

# Hungary

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*Capital:* Budapest  
*Population:* 10.0 million  
*GNI/capita, PPP:* US\$19,090

Source: The data above was provided by The World Bank, *World Development Indicators 2011*.

## Nations in Transit Ratings and Averaged Scores

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Electoral Process	1.25	1.25	1.25	1.25	1.25	1.75	1.75	1.75	1.75	1.75
Civil Society	1.25	1.25	1.25	1.25	1.25	1.50	1.50	1.75	1.75	2.00
Independent Media	2.25	2.25	2.25	2.50	2.50	2.50	2.50	2.50	2.75	3.25
Governance*	3.00	2.50	2.50	n/a						
National Democratic Governance	n/a	n/a	n/a	2.00	2.00	2.25	2.25	2.50	2.50	3.00
Local Democratic Governance	n/a	n/a	n/a	2.25	2.25	2.25	2.25	2.50	2.50	2.50
Judicial Framework and Independence	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25
Corruption	3.00	2.75	2.75	2.75	3.00	3.00	3.00	3.25	3.50	3.50
Democracy Score	2.13	1.96	1.96	1.96	2.00	2.14	2.14	2.29	2.39	2.61

\* Starting with the 2005 edition, Freedom House introduced separate analysis and ratings for national democratic governance and local democratic governance to provide readers with more detailed and nuanced analysis of these two important subjects.

NOTE: The ratings reflect the consensus of Freedom House, its academic advisers, and the author(s) of this report. The opinions expressed in this report are those of the author(s). The ratings are based on a scale of 1 to 7, with 1 representing the highest level of democratic progress and 7 the lowest. The Democracy Score is an average of ratings for the categories tracked in a given year.

## EXECUTIVE SUMMARY

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Parliamentary elections were held in Hungary in April 2010. As expected, the opposition Young Democrats' Alliance–Hungarian Civic Union (Fidesz) and its junior partner, the Christian Democratic People's Party (KDNP), dealt a crushing defeat to the ruling Hungarian Socialist Party (MSZP), which had been in power since 2002 and was deeply discredited due to several factors, including the September 2006 revelation (via leaked tapes) that Prime Minister Ferenc Gyurcsány had deliberately lied to win elections, and the government's gross mishandling of the ensuing protests. Failed fiscal policies predating the onset of the global economic crisis cemented MSZP's deep unpopularity. With the 2010 elections, Fidesz leader Viktor Orbán became prime minister of a new government that controlled more than two-thirds of the seats in the parliament. The resulting opposition consisted of the MSZP and the Politics Can Be Different (LMP) party on the left, and the radical nationalist Movement for a Better Hungary (Jobbik)<sup>1</sup> on the extreme right.

The new government's supermajority gave it the authority to amend or replace the constitution, and it planned to adopt a new charter in early 2011. Such a concentration of power in the hands of a single political bloc was practically unprecedented in Hungary's postcommunist history. In 1994–98, the MSZP and its junior partner, the Alliance of Free Democrats (SZDSZ), also had a two-thirds majority, but they were often at odds and practiced self-restraint in amending the constitution, pegging such legislation to a four-fifths vote for the duration of their term. In the conservative coalition elected in 2010, the junior partner is independent in name only, as the small KDNP is effectively under Orbán's control.

Between its inauguration in May and the end of the year, the Orbán government appointed loyal party cadres to head key institutions; adopted a retrospective tax law and reduced the powers of the Constitutional Court after it attempted to strike down the legislation; drastically weakened labor protections for civil servants; summarily eliminated the Budgetary Council, tasked with the independent evaluation of the national budget; used individual members of the parliament to propose important laws, including constitutional amendments, to circumvent the stakeholder negotiations required for government-proposed measures; curtailed freedom of speech through the adoption of new media legislation; intimidated the judiciary by summoning judges to parliamentary hearings on cases related to the riots of 2006; changed election procedures to give the ruling parties an edge in the October municipal elections; and nationalized the savings in a system of compulsory private pension funds.

