meeting Simicska and said that he found the latter “sympathetic” and regretful over his role in the rise of Fidesz. It is reasonable to assume that Simicska looks
for a political vehicle to further his campaign against Fidesz, and it is reasonable to assume that Jobbik is interested in any source of funding it can lay its hands on. A clear sign of cooperation between the two sides was when Jobbik ran its campaign, which accused Prime Minister Viktor Orbán and his suspected strawman Lőrinc Mészáros of stealing, on the billboards of Simicska’s company. Later the campaign was banned with the help of a legal modification passed by the governing party. This was a scandalous move by all standards as the law should have been amended with a two-thirds majority, which Fidesz lacked, so it changed the relevant provisions with a simple majority. Jobbik then circumvented the new billboard law by purchasing, 1,100 billboards from Simicska, but the far-right party was practically forced to sell them back to the oligarch after it was threatened with the huge fine by the State Audit Office.

Deep internal divisions

As one would have expected, Vona has faced considerable resistance within the party against the shift towards the centre. But he has relentlessly pushed through his new line, and at least in the higher echelons his party has stayed remarkably loyal, even as Vona demoted and removed several leading hardliners (while at the same time elevating at least one other, the radical László Lőrinc Mészáros of stealing, on the billboards of Simicska’s company). The Hungarian opposition in 2017 is also an evident sign of some disappointment within Jobbik’s ranks. Furthermore, the launch of a – so far – new far-right party, the far-right party, the Hungarian opposition in 2017 is also an evident sign of some disappointment within Jobbik’s ranks. Furthermore, the launch of a – so far – new far-right party, the Hungarian opposition in 2017 is also an evident sign of some disappointment within Jobbik’s ranks.

A real shift?

Recently, however, the shift in Jobbik’s attitude no longer appears merely rhetorical. It is hard to overstate the importance of the party’s condemnation of the amendment of the higher education law, which aimed at driving the Central European University – originally founded but no longer controlled by the billionaire George Soros – out of Hungary. This is remarkable because CEU and its founder embody everything that Jobbik has railed against for many years. The Jewish financier and his “open society” philosophy, with its commitment to diversity, multi-ethnic coexistence and the accommodation of differences, is an anathema on the Hungarian far-right. Nevertheless, after some initial hesitation, Jobbik finally declared that it was against the government’s interference with the university’s freedom to operate. This was a stunning reversal for a party that had a few years ago professed no qualms about interfering with the freedom of media institutions, for example, with Vona vowing that as soon as he was elected he would ban the television channels TV2 and RTL Klub and “raze their headquarters to the ground”. This shift towards a greater toleration of differences has been gradual, and already last year Jobbik made a far-reaching gesture when it condemned the Fidesz-arranged shutdown of the country’s leading daily newspaper, Népszabadság, despite the latter’s liberal/leftwing outlook. In terms of shift in content, Josik’s European Citizens’ Initiative for a “European wage union” is also worth mentioning. This initiative is a clear step towards becoming more acceptable to leftwing voters, as it suggests both social awareness and a much more positive view on the EU than Fidesz’s. But signing an appeal to the constitutional court to review a law against CEU – that’s going at least one step further than most observers would have anticipated.

A curious realignment

Moving Jobbik towards the centre without a major break in the party was going to be a major challenge in itself, but for Gábor Vona, keeping his allies in line proved to be only one part of the challenge. Jobbik’s strategy appears to have been based on the assumption that Fidesz would compete with Jobbik in the centre. Ordinarily, a centre-right governing party would be limited in its ability to shift to the right because it might hurt its international standing and such a move might end up costing it with centrist voters, too.

The period since 2014 has proved extraordinary in this respect, however. Some of this might have been predictable. Public opinion in Hungary has moved decisively to the right, and in many respects the intellectual coterie around Fidesz is no less extreme than Jobbik’s own media/intellectual base. The division between the two segments is often generational and personal (defined by a devotion to Viktor Orbán and a lack thereof). Since the chumminess between the two parties is a thing of yesterday, however, most of these persons had to choose sides, and most ended up with Fidesz. But that only implied a clear rejection of Jobbik, they did not have to disavow their often racist, anti-EU, and authoritarian beliefs.

In fact, the latter has always been regarded as useful by Fidesz in nurturing the party’s ties to a segment of the electorate that harbours ideas far out of the European mainstream. The desire to keep at least a portion of this segment of the electorate in Fidesz’s camp motivates some of the governing party’s most controversial acts, such as the state awards given to extremist journalists, its rehabilitation of pro-Nazi politicians and intellectuals in the interwar period, etc. So it was clear that Fidesz has never abandoned its ties to the far-right and that it might make a play for a larger cut of this segment of the electorate if Jobbik left its right flank open in the course of its rapid movement towards the centre.

After the refugee crisis became less acute for the time being, Fidesz remained solidly in the far-right terrain in choosing the next issues on the agenda. The intense anti-Brussels campaign conducted by the government stands in stark contrast with Jobbik’s cautious rapprochement towards the European Union, which is one of the most crucial steps in bringing the party into alignment with a largely pro-European public (and which is likely one of the most divisive issues within Jobbik itself). Similarly, the relentless attacks on George Soros and the small NGO sphere in Hungary also play into the widespread paranoia about foreign powers trying to dominate Hungary. The result of the parallel movements of the two parties into opposing directions is that it is no longer easy for voters to identify which of the two is the radical party.
It is not an exaggeration that 2017 has been a wasted year for the leftwing and liberal opposition. The Hungarian left is not less fragmented than it was a year ago and only a few months before the elections, it is still unclear how many opposition party lists will face Fidesz, and what kind of electoral cooperation can the small- and medium-sized parties agree on. Also, it appears to be an impossible task to find a prime minister candidate who would be acceptable at least to the major players on the left. As the electoral rules have not changed during the current term (with the exception of campaign finance rules of parties below 1%), and given the fact that none of the leftwing and liberal parties has managed to unite the vast majority of the potential voters of the left, cooperation in a way or another will be a must at the next parliamentary elections.

However, this statement is true only if the opposition parties have not given up on winning the elections already. For most observers it seems that the real race for the leftwing and liberal parties is about the future dominance on the left. What is sure at the end of 2017 is that there will be no comprehensive list with the participation of all leftwing and liberal parties at the next elections. This means that while these parties should focus all their energy on offering an alternative to the Fidesz government, there will be tough competition between MSZP, DK and LMP for the leading position of the left for the 2018-2022 parliamentary term as well (even though the first two will support each other’s candidates in the single member districts). Whoever will come out first from this internal leftwing competition, the tasks ahead will be huge: the left
should be rebuilt completely, both in terms of vision (and attractive policies) and organizational background (including media). According to the polls, it is likely that the 2018 elections will lead to a less fragmented left in the next cycle. While MSZP, DK and LMP are expected to reach the 5% threshold, Együtt and Momentum would need a miracle in the campaign, not to mention the even smaller parties.

By wasting most of 2017 on internal struggles, the left has offered Jobbik a unique opportunity to become the main challenger of the governing party. However, the far-right has its own difficulties as Fidesz has been outflanking Jobbik from the right for some time. All this would hardly matter for Vona and Jobbik if the party were rapidly gaining ground with moderate voters. But while it remains the most-supported opposition party, there is no indication of a genuine movement in the electorate towards Jobbik. In other words, thus far Jobbik has not received any discernible benefits in return for the risks it took by moving away from the far-right fringe. It seems that despite all its efforts, Jobbik is still not acceptable to most voters in the centre, while Fidesz is a real threat now to its far-right base.

For Gábor Vona, the challenge will be to hold his party together. By the time of the national election in 2018, he will have to present his party with some electoral rewards in return for leaning so hard on the patience of his radical fringe. Though Vona has proved himself to be very talented in controlling his own party, the willingness of Jobbik’s radical functionaries to put up with their leader’s dynamic ideological shift owes to the hope that this is really the only way to challenge Fidesz. If that fails spectacularly, then Vona will be hard pressed to explain why the moderation was necessary and why he should remain chairman.

In challenging Jobbik for the fringe vote, Fidesz has created a massive strategic dilemma for Vona. It’s not that there is no way back for Jobbik towards the far-right, such a shift is always possible. Fidesz is a case in point. But it is difficult to imagine that Vona would be able to travel back on this road. His fate appears tied to the success of the “popular party” strategy.
At least since the refugee crisis, Hungary’s prime minister, Viktor Orbán, has experienced tailwinds in his “unorthodox” foreign policy line. Orbán has argued for weakening the European Union’s influence on the policies of its member states and for reorienting Hungary’s policies towards the East and away from what his party and government now routinely refer to as the declining West. In the process, he has controversially struck up a friendship with Russian President Vladimir Putin and has courted other authoritarian leaders, while he has publicly attacked or otherwise alienated many of Hungary’s traditional western partners. Orbán’s foreign policy is inextricably intertwined with his domestic vision of an illiberal state, his “eastern” approach towards the organisation of the state which he claims is most suitable for tackling the challenges facing nation-states today, just as in domestic politics, Orbán does not believe in lasting international alliances, not to mention friendships between nations. Any political cooperation must be rooted either in a form of coercion, a loose lord/vassal type of hierarchical relationship, or on the alignment of short-term interests.

In an ever closer Union, where political and economic integration mutually reinforce one another and give rise to increasing prosperity and security – as they have done for most of the last few decades – Orbán’s policy would be doomed to fail. Hungary would be isolated among the countries that its economic development depends on and would be left without influence at the European level. In an EU that is disintegrating, however, with Orbán-type politicians breaking to the fore and the classic conservative-liberal-social democratic model of political consensus weakening, Orbán may well reap the benefits of being an early adopter of the new model, and rather than being isolated he might be viewed as a prophetic opinion leader.

As Europe continues to teeter between economic crisis and recovery, it is not clear whether Orbán’s essentially sceptical view of the world will prevail or the traditional forces of European politics will be able to tackle what may be loosely termed the illiberal challenge, thus re-legitimising Orbán back to the pariah position in which he was before the refugee crisis. In truth, the answer may be somewhere in between, and may stay so for a while.

For most of 2016, the pendulum was swinging in Orbán’s direction, but in 2017 it shifted back somewhat. Orbán’s opponents in Europe should be a long way from sighing a collective breath of relief, but it is indisputable that two powerful major developments now militate against the view that Orbán’s brand of politics is bound to prevail.

A prayer for Angela?

The most potent signal of the depth of the change in Orbán’s situation was his remark that “we must say a silent prayer for Angela Merkel’s [election] victory. Indeed, the service of one’s nation sometimes requires a personal sacrifice.” This very grudging endorsement was a major concession from Orbán, whose party has aggressively lambasted the German chancellor and her government for their refugee policies and their alleged embrace of multi-culturalism. Even as he continued to attack “Germany’s falsification of history whereby they want to place the blame for the entry of migrants in 2015 on Hungary’s shoulders”, the Hungarian prime minister noted that he prefers the lesser of “two evils” in the German election. The best-case scenario for Orbán was that Angela Merkel,
who was often portrayed as a failed politician in the Hungarian rightwing press, would be re-elected.

Merkel has proved herself to be a master tactician who has outstandingly managed many of her most fervent critics, and appears to have weathered the decline in public confidence she suffered in the wake of the refugee crisis – when many practically buried her political prospects – as well as the brief but massive surge in the popularity of her challenger, Martin Schulz, after he announced his candidacy. Importantly, however, part of her success owes to her ability to keep Germany’s largest party united. Her method is very different from Orbán’s, she builds bridges. This sense of pragmatic restraint has also characterised her relationship with Orbán, whose party spent a considerable amount of time and energy on demonising the German chancellor. Thus there is a good chance that Angela Merkel manages to form a government, bilateral relations between Germany and Hungary will remain largely unchanged. That’s the best Orbán can hope for at the moment.

Orbán is not best friends with Merkel but he has found another way to wield influence in Germany – by cultivating ties with regional leaders. In 2017, Orbán and other Hungarian government officials met with leaders from the German states of Saxony, Saxony-Anhalt, Bavaria, Hessene and Baden-Württemberg. Orbán’s Fidesz also has some sympathies for the AfD in Germany, which is more in line with the Hungarian government’s migration policies. The Fidesz-controlled public media and several pro-government commentators openly rooted for the populist radical right party at the German elections.

France has resisted the urge to give the far-right a shot

More ominously for Orbán, his hopes of a far-right takeover in France were also dashed when Marine Le Pen lost decisively to Emmanuel Macron in the second round of the presidential election. Given the strong odds of a Le Pen defeat this was likely priced in already for Orbán, but the bigger loss in this respect is Macron’s resounding mandate in the National Assembly election. Le Pen might have been likely to lose, but the opponents of mainstream politics, Orbán included, had probably hoped that the new president would be hobbled by a deeply divided and fragmented parliament with a strong far-right presence. Instead, Macron started out with a strong electoral mandate, an outsized majority in the legislature and a very stable government.

More importantly for Orbán, already during the campaign Macron had expressed a strong commitment towards strengthening the European Union and had voiced his reservations about the eastern European attitude towards the EU. He continued in the same vein after his election, noting his disapproval of the “supermarket” attitude towards the European Union that prevails in Central Europe. Orbán immediately hit back, saying that this is “not the best entrée for a new president – lashing out at those with whom you want to engage in dialogue.” Ironically, the forceful proponent of straight talk and professed opponent of political correctness also bemoaned Macron’s allegedly harsh tone, arguing that “this is not the way we speak to one another at a European Council.”

In any case, it looks now as if the Franco-German alliance that has always served as the engine of European integration is robust. With the departure of the UK, moreover, Orbán is losing two key assets: a member state that is also wary of further policy integration and a net contributor to the EU budget which fuels the enrichment of the Fidesz oligarchy and has kept the economy on a relatively solid footing.

Putting the screws on?

At the same time, there is increasing pressure at the centre of the EU to put an end to the eastern European challenge to European values. The idea that eastern European member states should be held financially accountable for their failure to accept refugees or for undermining democracy and the rule of law has now been entertained or even endorsed by a variety of actors, including a German government study on the next EU budget, and the EU’s budget commissioner Günther Oettinger (also a CDU politician like Angela Merkel). The leader of the Italian left, Mattato Renzi, had already endorsed the idea when he was prime minister, and he continues to remain influential as the chairman of the largest party supporting the government. The President of the European Commission, Jean-Claude Juncker, rejects the idea thus far for fear that it would divide Europe

But the debate is gaining ground and its endorsement by high profile players is a shot against the bow for the Orbán government. It indicates that sooner or later Orbán might run into hard resistance against his effort to “consolidate” Hungarian democracy in line with his liberal vision. The debate is also linked to the further integration of EU member states, which might lead to a multi-speed EU integration process. Hungary might easily find itself in the periphery of the European Union, which could also cause some problems within the V4, since Slovakia clearly wants to belong to core Europe. The CEE issue has apparently awakened a number of influential players across Europe to the reality that Orbán’s is often not open to reason and will yield only to compulsion. The idea of making funding contingent on respect for democracy may not come to fruition for a while or even ever, but it is reasonable to assume that Orbán’s actions in the coming years could help propel it forward.

Still promising signs left for Orbán

Nevertheless, it is still too early to speak of the tide turning against Orbán. While the Dutch and French elections led to relief among pro-Europeans, and the German vote in September reinforced this sentiment, nonetheless the Hungarian government is always an election or two away from a major crisis. The right-wing in Austria is strong, and unlike in Germany, in Austria the parties that succeeded at the elections held in October are distinguished only by the degree of their love for Viktor Orbán, which ranges from strong (conservative leader Sebastian Kurz) to fawning (far-right leader Heinz-Christian Strache). There will also be elections in Italy in 2018, and there, too, a shift towards populism and Euroscepticism is conceivable. An economic disaster in Europe – which would be a mixed blessing for Orbán but would definitely strengthen populists and distract attention from his abuses of the democratic system – also always looms around the corner, with Italian banks teetering on the brink of the abyss and public finances in Greece and Italy, for example, endangering the Euro.

Most importantly, however, Orbán was not only praying for a Merkel victory, but for once also for the European Union to take decisive action against him – especially if it’s on the refugee issue. It is difficult to overstate the extent to which Fidesz’s popularity hinges on the refugee issue. Fidesz has been relentlessly pushing the notion that the EU wants to flood Hungary with migrants, and in fact the governing party’s entire anti-EU campaign centres on the migration issue. Without it, there is no strong case against the EU.

The EU has a variety of issues to choose from if it wants to put pressure on Fidesz to conform to European rules. But the most often mentioned issues in the context of imposing financial sanctions, for example, are the rule of law/democracy and the refugee quota. In December, the European Commission stepped up pressure on the government of Viktor Orbán over migrant quotas, NGOs and a university associated with US billionaire George Soros. The EU executive said it was taking Hungary, plus the Czech Republic and Poland, to court over their defiance to comply with an EU decision in 2015 to relocate refugees based on a quota. In addition, the European Commission is also taking Hungary to court over amendments to its higher education law that targets the notion that the EU wants to flood Hungary with migrants, and in fact the governing party’s entire anti-EU campaign centres on the migration issue. Without it, there is no strong case against the EU.

The CEU issue has apparently awakened a number of influential players across Europe to the reality that Orbán’s is often not open to reason and will yield only to compulsion. The idea of making funding contingent on respect for democracy may not come to fruition for a while or even ever, but it is reasonable to assume that Orbán’s actions in the coming years could help propel it forward.
3.2 Hungary in the Russo-American matrix

With its coziness towards Russia and Russian president Vladimir Putin, a few years ago Fidesz had maneuvered Hungary into near-inclusion in the EU and NATO. Like many of Orbán’s daring acts, this one, too, seemed a risk too far. It was widely speculated that the PM was stretching the forbearance of Hungary’s western allies to the breaking point, risking the country’s western integration and, at the extreme, even its EU membership, which the government professes to be committed to despite its intense and unceasing rhetorical assaults on “Brussels.” As the tensions with Russia increased, many analyses – including us – felt that the position of being Putin’s best friend in the West would become irreconcilable with a commitment to EU and NATO. But then came Donald Trump, and suddenly Orbán hit the jackpot again (just as he had on the refugee issue). His risky, Putin-friendly policy suddenly appears prescient.

Exuberant optimism...

Orbán was downright triumphant when Trump was elected, even casting the businessman’s victory as an act that leads to “Hungary regaining its independence.” This was an implicit indication of how pressured the Fidesz government felt by the previous US administration. Even though the Hungarian public overall was less enthusiastic, international surveys showed that it was among the least sceptical towards Trump in Europe.

More recently, a survey of 12 countries revealed that there has been a huge surge in positive sentiments towards the American President in Hungary, while the figures were not broken down by party affiliation, we would hazard the guess that most of the movement occurred on the right. In fact, of the publics surveyed, Hungarians had the most positive assessment of Trump on almost all of the several questions asked by the pollsters – including the Americans, who after all elected Trump. Most importantly, Hungarians had the highest hopes for improved relations between their country and the US, which did not seem like an irrational perspective in light of Orbán’s quasi-endorsement of Trump.

A disappointment?

However, vox pops for Orbán, his early backing of Trump and his subsequent exuberance about his victory have failed to translate into an effort by the American president to reach out to the Hungarian PM. There has been no happy handholding, there has been no tone of effort by the American president to reach out to the Hungarian PM. There has been no happy handholding, there has been no tone of some of Orbán’s key points of conflict between the Hungarian government and the EU –, and while the Fidesz model of creeping authoritarianism probably appeals to many politicians in the region, most of them will probably not risk alienating Germany, France and other important western players (and de facto donors) over the right to suppress the opposition.

Orbán keeps pushing the V4 issue, but there is no depth yet to the underlying relationships, it is purely a cooperation based on intersecting interests, most importantly on the refugee question. It is up to the EU to offer an alternative that will highlight the differences in the social, economic and political visions of the governments of the eastern European member states rather than hardening their joint rejection of the dominant EU paradigm.