In addition to these concrete steps, the government used problematic rhetoric and political symbolism during the year. The prime minister and other members of

the governing parties declared the April elections to be a “revolution at the ballot box” and the “closure of regime change,” comparing the ouster of the MSZP to the end of communist rule. The Proclamation of National Unity—adopted with votes of FIDESZ-KDNP alone—enshrined this version of Hungary’s recent history in an official document, which a subsequent presidential decree obliged all offices of public administration, services, schools, hospitals, etc. to display in a glass frame. The decree requested, but did not require, that the judiciary and municipal offices do the same. The conservative government also apparently aimed to neutralize the right-wing appeal of Jobbik by appropriating some of that party’s ideological fodder, such as ethnic Hungarian issues in neighboring countries; the 1920 Treaty of Trianon, which truncated Hungary’s territory at the end of World War I and continues to be regarded as an injustice by many Hungarians; and even more symbolic concerns like the restoration of the “Sacred Crown” concept, which had formed the basis of the country’s premodern constitutional framework.

The government’s actions and rhetoric to date suggest that it intends to undermine liberal democracy in Hungary. While this effort should not be equated with an attempt to establish an outright dictatorship, it does appear to be aimed at reshaping the political, institutional, and constitutional framework to keep the Fidesz-KDNP bloc in power for the foreseeable future, and ultimately to move Hungarian society in a more conservative, corporatist-authoritarian direction.

**National Democratic Governance.** Following the April parliamentary elections, the opposition Fidesz-KDNP coalition formed a new government that controlled 68 percent of the seats in the unicameral National Assembly. It went on to take a series of steps that seriously undermined the independence of key institutions and weakened the rule of law, resulting in the most significant backslide in Hungary’s democratic development since 1989. *Hungary’s national democratic governance rating declines from 2.50 to 3.00.*

**Electoral Process.** The national elections in April and municipal elections in October were both deemed free and fair. Although new electoral rules adopted ahead of the municipal voting favored incumbents and major parties in general, the effects may balance out in the long run and will not necessarily lead to a decline in the quality of the electoral process itself. *Accordingly, Hungary’s electoral process rating remains unchanged at 1.75.*

**Civil Society.** With a relatively large number of organizations and a generally hospitable legal framework, Hungary’s civil society is well developed and vibrant. However, the absence of substantial private funding leaves the sector disproportionately reliant on state and European Union resources and exposed to political changes. In 2010, the new government froze the funds of the National Cultural Fund and a variety of other cultural and research entities. New applications for funding were delayed, and payments of assigned grants were withheld. *Accordingly, Hungary’s civil society rating declines from 1.75 to 2.00.*

**Independent Media.** Although Hungarian media can still be considered generally free and diverse, with commercial outlets dominating the broadcast and print sectors, new media legislation that introduced fundamental reforms raised serious concerns in 2010. It drastically curtailed the independence of public-service television and radio broadcasters, and established a new regulatory body with sweeping authority over broadcast media, print publications, and the internet. *Due to this alarming concentration of political power over the media, Hungary's rating for independent media declines from 2.75 to 3.25.*

**Local Democratic Governance.** The political independence of each of Hungary's 3,200 towns and villages is viewed as a key virtue of democracy, but the system often proves to be excessively fragmented and inefficient in practice. A lack of economic and fiscal viability may undermine the municipalities' capacity to carry out their functions. In order to overcome financial difficulties, numerous cities and villages have issued bonds in recent years, setting the stage for an expected debt crisis in 2011. Meanwhile, overwhelming Fidesz victories in the October 2010 municipal elections added to the party's national dominance. *Hungary's rating for local democratic governance remains unchanged at 2.50.*

**Judicial Framework and Independence.** The judiciary's perennial problems of transparency and accountability were not resolved in 2010, and the new government took a number of steps during the year to politicize, intimidate, and weaken the courts. The Fidesz leadership changed the regulations governing the chief prosecutor's office and appointed a former party cadre to the post. In September, a parliamentary subcommittee summoned leaders of the judiciary to question them on decisions following the 2006 antigovernment riots. Finally, the parliamentary majority overruled a judgement by the Constitutional Court and curtailed the court's jurisdiction over budgetary legislation. *Hungary's judicial framework and independence rating declines from 2.00 to 2.25.*