In this respect, Emmanuel Macron’s admission that EU reforms are needed may be crucial. Criticisms of the EU are highly varied, and a comprehensive rejection of any reform effort will run the risk of uniting many of the various strands of criticism into an increasingly coherent front. For Orbán, the V4 is just a tool to advance his authoritarian domestic agenda, for the EU countries have become a part of its destiny. Helmut Kohl, a great friend of Viktor Orbán to the end, is supposed to have wept when the decision was made to admit the eastern European countries into the European Union. The EU made an admirable commitment to eastern Europe back then, and it would be a shame if it were to let Viktor Orbán and his friends tear the European Union that Kohl let into the European Union. The EU made an admirable commitment to eastern Europe back then, and it would be a shame if it were to let Viktor Orbán and his friends tear the European Union that Kohl came into existence. The EU made an admirable commitment to eastern Europe back then, and it would be a shame if it were to let Viktor Orbán and his friends tear the European Union that Kohl built with other great Europeans apart again.

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The Fidesz government was probably stirred to action by the unequivocal condemnations that the State Department issued on the laws that affect the Central European University (CEU) and NGOs adopted in April and June, respectively. Fidesz probably expected that these would be tacitly endorsed by the Trump Administration. Instead, the State Department statements stood up for both CEU and the civic organisations, as the fact that George Soros, the founder of CEU and a supporter of many NGOs targeted by the Fidesz government, is considered an arch-enemy of the Republican Party in the US, too. It became clear that, if US interests are concerned (like in the case of CEU), these interests would be defended.

With respect to CEU, the statement spoke of concerns and – correctly – identified the legislation as essentially a potential instrument of official harassment that creates “new, targeted, and onerous regulatory requirements on foreign universities.” With respect to NGOs, the language was even clearer, arguing that the “legislation […] unfairly targets and burdens Hungarian civil society, which is working to fight corruption and protect civil liberties. By portraying groups supported with foreign funding as acting against the interests of Hungarian society, this legislation would weaken the ability of Hungarians to organize and address concerns in a legitimate and democratic manner.”

No trickle-down goodwill

So if Trump is so friendly to authoritarian everywhere, why is Orbán the exception? We can only speculate, but it seems the most likely that this stems from two factors. For one, the US administration still seems divided between Trump partisans and what its detractors refer to as the Deep State – that is the existing bureaucracy which is sceptical of Trump and wishes to serve as a counterweight to the unpredictable president and his nativist sympathisers. Second, Hungary is likely not large enough and Orbán is not important enough to get the “authoritarian VP” treatment that has been extended to Erdogan, Putin and Díaz-Álvarez, for example. As for the first, the question remains how long the State Department can continue its independent course. Still, for those who are critical of the government this is good news insofar as the impact of Trump’s own preferences are not yet being felt. At the same time, however, they cannot realistically hope that the State Department’s statements will be endorsed by leading players in government; the times when President Obama criticised Orbán’s assault on civil society in person on television are gone for now.

For Orbán, the hope must clearly be that sooner or later the Trump administration’s general political line will prevail at the State Department as well. In the meanwhile, Trump’s actual or presumed goodwill towards Orbán has not resulted in the silencing of American diplomacy with respect to the Hungarian government’s abuses in the realms of democracy and civil rights. As for those who relish the idea of the US continuing to serve as a check on Hungary’s place in the world in 2017, it was clear at this point that US diplomacy was not at peace with Fidesz’s offensive against these forces in civil society that the governing party regards as critical. The American Embassy in Budapest also continued in the same vein as previously, when it had frequently highlighted certain anti-democratic aspects of Fidesz’s policies.

David J. Kostelancík, the US Chargé d’Affaires, attacked the government’s extensive involvement and expansion in the media market, also pointing out the increasingly personal nature of attacks against government critics, including the publication of a list of “names of individual journalists [whom] they characterized as threats to Hungary.” This was followed by a grant scheme to build independent media in Hungary, which speaks volumes about the State Department’s perception of the state of media freedom in Hungary.

A firm relationship with Russia

As a result, despite the American embassy’s criticism of some of his policies, Orbán has never had as much reason to be relaxed in his friendship with Putin as he has now. Not only have reports about the Ukraine crisis subsided in international news, but the failure post-Yanukovych regime’s increased reliance on the far-right for political support, and its illiberal attitude towards minorities are making it less reliable in the West; by implication, this reduces the frustration felt over Russia’s violations of Ukrainian sovereignty.

Since the European Union has also greenlighted the Paks nuclear power plant expansion project, which will be executed by the Russian company Rosatom, the prime minister’s favourite Russian-Hungarian cooperation can also begin in earnest. In light of its humongous budget amounting to ca. 10% of Hungary’s GDP this in itself constitutes a major intensification of the bilateral ties, and it ought to further accelerate the already impressive speed at which taxpayer money lines the pockets of oligarchs.

Still, it is striking that most of the improved relations are centred on political ties. There are no major indications of growing cooperation among non-state economic actors, or with respect to social and cultural exchange. As of last year, the annual statistics released by Hungary’s Central Statistical Office still did not show Russia in the list of either the top 10 countries from which Hungary imports goods or services or in the top 10 list of countries it exports to (partly due to the EU sanctions, of course). Especially the former is striking in light of Hungary’s massive energy dependence – one wonders how much would remain of the rather limited economic ties without the imports of oil and gas from Russia. While oil and gas dependence are of course relevant to our understanding of the relationship between the two countries, in and of themselves they are nevertheless not an indication of the close economic integration one would expect based on Orbán’s strong commitment to the Russian leader.

Not completely off the hook yet

We have repeated this warning so often that the esteemed reader may be tired of hearing it, but here it goes again. Putin is a volatile partner and he may bring Orbán trouble yet. It is not necessarily that he will betray Orbán, that is an unlikely if not impossible scenario. But he is firmly committed to a vision of Russia’s role in the world that inevitably leads to the occasional conflicts and tensions with other key powers. Putin’s international adventures have also served him well in boosting his popularity despite the massive economic setbacks that Russia has recently experienced. On the plus side, Putin appears to be a rational gambler, but he is not exactly risk averse and there is always a chance that Orbán might become caught up in a misguided adventure. The Hungarian government is hard at work to weaken Hungarians’ self-identification as being part of the West while trying to reinforce their sense of similarity with the East. Nevertheless, the Hungarian public is not ready yet for a situation that necessitates an actual break with the main western bodies, to wit the EU and NATO. And even if it were, Hungary’s economic ties anchor it firmly in the West. As we noted, Russia is not among Hungary’s top 10 trading partners, and among the countries that are, all but China are western states.

Another source of risk is that the investigations into Trump’s Russia connection turn into a major political crisis, an event with a small but realistic likelihood, including the possibility that tensions with Russia will intensify again. This would once again put Hungary back in the squeeze that Trump’s election had liberated him from. Fortunately for Orbán, he is a gambler too, and thus far an extremely successful one. The stakes of his investment in the Russian game are high, and he is unlikely to get up and leave this much money on the table. And who knows, Orbán may just be the gambler whose luck never runs out.
Hungary’s position in the context of European politics will depend on two major factors. First, the political impact of the refugee crisis will be a vital component in the way Orbán is viewed in the international arena. The proponents of a migration policy primarily dominated by humanitarian considerations are on the defensive politically, while those advocating a hard line towards refugees, most prominently Viktor Orbán, represent a strong and growing segment in the EU. Should actual refugee pressure or a push by more liberal member states for a more relaxed refugee admission policy or a stricter enforcement of the quota regime result in making the refugee issue the central item on the political agenda, hardliners like Orbán will likely benefit. They will relentlessly harp on this issue, which has emerged as Fidesz’s central appeal to Hungarian voters. Whether this is often discussed in the framework of the obvious East-West divide in the EU, anti-refugee sentiments are growing elsewhere, too, and the most recent Austrian elections (presidential and parliamentary alike), the French election (a record result for a far-right presidential candidate), and Brexit all point to the toxic potency of this issue. Orbán has ridden the refugee issue to unprecedented success in public opinion polls at home, and he has also gained previously unimaginable international stature as a presumably successful model of handling the refugee issue. The trajectory of these developments seems most favourable for Orbán’s goal of establishing himself as a relevant player at the European level.

One major question for 2018 is whether Orbán will use a potential election victory to curtail democracy further, leaning on voters’ affirmation of his policies as legitimization for efforts at suppressing dissent. While the prime minister relishes his unpredictability, any but a continuation of the policy aimed at establishing Fidesz’s political hegemony would be a surprise. If so, that will trigger further conflicts with an EU which shows increasing signs of irritation. But the stakes are high on both sides – Hungary is no longer alone in questioning Brussels’ influence, and as much as an authoritarian turn in Hungary concerns EU officials, they need to tread carefully if they want to avoid reinforcing the East-West divide. Any significant effort to rein in Fidesz in Hungary or PiS in Poland would likely have that impact.

As far as relations with the US and Russia are concerned, assuming that Trump stays in office, Orbán can continue his delicate balancing act between the two great powers, leaning on Putin’s support and Trump’s lack of interest in the region. Among the many fortunate factors for Orbán, Ukraine’s chaotic and volatile government is increasingly losing its pre-emptive goodwill in the West. Hungary is now more free to position itself against Ukraine, even if the West clearly sided with the latter country in its conflict with Russia. Moreover, the language law in Ukraine, designed to appeal to domestic nationalists and to hurt minorities, gave Orbán the excuse to speak out decisively against the illiberal winds blowing in the neighbouring country.

It is undeniable that due to a broadly favourable international environment Orbán is much better positioned in terms of foreign policy than he was 2-3 years ago. Hungary’s isolation within the EU and in the wider western alliance has given way to a loose alliance with similarly minded central and eastern European countries, combined with a sympathetic shift in some western European countries – Austria is a notable example, with two of
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the three leading parties explicitly endorsing Orbán’s handling of the refugee crisis. Hungary’s strengthening relations with China must be mentioned as well. Orbán has been one of the champions of intensifying ties with China in the CEE region. He even hosted a two-day economic summit in Budapest between China and 16 central and eastern European countries in November. One of the flagship projects of the cooperation, the 350km high-speed rail line from Belgrade to Budapest (China is the main financier of the project) might take off the ground soon.