**Corruption.** In March, a former MSZP lawmaker was sentenced to eight and a half years in prison for embezzling state subsidies. The heavy sentence was the first serious corruption penalty in Hungary's recent history to be directly related to a governing party. The Fidesz government that took office in May appointed a commissioner for accountability and anticorruption with a mandate to uncover wrongdoing by the previous administration. As a result, an enormous amount of new corruption scandals erupted in 2010, implicating top-ranking officials and politicians from the MSZP government. The revelations may have a positive effect on society, which has long been disillusioned by impunity for political corruption, though it remains unclear whether officials of the current government will face similar scrutiny. *Hungary's corruption rating remains unchanged at 3.50.*

**Outlook for 2011.** The most important expected development in 2011 will be the adoption of a new constitution in the spring. The general principles of the drafting

process published on the parliament's website suggest that the new constitution will guarantee less freedom than the one in force, put more emphasis on citizens' obligations as opposed to rights and liberties, compromise the secular nature of the state, and decrease the powers of the Constitutional Court. It is likely that following the promulgation of the new constitution, the government will meddle more extensively in independent institutions like the judiciary. It remains to be seen whether the leadership will tackle some of the state's chronic problems related to health care, social services, education, and local government.

# MAIN REPORT

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## National Democratic Governance

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
n/a	n/a	n/a	2.00	2.00	2.25	2.25	2.50	2.50	3.00

Hungary has a parliamentary system in which executive power lies with a prime minister elected by an absolute majority of the parliament following general elections. The prime minister can only be removed, together with the entire cabinet, through the process of “constructive no-confidence,” which combines a no-confidence motion with the election of a new prime minister in a single vote. Accordingly, under normal circumstances, the parliament does not provide a strong check on the executive.

The 386-member, unicameral parliament, the National Assembly (Országgyűlés), is the top legislative organ in Hungary. The government and the ministries may enact lower-level legislation that must conform to existing laws. The president, elected by the parliament for a five-year term, has mostly symbolic functions as well as limited control over the nomination and appointment of public officials. The president may also refer legislation back to the parliament or the Constitutional Court for further consideration before signing it into law. He is considered the commander in chief of the armed forces.

Hungary built robust democratic institutions after the transition from communism in the late 1980s and early 1990s. These institutions came under stress in 2006, slowly decayed over the next few years, and were severely battered in 2010.

In the April 2010 parliamentary elections, the conservative opposition coalition—consisting of the Young Democrats’ Alliance–Hungarian Civic Union (Fidesz) and its junior partner, the Christian Democratic People’s Party (KDNP)—captured 263 seats, more than two-thirds of the total. This supermajority gave the new ruling bloc the ability to amend the constitution or adopt a new constitution without the need to compromise with the opposition. The outgoing ruling party, the Hungarian Socialist Party (MSZP), was reduced to just 59 seats. The radical nationalist Movement for a Better Hungary (Jobbik) placed third with 47 seats, followed by Politics Can Be Different (LMP) with 16. One independent was also elected.

As a final gesture before handing over power, the government of Prime Minister Gordon Bajnai proposed a law to make Holocaust denial a crime, and the parliament approved the measure. Although the law restricted freedom of speech, the new government of Prime Minister Viktor Orbán not only retained it but expanded its scope to include the denial of crimes committed by the communist regime.