But Orbán’s muscular foreign policy also continuously (and quite deliberately, it seems) engenders new conflicts. Relationships with Germany have been fraught for a while now due to Orbán’s abovementioned refusal to participate in the EU’s refugee quota scheme. While Merkel will always be a pragmatist, it is unlikely that there will be improvements in this relationship, which is arguably the most vital for Hungary given our dependence on Germany as an economic partner. Relationships are also tense with Ukraine for the abovementioned reasons, and while the Orbán government is right on a key issue in this context (the language law), the fact is that Hungary has been pursuing a de facto pro-Russian foreign policy long before that, and has thereby willingly accepted the risk of deteriorating relations with its eastern neighbour. Hungary’s troubled relations with Ukraine and Germany are complemented with the Orbán government’s decision to block Croatia’s OECD aspirations over the issue of an anti-corruption investigation into the dealings of Orbán pal Zsolt Hernádi, CEO of the Hungarian energy giant MOL, and with traditional tensions with Romania over a variety of issues. Moreover, for unclear reasons Slovakia has recently began to subtly move away from the emerging anti-EU consensus of the V4, and has made clear that it cannot envision its future anywhere but as part of the EU; this is a counterpoint to Orbán’s highly sceptical endorsement of Hungary’s EU membership. Despite the fact that Hungarian foreign policy has broken out of the quarantine it was previously confined to, the simultaneous tensions with several neighbours indicate that Orbán’s pretension to lead an eastern alliance in the EU can easily run into the limits of his own confrontationalism.

The foreign policy environment in Europe and the larger world is highly volatile, in no small part due to the fact that leaders like Orbán are in ascendance, and in response more mainstream politicians, too, are reorienting their foreign policies along a more assertive line. Orbán is probably under no illusions that a Europe full of Orbán clones would serve Hungary’s long-term foreign policy interests, but if he is, such hopes should be abandoned quickly.
The Hungarian economy entered a period of sustained growth in 2017. The continuous inflow of EU development funds was a major factor, along with a pre-election consumption surge. Major policy initiatives continued to serve the creation of a Hungarian model of capitalism, simultaneously rooted in a preference for self-sufficiency and a global (mostly Eastern) orientation. While macroeconomic stability was sustained, regional development disparities, a high level of economic inequality, as well as systemic corruption remained the hallmarks of the Hungarian economy.

Accelerating growth, fuelled by EU funds

GDP growth in 2017 reached its highest year-on-year level in four years according to estimates by the European Commission (see Table 1). The 3.7% growth rate signalled a marked reversal from a downward trend that had started in 2014 and which saw GDP growth slow by around 1% point per year. Despite this generally favourable growth climate it is important to note that Hungary lagged not only behind regional leader Romania, but Poland and the Czech Republic as well.
Table 1. Key indicators of the Hungarian economy, 2016-2019

<table>
<thead>
<tr>
<th>Indicators</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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<tr>
<td>GDP growth (% yoy)</td>
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<td>3.7</td>
<td>3.6</td>
<td>3.1</td>
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<tr>
<td>Inflation (% yoy)</td>
<td>0.4</td>
<td>2.3</td>
<td>2.6</td>
<td>3.0</td>
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<tr>
<td>Unemployment (%)</td>
<td>5.1</td>
<td>4.2</td>
<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>Public budget balance (% of GDP)</td>
<td>-1.8</td>
<td>-2.1</td>
<td>-2.6</td>
<td>-2.3</td>
</tr>
<tr>
<td>Gross public debt (% of GDP)</td>
<td>73.9</td>
<td>72.6</td>
<td>71.5</td>
<td>69.4</td>
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<tr>
<td>Current account balance (% of GDP)</td>
<td>6.1</td>
<td>4.3</td>
<td>3.3</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Source: European Commission

The Hungarian economy in 2017

A sectoral breakdown shows construction as a main driving force with trade and industrial production also registering above average growth rates. These sectoral trends are also indicative of the primary drivers of growth in 2017. At least four major causes are responsible for this reversal of fortunes: the inflow of EU transfers, a healthier global economy, pre-election fiscal loosening, and – partly as a consequence of these factors – rebounding investment.

The single most important driver of Hungarian growth in 2017, and for many years before that, was the inflow of EU funds. From this perspective, 2016 was a transitional year. It was the last year of the previous programming period in terms of accounting rules. Furthermore, due to a dispute between the EU Commission and the Hungarian government with regards to the independence of operational programmes, Hungary was unable to draw down EU transfers during most of the year. This debate had been finally resolved in December 2016 and funds duly arrived by the end of the year. This allowed for EU funded projects to restart from early 2017 and, as a result, GDP growth was back on track throughout the year. Nevertheless, the issue highlighted a particular vulnerability of the Hungarian economy: its over-reliance on EU transfers. In fact, over 60 per cent of all domestic investment was directly financed by funds coming from Brussels and the 57 per cent yearly average for the 2007-2013 budget cycle put Hungary on top of the list of EU funding as a share of total investment. Without European development funds in this period Hungary would have slipped into an enduring recession and back in the excessive deficit procedure.

Besides EU transfers the Hungarian recovery was also spurred on by a healthier global and European economy. A study by the European Bank of Reconstruction and Development showed that growth picked up in 27 out of 36 European countries in its sample. This general upswing had a significant impact on small, globalized countries, such as Hungary, with a high export-import activity as a share of GDP. Since Hungary is closely integrated into the German industrial supply chain, it has also benefited from the fastest expansion of Europe’s biggest economy since 2014.

Accelerating growth came hand in hand with an uptick in private consumption. Domestic demand expanded by 4.6 per cent, continuing an upward trend that had started in 2014. This surge in private spending was underpinned by rising wages and employment. Investment, up 15% from the previous year, also proved to be a strong factor in driving growth, even if it was mostly a correction of the 10% slump of 2016 that occurred in the wake of the temporary suspension of EU transfers. Recovery was also helped by a drastic cut in the corporate tax rate for large corporations from 19% to 9% from 2017, which made Hungarian rates the lowest in all of the EU. Large construction projects proved to be a key in this upswing with investment in social capital lagging behind.

The downside of the amelioration of headline numbers was growing regional disparities and corruption as well as a stagnant position in international competitiveness rankings. On the least competitiveness rankings the Institute for Management Development (IMD) showed an improvement from 52nd out of 63 countries it posted the worst result of any country in the Central and Eastern European region. Hungary did somewhat better on the rankings of the World Economic Forum with its 60th position on a list of 137 countries. Nevertheless, its performance was only slightly improved over its score in 2016 (from 4.2 to 4.3) and it still did not manage to surpass its results from 2014. In sum, Hungary had a relatively good year from the perspective of economic growth, yet favourable results were of questionable sustainability (see more on this in the Outlook section).

The Hungarian economy in 2017

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Macroeconomic and fiscal stability

Despite its apparent populist tendencies, the government of Viktor Orbán adhered to the tenets of fiscal conservatism ever since it had come to power in 2010. In fact, it followed the rules of economic orthodoxy even if it had to resort to “unorthodox” measures that contradicted the instincts of economic liberalism. A prime example for this approach was the “nationalization” of contributions and most of the individual accounts of the “private” pillar of the pension system. Similarly, deficit reduction efforts were well served by “statist” measures, such as the introduction of sector-specific “surtaxes”, much to the horror of the domestic and international liberal economic elite.

This is not to say that the policy orientation of the Orbán government was progressive by any sense of the word. Fiscal rebalancing and multiple waves of cuts to corporate and income taxation were financed by a reduction of spending on public goods and by bleeding out social services. Orthodoxy remained, therefore, a mixture of austerity and neoliberal populism (see: flat tax) aimed at neutrating a domestic capitalist class as well as a new upper-middle class as its primary stronghold in society.

It is in this context of trade-offs between policy goals that the deficit reduction programme of successive Orbán cabinets is best evaluated. The year 2017 was conform to this overall tendency in fiscal policy, even as it showed some distinctive features. The public budget balance was 2.1 per cent of GDP a slight deterioration from the previous year. Nevertheless, it signalled an increasing trend, with projections pointing toward a more expansionary fiscal policy. While the balance was still firmly within the bounds set by the Maastricht criteria, the effects of the upcoming election year were already evident. Fiscal expansion presented itself in various forms from the pre-financing of EU-funded projects to pension supplements and a one-off payment for 2.75 million pensioners. Besides the hollowing out of social services, these expenditures were partly financed by a growing economy in the form of increased VAT, income tax and social security contribution revenues.

This short term reconciliation of fiscal conservatism and pre-election politicking has put the reduction of public debt, a former pet project of the Orbán government, on hold. The self-styled “war of financial independence” resulted not only in undershooting public debt reduction in the new Basic Law but also in an overall
decrease of over 6 percentage points of state obligations from its near-historic high in 2011. By 2017, this frantic speed and urgency all but vanished. The level of 72.6 per cent public debt as a share of GDP nevertheless signalled a continued commitment to this long-term strategy even as the overall debt burden remained well above those of its peers in the region.

One particular vulnerability, a high level of combined (public and private sector) external debt remained even as the exposure to currency shocks had been mitigated. Foreign currency denominated mortgages had been converted to Hungarian forint loans, a large-scale general private and public sector external deleveraging had taken place and the foreign account showed a decent surplus. These factors, and the generally conservative fiscal outlook of the government, proved to be convincing for the three major international credit-rating agencies to keep Hungarian state debt just above junk evaluation (i.e. on the lowest level of investment grade), in some cases with a positive outlook. Nevertheless, Hungary still lagged behind the other Visegrad countries, all of which maintained a sovereign credit rating in the upper-medium investment grade.

Besides these general trends in sovereign debt management two issues merit attention. First, in 2017 the EU approved an €12.5 billion deal for a Russian-backed nuclear power plant extension at the site of the Soviet-era Paks power station. In the wake of this decision the Hungarian government started drawing on the Russian loan for preliminary construction works. Second, a new, Chinese-funded major railway project connecting Budapest and Belgrade was also approved. Although the price–tag for the Hungarian stretch, calculated to be €2.1 billion, was similarly steep, in this case credit lines were not expected to be available before the second half of 2018. These construction projects signal a new era of external financing for Hungarian firms, a large-scale general private and public sector external debt remained even as the exposure to currency shocks had been mitigated. Foreign currency denominated mortgages had been converted to Hungarian forint loans, a large-scale general private and public sector external deleveraging had taken place and the foreign account showed a decent surplus. These factors, and the generally conservative fiscal outlook of the government, proved to be convincing for the three major international credit-rating agencies to keep Hungarian state debt just above junk evaluation (i.e. on the lowest level of investment grade), in some cases with a positive outlook. Nevertheless, Hungary still lagged behind the other Visegrad countries, all of which maintained a sovereign credit rating in the upper-medium investment grade.

Monetary policy and financial regulation

With the Great financial crisis of 2008 the issue of macro-financial stability came to the forefront of economic policy debates, side-lining the previous dominant issue of price stability. This paradigm shift coincided with low consumer price inflation and low interest rates in major advanced economies. In Hungary, a similar sea-change in monetary policy was ushered in with the appointment of György Matolcsy, a previous minister for the economy and a right-hand man of prime minister Orbán, as governor of the Hungarian National Bank in 2013.

In his fourth year in office, Matolcsy continued with his expansive monetary policy even as the domestic economy showed the first signs of a return to normality. After more than two years spent on the verge of deflationary territory the headline consumer price inflation index climbed to 2.3 per cent (close to a level which is widely considered to be associated with a “healthy” economy and the actual target of MNB which is set at 3%). Interestingly, notwithstanding the uptick in both actual inflation figures and expectations, the base rate of the National Bank was held at 0.9 per cent (its level since May 2016). The mismatch between inflationary processes and his favoured loose monetary policy may create serious problems starting in 2018 which might, eventually, force Matolcsy to change course.

As its push towards a higher share of domestic ownership in the banking sector had largely been achieved by the previous year, in 2017 the National Bank focused on financial regulation and supervision. It issued fines related to a wide-variety of charges for both major and minor financial institutions. Furthermore, in 2017 all major banks and savings cooperatives in Hungary started offering the National Bank-approved “consumer-friendly” home loan products.

Despite the positive impact of monetary policy and financial regulation on the economy, MNB-related headlines also continued to feature controversial stories. The most important of these concerned the seemingly private use of public money originating from the foreign exchange profits of the National Bank. Any earnings from MNB activities had traditionally been transferred to the state budget. In the Matolcsy era these funds were used to finance property investments, educational purposes or other investments that ventured beyond the traditional purview of central banking. In some instances, which concerned the indirect financing of the business ventures of Matolcsy’s son as well as those of his cousin, the charges of nepotism and cronyism seemed well-funded and cast a shadow on the track record of the Matolcsy-led central bank.
The social reality of 2017 Hungary is a mixed bag of improving conditions and persisting problems. Positive trends continued on the labour market with a steep fall of unemployment compared to the preceding years. A decade of real wage loss was finally, if only partly, compensated for some employees with the onset of a wage agreement between social partners. Nevertheless, negative demographic trends, a collapsing health system, and rampant poverty in multiple regions were also part of the social landscape.

Labour market and wages

The Janus-faced nature of Viktor Orbán’s Hungary was nowhere more apparent than in the case of the labour market. One part of the country played its semi-peripheral role in the global division of labour and experienced a renewed vitality after the Great financial crisis. The other part, comprising of the vast majority of the population, struggled to get by in dire circumstances with limited access to quality health care or education. It is in this context of a deeply divided country that the recent progress in labour market conditions have to be analysed.

The abovementioned uptick in economic activity, as well as long overdue wage increases, diminished the reserve force of the working age population. In 2017, the unemployment rate fell from 5.1 per cent to 4.2 per cent, a historic low. This figure also fared well in comparison with both the EU average and the Central Eastern European region (although the Czech Republic boasted of a corresponding figure of 2.7 per cent). For a number of years the positive unemployment trends more or less masked the grim reality of an extended public works programme which mostly provided poorly paid jobs for unskilled workers. Similarly, the domestic workforce shrank considerably as a generation of entrepreneurial youth tried its luck abroad. The improving unemployment rate of 2017 is finally closer to a realistic assessment of facts on the ground with the public works programme finally winding down and the outflow of workers stabilizing (we return to this issue below).

While the labour force participation rate, which hovered around 62 per cent in 2017, saw a similar rebound, it still remained fairly moderate in international comparison. Here, the diminished base population (due to economic migration) also has to be taken into consideration. Wage-related developments in the Hungarian economy were by and large a product of the six-year wage agreement concluded in 2016. The minimum wage and the guaranteed minimum wage increased by 15 per cent and 25 per cent, respectively. These wide-ranging measures affected at least a third of those employed on a work contract. According to OECD estimates, private-sector wages were raised by around 12 per cent by mid-2017.

With the labour market becoming increasingly tight the strains of the Hungarian model of low wages and low productivity jobs already showed. The long-term prospects of the Hungarian economy and the sustainability of the improvements in 2017 very much depend on its adaptability in the face of a radically changing global economy. First, the current level of net EU transfers are far from guaranteed for the period beyond 2020. Second, the Hungarian economy is very much dependent on the economic health of Germany and some other major trading partners. Third, the relative wage advantage vis-à-vis other countries which eye foreign direct investment has suffered with recent wage increases. Finally, technological change
economy that most suffer from the lack of skilled labour. Official estimates of vacancies in the economy received an upward revision of at least 10,000 in 2017. This figure of 65,700 (including job ads posted by public sector employers), however, is considered to be too low. Expert estimations point towards the range of 100,000 to 200,000 as a more realistic description of unfilled labour demand.

One particular area of concern is construction where the pre-crisis level of employment seems simply unattainable despite a boom in related investment projects. As a result of increased demand and the state-sanctioned increase in the minimum wage, the wages of the majority of employees are expected to grow. However, this will not mitigate the shortage of labour as the insufficient retraining schemes prevent the labour force from growing in a structure that fits the needs of the economy. These trends clearly show the failure of extant retraining schemes.

Health care, education, poverty

The investment in human capital remained a secondary concern for the Orbán government in 2017. Most public funds went to brick and mortar projects, while the share of health care and other crucial areas of social protection (excluding pensions) continued their gradual decline in total government spending. According to the latest data by Eurostat, health care spending, as a percentage of GDP, was at 5.3 per cent, significantly below the EU average of 7.2 per cent. Similarly, Hungary lagged behind the EU average in the share of social protection spending (11.5 per cent vs. 19.2 per cent).

As for development funds, a considerable amount of EU transfers were consecrated to these areas, and with their 76.8 per cent share in total health care investments it is safe to say that domestic investment in these vital sectors all but ceased.

The near permanent crisis in Hungarian health care was finally highlighted by a near incessant flow of press reports of the imminent collapse of health services. The decay of the physical infrastructure reached tragic heights with ceilings crumbling, patients clearing bathrooms and dead bodies found on hospital premises on multiple occasions. Hungary retained the highest cancer fatality rate in the EU and its divergence from the European average was reinforced in the most crucial causes of death. The government review came to the conclusion that with better diagnostics and treatment 26% of all fatalities (afflicting 32,000 patients) could have been avoided in 2014 alone.

Regional disparities also undermined the right for equal access to social services. Life-expectancy, as well as waiting lists drastically differed in the affluent central region of Hungary vis-à-vis less developed parts. Furthermore, the Roma minority was two-times more likely to lack necessary treatment than the rest of the population. These worrying signs are not unrelated to the abovementioned shortage of skilled labour. It is indicative of the situation that more than 5,000 pension-aged physicians and nurses were granted exemptions from the “work or retirement” decree introduced in 2013. Even as nearly all pension-eligible physicians continued to work health care posts remained chronically understaffed. The Hungarian Medical Association reported that hospital emergency wards needed an estimated 600 qualified doctors, while fewer than 140 were on actual duty. With higher education in health care expanding, this clearly was a consequence of the introduction of the teacher career model teacher’s pay reached the OECD average by 2017.

Poverty figures remained dismal, especially with regards to specific disadvantaged groups such as families with three or more children and single mothers. According to the latest data published by Eurostat, 14.5 percent of Hungarians were at risk of income impoverishment, material deprivation impacted 16.2 percent and 8.2 percent was unable to hold a permanent job. Most relevant indicators put Hungary above the EU average in these categories.

Official state statistics produced even more alarming figures related to income inequality. Between 2010 and 2016 people in the lowest 10 per cent of the income distribution registered a net income gain of 11 per cent. The same figure for those in the highest bracket enjoyed a net gain of 31 per cent. Perhaps the most powerful argument against the economic and social policies of Viktor Orbán is that the revenue of those earning the least did not surpass the inflation rate in the given period. This resulted in stagnating real income for those who needed income growth the most. The perverse redistribution system of the Orbán regime is a major factor in exacerbating these differences. Around 200 to 300 thousand people received no government transfer whatsoever while the well-off enjoyed subsidies of an unprecedented amount in the form of tax cuts and other benefits such as the discontinuation of limits on old age pension disbursements.
Major international organizations – including the European Commission, OECD and EBRD – project the increased growth rate of 2017 to continue into 2018, before softening somewhat in 2019. Investment and domestic consumption are both expected to remain high on the new wave of EU structural funds and wage increases. Confidence surveys of private sector institutions also indicate a positive climate going forward. In light of these trends, a 3.4-3.6 per cent GDP growth is within reach in 2018 despite a projected downward turn in cost competitiveness.

The role of EU funds remains a key factor of sustained growth. The government is committed to a nose-heavy absorption process, with most funds of the 2014–2020 period allocated by 2018. One of the major threats to this relatively rosy scenario concerns the persistently strained EU-Hungary relationship. Hungary had mostly weathered a growing number of infringement procedures until, in December 2017, the EU Commission decided to move forward the infringement procedure concerning Hungarian asylum legislation. With the so-called nuclear option (“Article 7” procedure) already initiated against Poland with regards to its judicial reform plans, there is cause for concern when it comes to the uninterrupted flow of EU transfers to Hungary in 2018 and beyond.

Even more so than the economy at large, labour market processes in 2018 will show signs of overheating. The unemployment rate is expected to hold steady at around 4 per cent for the foreseeable future. In this context, the macroeconomic notion of a full-employment economy would be an accurate description of the Hungarian labour market except for some imbalances. On the one hand, the shortages of skilled workers and the six-year wage agreement will result in double-digit wage growth in 2018. On the other hand, labour market activity will only rise moderately and will stay below the EU average. With the public works programme winding down and no major re-training initiatives in sight, the status of low-skilled labour force participants remains critical.

Fiscal policy is expected to follow its stable course. Most projections agree that – despite the electoral business cycle – the headline budget deficit figure will remain well inside the 3% threshold (at around 2.6 per cent of GDP). An expansionary fiscal policy will feature a reduction in employers’ social security contributions, the VAT (for selected items) and business taxes. Despite this loosening of fiscal policy strong nominal GDP growth pulls down the ratio of sovereign debt as a share of economic output. Therefore, public debt is expected to carry on its declining trajectory with a projected 71.5 per cent of GDP in 2018 and a value below 70 per cent by 2019. Strong growth will result in an increase of imports vis-à-vis exports, which points toward a diminishing trend in the current account surplus (the headline figure is expected to drop to 3.3 per cent of GDP in 2018 from a base of 4.3 per cent).

The inflationary trend that started in 2017 will continue into 2018: the headline consumer price index will climb to around 2.4 per cent over the previous year. Price increases are also expected to continue beyond 2018 and reach 3 per cent by 2019 (the target value for National Bank decision-makers). Provided these projections are valid, this trend will result in the first real test of Matolcsy as central bank chief. His favoured loose monetary policy will be in direct conflict with his preference for domestically-financed investments as consistently negative real interest rates
The Hungarian economy in 2017

set in. The estimated increases in the policy rates of the Federal Reserve and the European Central Bank will also diminish the room for manoeuvre for Hungarian monetary policy.

All in all, the extended honeymoon period for the post-2014 Fidesz economic policy, which benefitted from highly advantageous external processes, may be over in 2018 as inflation pressures increase. At the end of the day the expansionary turn of Hungarian monetary policy may come to a close as the base rate will have to be raised in order to accommodate a changing environment. Furthermore, this will complicate efforts aimed at the reduction of the still large stock of non-performing household loans as the cost of borrowing will rise.

The Hungarian society in 2017
Analysts and political commentators often try to interpret the Hungarian media landscape within the traditional framework of free versus unfree media systems or, alternatively, in terms of the authoritarian/dictatorial versus democratic/pluralistic dichotomy. This framework is difficult to apply in Hungary, especially so since even in the darkest eras of communism the media system was never entirely monochromatic, and even under significant state pressure resistance – or conformance, for that matter – was nuanced and subtly differentiated. Correspondingly, defenders of the Fidesz government’s media policies point to a superficially diverse media landscape to argue either that the government has not done much to disturb pluralism in the Hungarian media or that it has not been effective in its activities to this end.

Yet even an acknowledgment of the obvious fact that at some level the Hungarian media remains diverse and pluralistic does not negate the fact that Fidesz’s efforts at massively shifting the political balance in the media towards the governing party have borne fruit. Two further aspects make this process even more disconcerting.

First, there appears to be no end in sight to this process. Initially, the argument advanced by those who defend the government’s media policies was that all Fidesz was trying to do was to remedy the imbalance in favour of the left that resulted from the legacy of forty years of state socialism. But in light of the governing party’s dominance in certain sectors of the media – which we will discuss in more detail below – this argument no longer holds any water. While it is impossible to ascertain when the government will find that it has done enough to dominate the media sector – and whether it will stop short of a near monopoly – the fact is that it has gone far further than many expected in this regard, and the trend of the last year does not
Fidesz's near total takeover of the regional newspaper market, The biggest among many major media developments in 2017 was the radios Class FM and Lánchíd) (Válasz (which had been somewhat independent to begin with), and Hír TV, the dailies Magyar Nemzet and Metropol, the weekly Heti over Simicska’s influential outlets (especially the news channel media and the creation of new outlets after losing editorial control support. Fidesz has had to accelerate the acquisition of existing media that tilts heavily towards de facto publicly-funded pro-Fidesz media. In the worst case scenario, most of the opposition media will disappear, wilting under financial and official pressure. Fidesz media. In the worst case scenario, most of them are even more widely read than the largest tabloid Blikk.

While the endpoint of the government’s plans is not discernible at this time, what is apparent is that in 2017 Fidesz’s media policy continued along the same path that the governing party has been pursuing ever since 2010; and which it has adjusted and intensified in 2014/2015, following the prime minister’s decision to wear Fidesz off its dependence on Lajos Simicska’s business empire for media support. Fidesz has had to accelerate the acquisition of existing media and the creation of new outlets after losing editorial control over Simicska’s influential outlets (especially the news channel Hír TV, the dailies Magyar Nemzet and Metropol, the weekly Heti Válasz (which had been somewhat independent to begin with), and the radios Class FM and Lánchíd).

Fidesz goes local

The biggest among many major media developments in 2017 was Fidesz’s near total takeover of the regional newspaper market, maybe the last major media segment in Hungary where it had wielded little influence until now. Regional newspapers with their mostly locally relevant news and generally low circulation seemed like a small prize compared to the nationally-known media outlets. But apart from the fact that there are increasingly no more pre-existing targets left to take over, there is more these small newspapers than meets the eye. First of all, while some have tiny circulation figures of 5,000, several sell copies in the range of 20-40,000, which may be small numbers, but in the depopulated Hungarian newspaper market they are on par with a circulation figures of even the largest remaining broadsheets. In fact, proportional to their coverage area, most of them are even more widely read than the largest tabloid Blikk.

Mediaworks, the media company that Lőrinc Mészáros took over in 2016, initially, Orbán’s most important oligarch had denied being involved in the deal that led to the shuttering of Hungary’s largest broadsheet, the opposition newspaper Népszabadság), now controls 13 of the country’s 19 regional newspapers. The Mészáros team took no time with consolidating immediate editorial control over its new media outlets, firing many of the editorial staff and imposing strict content reviews, along with a uniform online presence for its outlets.

An assist from Andy Vajna

In the meanwhile, Andy Vajna, the second most important oligarch had denied being involved in the deal that led to the shuttering of Hungary’s largest broadsheet, the opposition newspaper Népszabadság), now controls 13 of the country’s 19 regional newspapers. The Mészáros team took no time with consolidating immediate editorial control over its new media outlets, firing many of the editorial staff and imposing strict content reviews, along with a uniform online presence for its outlets.

Vajna also snapped up Hungary’s second largest tabloid, Ibor, which not only added to his huge media portfolio but also renders Fidesz’s control over the print media market – and most of the media overall – astonishingly overwhelming.

For the opposition, it’s radio silence

In 2017, Andy Vajna also emerged as the major beneficiary of the Media Authority’s decision to strip Simicska’s most important radio station, Class FM of its frequency. For now, the frequency lies fallow as Class FM, which continues to operate as an internet radio, appeals the decision in court. In the meanwhile, however, Andy Vajna’s Rádió 1 continues to expand its coverage area, as do a number of smaller radios – especially religious stations – that the government considers politically loyal. Last year, Rádió 1 proudly announced that it would vastly expand its coverage area outside Budapest, to a series of major towns throughout the country, making it the main commercial station nationally.

It is also worth pointing out in this context that where Simicska’s outlets depend on discretionary decisions by public authorities, they have no chance: the government friend-turned-foe also lost the right to distribute his free daily newspaper, Metroplus – the highest circulation newspaper in the country at the time – in the Budapest subway system, and as a result the newspaper was shut down. Its place was taken by Lokál – a newspaper affiliated with Orbán’s unofficial advisor, Árpád Habony – which is now the daily with the highest circulation in Hungary.

Generously funded public media

Another key player in Fidesz’s media strategy are the public media, which are continuously expanding their offerings and are lavishly funded by the government. The umbrella holding that controls the funding of public media in Hungary, the Media Service Support and Asset Management Fund (MTVA) was allocated 80 billion forints in last year’s central budget, which was topped up with an additional 7 billion in May. With this budget, public media are major players in the Hungarian market, and thanks to an expanded portfolio of media outlets their audience share is steadily rising, from 16.5% in 2015 to 17.4% in 2016. Public media are also used as major outlets of government propaganda, and even seemingly innocuous thematic media outlets such as the sports channel find ways of communicating the government’s glory – if by no other means than by giving substantial room to the government’s media campaigns in their advertising space.

Two less conspicuous but nevertheless important areas that Fidesz dominates near completely now are sales houses that sell media advertising and outdoor advertising companies. Public media advertising, for instance, is sold by Atmedia, which is owned by a key Fidesz background operator, András Tombor, who is also a media owner in his own right. Tombor’s company sells advertising packages that bundle public and private Fidesz media outlets. Though nearly nothing is known about what Tombor’s company offers buyers, there are a variety of ways in which this system can be abused. For example, Atmedia can make conditions unfavourable for buyers of advertising space who also advertise in leftwing media – given that it controls public media advertising. Atmedia has considerable leverage over the market. Moreover, by adding less significant Fidesz media into the mix containing major taxpayer-funded media outlets, this strategy can also improve the financial viability of outlets that would need to be even more massively subsidised otherwise.

Fidesz is taking the streets, too

Fidesz has also evinced a keen interest in fully taking over the outdoor advertising market, which was less talked about until recently. As usual, the governing party is deploying a mix of legal/ official pressure and abusive market practices. In terms of the
former, it has adopted legislation that significantly limits the opposition’s possibility of putting up campaign or other political posters and favours the business activities of pro-Fidesz outdoor advertising companies, and it has of course been trying to cancel all advertising deals between public institutions and Lajos Simicska’s large but diminishing advertising company, Mahír.

After years of pressure on the company by Fidesz-affiliated business interests, a pro-government oligarch, István Garancsi, has finally taken over one of the other major players in the outdoor advertising market, ESMA. Earlier, ESMA was almost ruined when the government restricted billboard advertising along motorways, which was a major source of income for the company. Now that the recalcitrant owner finally sold his company – which had shed most of its staff over the years – into government-friendly hands, the restrictions have been lifted. Seeing outdoor posters as one of the last major methods whereby the opposition can communicate with voters, Fidesz has launched an all-out campaign to control this market by legal and business means, and it appears that its winning here, too.

From media into propaganda machines

This year also saw the takeover of the political influential business weekly Figyelő, which is owned by Mária Schmidt, who effectively acts as Orbán’s history czar, overseeing a variety of publicly funded institutions and events that seek to propagate Fidesz’s official and definitive version of history. Like in the case of all other media operations taken over by Fidesz, Figyelő was politically streamlined, just as the once reputable business daily Napi Gazdaság (which was taken over in 2013 and then morphed into the new flagship pro-Fidesz newspaper Magyar Idők), Hungary’s second largest commercial television channel TV2 (which was taken over by Andy Vajna with a taxpayer-funded loan in 2016), the country’s most-read online newspaper origo.hu (sold in 2015 by the Deutsche Telekom subsidiary Hungarian Telekom) and the daily Magyar Hírlap (2006) had been, along with the previously mentioned plethora of local newspapers. With the exception of Magyar Hírlap, none of these were considered leftwing or liberal newspapers, they ranged mostly from independent to uninterested in politics. Now they have practically become propaganda outlets, and while we don’t know how this has or will affect their circulation and profits, so far they survive. Which is of course only logical since they were not acquired as business investments but as political instruments needed to influence the public.

Monopolising the communication that reaches the uncommitted, uninterested and uninformed

That is why politically uncommitted outlets that reach large segments of the market are especially valuable to Fidesz: origo.hu, TV2, Bors, etc., give the ruling party access to a large number of viewers and readers without clear political preferences and in many cases even without an interest in politics. From now on these people receive more or less carefully calibrated propaganda meant to entice them to support the government. The segment of the politically committed audience that is critical of the government might be lost in the process, but though that comes at some financial cost, it is not a primary consideration – it is unlikely that they could be converted to Fidesz’s cause in any case. Enlarging the audience whose main or exclusive source of political information is provided by Fidesz-controlled media is probably the primary objective of the governing party, especially with the election of 2018 in sight. In this context, the opposition clearly has problems with reaching wide segments of the society. Critical thoughts still have a good chance to spread online, but Fidesz’s dominance has increased to unprecedented levels in the TV (with the exception of RTL Klub), radio and local newspaper markets. A further problem is that some opposition media (for example, print newspapers Népszava and Vasadnapó Hírek) are in such a delicate financial situation that they must accept pro-government advertisements in order to survive. In sum, to some extent 2017 was just another year in Fidesz’s efforts at establishing hegemonic control over all forms of public communication in Hungary. However, like almost every year with the exception of 2015, when Orbán split with Simicska, 2017 marks another vast increase in the government’s influence over the media landscape in Hungary. As we noted before, it is impossible to ascertain what the endpoint of this policy will be – is there a limit to Fidesz’s hunger for control, or is the goal to establish a media and public communication landscape were opposition voices have essentially no discernible impact and operate under heavy legal and financial restrictions? The trajectory is clearly going in the latter direction, and the speed at which Fidesz’s is expanding its influence in the Hungarian media landscape also points towards a goal of total domination. But only Viktor Orbán knows where he wants this process to stop.
When Fidesz proposed and swiftly passed a bill in April that would make it difficult for the Central European University to operate legally in Hungary, it raised a significant outcry (and a series of demonstrations) measured by the standards of the generally complacent reactions to the Hungarian government’s various measures aimed at undermining democracy and the rule of law. In addition to wide swathes of civil society in Hungary and beyond, the chargé d’affaires at the US embassy in Budapest issued a concerned statement, which was soon backed by a State Department’s communiqué and some prominent political figures in the US. However, the Orbán government’s attack on CEU appears to be only the most conspicuous spearhead of a regional assault on institutions created, inspired or funded by American-Hungarian billionaire George Soros, who has invested immense money in funding civil society in Eastern Europe. The goal of Soros’s funding is to bolster what he calls open societies, a term he borrowed from his erstwhile teacher, the philosopher Karl Popper.

The NGOs funded by George Soros’ Open Society Foundations work in a wide variety of fields, especially human and civil rights protections, minority rights, education, corruption and transparency. And on a wide variety of major issues, from the handling of refugees all the way to the accounting of public money, these institutions have opposed the views and policies propounded by Fidesz. In fact, when the actual political opposition was weak for whatever reason – the Orbán government’s tough anti-refugee line during the refugee crisis was a conspicuous example – NGOs were often at the forefront of resistance to the government’s policies. And since campaigning against a bunch of relatively unknown do-gooders does not have quite the appeal of rousing the masses against a supervillain, Fidesz has been honing in on George Soros as the chief culprit behind the international forces trying to limit “Hungary’s national sovereignty”.

The Obama administration in the US had mounted a forceful and somewhat effective resistance against Orbán’s attempts at cracking down on NGOs, and at one point President Obama even drew a parallel between the Orbán government’s efforts to this effect and the behaviour of openly dictatorial regimes. Already on the campaign trail Donald Trump made clear that he had no interest in meddling with the internal affairs of other countries unless a narrow understanding of American national interests was implicated. Viktor Orbán duly interpreted this approach as saying that the new American president was going to give Hungarians “their freedom back”. A crackdown on NGOs was announced immediately after Trump’s inauguration, and the government also decided to move against another major target in its anti-Soros campaign, the Budapest-based university founded by the American-Hungarian financier. According to the government, the piece of legislation adopted by the Hungarian parliament is a minor amendment that applies to 28 foreign universities in Hungary and all it does is introduce uniform rules applying to them, closes loopholes, introduces transparency and ends privileges that these foreign universities enjoyed over European ones. However, practically all commentators agreed that the real target was CEU.

Why CEU?

CEU is a Budapest-based American university offering post-graduate degrees, with a highly international student body and...
The Hungarian society in 2017

By many metrics, such as the publications of its faculty, research grants and the international placement of its students, it is the best university in Hungary and in the wider region. While CEU was clearly part of Soros' overall vision of an open society, it is never-the-less first and foremost an academic institution. It has never meddled in Hungarian politics or even in policy debates. The latter marks a key distinction when compared to many Soros-funded NGOs that often criticise the government's policies within their areas of expertise which is not to imply that the latter are political institutions, as the government alleges; they are doing their job when they criticise the government's actions in the public policy areas that the respective NGOs work on.

Nevertheless, CEU is the intellectual home to many well-known academics who are critical of the government. Through these persons it might be construed as a source of opposition to the Orbán government at a time when said government is increasingly striving to remove even relatively minor expressions of dissent.

CEU held in legal uncertainty

Despite all the legal hurdles and the hostile Fidesz campaign in the media, CEU has done everything it could to comply with the new law. The law requires foreign universities to maintain a campus in their home countries and secure a bilateral agreement between Hungary and their governments. The CEU says it has met all the requirements of the new rules and has even signed a memorandum of understanding with Bard College to provide educational activities in New York. The text of a bilateral agreement between the Government of Hungary and New York State has also been ready since the autumn. However, Hungary’s government announced that it would extend the deadline for compliance rather than immediately signing the draft treaty with the state of New York to confirm the university’s operations. Ignatieff said the university was being held in “legal limbo”. The government’s decision indeed prolonged a state of uncertainty while walking away from a solution at hand.

Regardless of the outcome of the fight over CEU, however, the affair in general is a signal that Viktor Orbán is not only bent on pushing his authoritarian agenda further but is willing to raise the stakes and move into areas where mainstream European conservatives will find it hard to follow. This is a bad omen for the remaining vestiges of Hungarian democracy.
Prime minister Orbán apparently believes that his government is free to do anything it wishes to consolidate its power, even if that means further transgressions against the rule of law and an even more comprehensive effort to undermine democracy. Orbán’s understanding of freedom is the liberty to move towards an illiberal society where individual freedom is subordinated to community interests.

Fighting words against NGOs

More specifically, it appears, Orbán feels that he is free to move massively against the few remaining organisations that offer effective criticisms of the government’s policies, especially the pervasive graft of the clique surrounding Prime Minister Viktor Orbán. Effective does not imply that these criticisms carry great weight in society. There is not much evidence that the allegations of corruption by some investigative reporting outlets, for example, or criticisms of the government’s dismal record on education by some think tanks are reaching wide segments of the electorate, nor is there any indication that they can sway the public mood to any significant extent. But the government has an extremely low threshold of tolerance when it comes to criticism, and it cannot be abide institutions that routinely and mostly accurately highlight its flaws. And in the latter sense, NGOs are definitely the most effective critics of the government.

In January 2017, the government pointed at its most dangerous foe, Hungary’s small NGO sector. Fidesz’s politicians at least had the courtesy of immediately announcing their intentions in public.

In usually harsh words, the government’s all purpose spokesman (and Fidesz Vice President) Szilárd Németh spoke about “cleaning out” NGOs, including the Hungarian chapters of internationally-known organisations such as Amnesty International, Transparency International and the Helsinki Committee, and major national organisations such as the Hungarian Civil Liberties Union (TASZ in Hungarian) and Átlátszó (Transparent), a major anti-corruption newsportal.

Harsh, but not unprecedented

The harsh tone aside—which is more reminiscent of authoritarian regimes than of a European democracy—, this was not the first salvo in the government’s war on NGOs. That was in 2014, when the government insisted that Norway stop funding these NGOs in Hungary through its EEA NGO FUND. At the time, the president of a little-known organisation that helps impoverished Roma was carted off by the police, while the premises of the organisation and even some of the private homes of its staff were raided, on scurrilous charges of financial impropriety that the government never backed with hard evidence—and arguably never thought it could. The entire point of the exercise was to show that it could harass these organisations and did not need any legitimate reasons for doing so. That first round ultimately ended in a victory for the NGOs, though it came at a high price.

But the Norwegians did not give in and, more importantly, the US took an unusually public and clear stance against the harassment of NGOs. President Obama said in a TV interview that the US would
stand up for civil society everywhere, and among the countries singled out, Hungary was the only democracy that was part of the western alliance system. Clearly, Orbán was on the Obama administration’s radar as a potential enemy of democracy, and the Hungarian PM’s treatment of civil society especially gave rise to concerns in Washington. Though this may not have filtered down to the lower layers of the State Department yet, Trump clearly does not give a hoot about this issue. At this point, Orbán is only limited by an increasingly besieged European Union.

After Németh’s anti-NGO outburst on television, the government softened the tone somewhat, but the essence remained. Pointing out that much of the NGO sphere in Hungary is partly funded by the government’s Public Enemy No. 1, George Soros, it cast critical NGOs as foreign agents trying to undermine “democracy”. Zoltán Kovács, a spokesman for the Hungarian government, said NGOs lack “democratic legitimacy” and many of them represent foreign interests. This is incidentally the same communication that was used to justify Vladimir Putin’s largely successful war on NGOs that dared criticise his administration, which suggests that Orbán may be using the Russian-provided playbook once again.

The destroyer of transparency demands transparency – from others

The first gambit in this war is the government’s request that the executives of the NGOs in question should publish a declaration of their wealth and assets, as MPs and mayors are required to do, for example. Given that these executives are not elected officials and they hold no offices, which involve public policy decisions that affect the spending of taxpayer money, for example, it is no altogether clear why they should be subject to such a requirement. The government argues that if they interfere in public affairs the public should know what their financial situation is. Yet, in a free society this is rarely proposed as a precondition for the right to express criticisms of the government in public.

What makes this particular line of attack especially galling in the eyes of many is that while the government presents a line of reasoning that seems superficially persuasive to many (i.e. we need more transparency), it is coming from a government that has monumentally undermined transparency in Hungary. Fidesz is constantly changing laws to limit the scope of freedom of information (FOI) requests, and while the judiciary has blocked some of the more atrocious legal changes (in an unusually critical decision, the generally servile Constitutional Court decided that the money managed by the central bank’s foundation is in fact public money, which the government disagreed with), many of the dealings and wheelings that undergird the massive theft of public money are concealed from the public by new legislation. When it was uncovered recently that the Fidesz-run municipal government of the Budapest castle district is doling out low-rent public housing to cronies, based on a new law meant to impede FOI requests journalists asking for information about the recipients of public housing were presented with a bill of 3 million forints (10,000 euros) to cover the municipality’s “expenses”. In a country where the average net salary is 150,000 forints, and critical media and NGOs are struggling financially, this is a very effective way of destroying transparency.

A concerted attack through all channels

For the time being, the government is using a two-pronged approach of administrative/legal harassment and a merciless media assault against individuals involved in organising NGOs and grassroots movements. The latter is performed by a government media that include a growing array of public and private media outlets as the government is taking over existing media and creating new ones at astonishing speed as part of its programme of expanding its control over the media system as a whole.

Pro-government media work hard at digging up damaging information about the NGOs in the government’s crosshairs, and even if thus far this effort has had limited success, they relentlessly push the idea that NGOs are ‘foreign agents’ who undermine Hungarian sovereignty in the interest of some foreign power. This is the rationale behind the NGO law drafted by the government that requires NGOs that get money from abroad to register with the authorities. The Orbán government says it wants to ensure greater transparency and protect Hungary from foreign influence, but NGOs say the bill stigmatises them and is intended to stifle independent voices. Some of the biggest NGOs announced that they would not comply with the law and would take any legal challenge to international courts.

The announcement of an offensive against NGOs, the aggressive rhetoric and the threat of banning an entire university superficially seem to open up a whole new dimension in Fidesz’s efforts to undermine democracy. But in reality, these are just continuations of old policies, in a more brazen manner thanks to favourable international winds.
Especially because of the looming elections, it is nearly impossible to predict how Orbán will treat the main issues discussed in this chapter in 2018. On the one hand, Fidesz’s support usually dropped when it sought confrontations in society, especially when those were met with significant protest (like during Spring 2017 after the CEU demonstrations). Although none of these temporary setbacks proved lasting, even a short-term decline might hurt the governing party in April 2018, which is clearly a major risk at a time when Fidesz is angling for a huge majority to emphatically reject any attacks on its legitimacy from within and outside Hungary. At the same time, however, confrontational issues also serve to energise and mobilise its existing supporters, and turnout among pro-Fidesz constituencies is probably more important than a few points in overall support.

This leaves CEU and NGOs with major question marks going into 2018. Will Fidesz try to shutter the university again? Will he go after NGOs even more radically? Are the harassment of CEU and NGOs part of a long-term strategy aimed at silencing all critical voices or just a temporary fad to energise the rightwing electorate? It is impossible to tell, but the odds are that the underlying goals are long-term objectives and aim at social transformation rather than temporary electoral gains. After all, term number three for Fidesz would cover only 80% of the minimum number of years Orbán envisioned his party to rule for as the “central force” in Hungarian politics. While the macro statistics suggest that Hungary is doing well now, Orbán also needs a pliant society where dissent is suppressed to prepare for less bountiful times, when problems in society lead to a decline in the level of support for the governing party.

Even if the Orbán government were to decide to put CEU and the NGOs on the backburner for now, its efforts to control the media landscape will not cease. With every passing month Fidesz-affiliated oligarchs grow richer, and in return they are entrusted with the responsibility to either to establish new media or take over existing media, and this process will not stop until Fidesz is hegemonic in all media segments – or the public steps up in some form, whichever comes first.

This combination of a public that is driven into submission due to widespread fears of migrants, strategic reprisals against dissent and a media that is dominated by a propaganda machinery will come in handy if and when large segments of the Hungarian public become dissatisfied with the prevailing disastrous conditions at, say, hospitals and schools. Despite Orbán’s insistence that given the constraints it is facing, the government has spent enough on these areas, press reports about the actual conditions in the field diverge wildly from the rosy picture painted by the government. Luckily for Orbán, the actual state of healthcare and education is less potent in terms of energising voters than the virtual threat of refugees flooding Hungary.

An interesting question for 2018 will be how recent efforts by the Open Society Foundations and the US Department of State to spread a little democracy and independent media in the Hungarian countryside will fare next year. There is of course an important realisation behind this, namely that as long as some form of elections prevails, rural voters are going to be decisive. Although a growing segment of the opposition has become aware of this fact over the past decade or so, they nevertheless found it extremely challenging to invest the manpower (most of which is centred in Budapest) and funds into reaching this segment of society, especially since they were hobbled by the lack of a sympathetic media that could reach the rural areas. The current funds set aside for this purpose are still a trickle compared to what Fidesz – or rather the taxpayers – is spending on propaganda in rural Hungary, and moreover they are used as evidence by the governing party of an international attempt to dominate Hungary. Nevertheless, that is going to be true no matter what kind of independent or critical organisations seek to spread their wings in rural Hungary. And unless an effort is made, the cause of any plurality in public opinion is hopeless. This makes these new experiments all the more relevant.

5.4 | Outlook on the Hungarian society in 2018
Conclusion

The past year has been arguably Fidesz’s most successful non-election year yet, which says a lot given the governing party’s inordinate success as the defining political force in post-transition Hungary. If the elections were held now, Fidesz would score an overwhelming victory. After two terms in power, that is fairly impressive by modern standards, when the wear and tear that comes from governing tends to quickly take its toll on the popularity of the parties in power. Morally speaking, there are a lot of dubious aspects to this popularity, and we discussed many of these in the preceding chapters (and in previous years); Fidesz thrives on a wave of hatred it has fomented in Hungarian society against migrants, liberals and increasingly anyone who disagrees with its politics. From a Machiavellian perspective, these efforts have clearly paid off, however. Combined with a solid economic performance – including a respectable growth rate, though one of the lowest in a booming region – Fidesz’s position appears unassailable.

Most disconcertingly, 2017 has shown rather clearly that voters do not care about the increasing concentration of power in the hands of the governing party. The past year yielded another set of milestones in Fidesz’s systematic efforts at disassembling the rule of law in Hungary. If the elections were held now, Fidesz would score an overwhelming victory. After two terms in power, that is fairly impressive by modern standards, when the wear and tear that comes from governing tends to quickly take its toll on the popularity of the parties in power. Morally speaking, there are a lot of dubious aspects to this popularity, and we discussed many of these in the preceding chapters (and in previous years); Fidesz thrives on a wave of hatred it has fomented in Hungarian society against migrants, liberals and increasingly anyone who disagrees with its politics. From a Machiavellian perspective, these efforts have clearly paid off, however. Combined with a solid economic performance – including a respectable growth rate, though one of the lowest in a booming region – Fidesz’s position appears unassailable.

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In terms of the quality of democracy, another low-point in 2017 was the use of the State Audit Office to attack Jobbik for illegal practices that the government party has benefitted from for a long time now. The Audit Office levied a huge fine against the strongest opposition party for renting outdoor poster spaces from the company of the oligarch Lajos Simicska – who did the same favour for Fidesz for many years, as other oligarchs continue to do today – at a price that is below the established market level. According to the Audit Office, this constitutes illegal party financing, and the president of the Audit Office, László Domokos, a former Fidesz MP, very likely knows this from personal experience. If the fine is enforced, it will completely undermine Jobbik’s ability to wage an effective campaign in 2018. Nevertheless, if campaign finance regulations were finally enforced impartially across the board, that would be great news, not mainly but also because it would undermine one of Fidesz’s key advantages, its sheer unlimited access to unofficial and illegal campaign funds. In its current form, however, the action of the Fidesz-led State Audit Office seeks to subvert multi-party democracy in Hungary and that is the only relevant lens through which it should be viewed.

This augurs ill for 2018, so let’s take a brief look at what to expect next year. Eyeballing another four-year term, Fidesz will put its electoral goals above all other considerations. For Fidesz to lose the election, something extraordinary should happen, and the probability of such development is getting lower each month. Despite the terrible year that the Hungarian opposition had in 2017, still a lot depends on whether the opposition manages to join forces at least in single-member constituencies, meaning that at least they can field a single challenger in districts where the opposition has a chance to win. At least Fidesz’s another supermajority, or in a more optimistic scenario for the opposition, even Fidesz’s majority might depend on this question – and on a good campaign, of course.

In case Fidesz will think that the victory is already in their hands, it might even strike a conciliatory tone on occasions when it feels that this is what voters would prefer to hear instead of further polarisation. In thinking about post-election 2018, it may be worth briefly recalling 2014, when Fidesz managed to hold on to its two-thirds majority despite a four-year term with some highly controversial acts, including one just before the election, the Paks nuclear deal. Buoyed by the election victory, it sprinted out of the gate with deeply unpopular proposals such as the internet tax and the drug tests for students and journalists, both of which were subsequently nixed. But the former in particular elicited massive protests, for the first (and thus far last) time for introducing such measures. While Viktor Orbán remains unpredictable, the odds are that the second half of 2018 will feature actions that will give Hungarian citizens, the opposition and the European Union a lot to think about concerning Hungary’s future as a politically diverse, democratic and European community.