Fulfilling a promise made by many earlier governments, the new leadership amended the constitution in May to reduce the number of parliament seats to 200

as of the 2014 elections. Among other benefits, the new system included provisions that would allow for better representation of ethnic minorities.<sup>2</sup>

However, many other steps taken by the Fidesz-KDNP government during 2010 systematically undermined the checks and balances built into the country's constitutional framework. For example, it appointed trusted party cadres to crucial and ostensibly independent institutions such as the Hungarian Financial Supervisory Authority, the State Audit Office, the Tax Authority, the Competition Authority, the Constitutional Court, the chief prosecutor's office, and, in a very controversial decision, the presidency of the republic.<sup>3</sup> The outgoing head of state, former Constitutional Court president László Sólyom, had been nominated and supported by Fidesz in 2005, but he proved to be an independent and activist figure. He was replaced in June 2010 by Pál Schmitt, an Olympic champion fencer and longtime Hungarian Olympic Committee chairman who had served as a member of the European Parliament with Fidesz and, most recently, as speaker of the National Assembly. In one of his parliamentary confirmation hearings, Schmitt announced that as president he would serve as an "engine" rather than a "brake" with respect to approving legislation, effectively surrendering perhaps the only substantial function of the office.<sup>4</sup>

The Fidesz government took office in a country with a bleak economic outlook. Orbán apparently hoped to keep some of the unrealistic promises made during the election campaign by reaching an agreement with Hungary's main creditors—the International Monetary Fund (IMF), the World Bank, and the European Union (EU)—on easing the terms of its loans and decreasing the national debt and budget deficit. However, following the government's failed negotiations with the creditors, Orbán audaciously decided to break with them and beat a new path for Hungary's economic recovery.<sup>5</sup>

To harmonize the country's fiscal and monetary policies, the government launched an attack on the president of the National Bank, András Simor, who still held on to his position at year's end.<sup>6</sup> In addition, the Budgetary Council, an independent expert body that provided public analysis to ensure transparent and responsible budgetary policy, was eliminated. The council had been created in 2009 as part of a 2008 agreement between Hungary and the IMF. The government reportedly planned to replace it with a new entity that would have no staff to produce actual budget analyses.<sup>7</sup>

The removal of such checks led to a series of laws that seriously damaged Hungary's democratic framework. In a symbolic piece of legislation, the government imposed a retroactive tax of 98 percent on personal income generated through severance payments in the public sector. While the professed goal of the tax was to recover funds siphoned off by cadres of the previous government, it alarmed many observers. The Constitutional Court ruled the tax unconstitutional in October, but just hours after the decision, the government announced that it would amend the constitution to limit the court's jurisdiction and prevent it from examining future legislation on budgetary matters, among other topics.<sup>8</sup> The amendment was adopted by the parliament in November, and the contentious tax

law was passed again the same day, even increasing the span of retroactive taxation to five years.

With the Constitutional Court out of the way, the government moved in December to nationalize the wealth accumulated in compulsory private pension funds. Since the late 1990s, employees had been required by law to contribute to the private funds on an individual basis. After the nationalization, individuals were permitted to stay in the private pension funds if they chose, but on the condition that they lose the other part of their pension, accumulated through the state pension fund—a very strong incentive to leave. Civil servants faced particular pressure, since their labor protections had been diminished to facilitate the government’s partisan appointment policies.

#### Electoral Process

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1.25	1.25	1.25	1.25	1.25	1.75	1.75	1.75	1.75	1.75

Since the transition from communist rule, Hungarian elections have consistently been assessed as free and fair. Members of the parliament (MPs) are elected for four-year terms in a two-round, mixed electoral system. Of the 386 seats, 176 are filled through races in single-seat constituencies, up to 152 through proportional representation based on regional party lists, and the remainder through proportional representation based on national party lists. A second round of voting is held to decide single-seat constituency races where no candidate won an absolute majority in the first round. Parties must reach a 5 percent vote threshold to gain seats from the regional and national party lists.

While this system ensures freedom and fairness in elections, it is very complex. The new Fidesz-led government successfully passed the long-awaited amendment to reduce the size of the legislature in 2010, but it remains unclear exactly how the smaller parliament will be elected when the reform takes effect in 2014. Moreover, the new constitution planned for 2011 may provide for the creation of an upper chamber with its own electoral system.

The April 2010 parliamentary elections ended eight years of scandal-ridden rule by the MSZP and its junior coalition partner, the Alliance of Free Democrats (SZDSZ). The two parties had been thoroughly discredited by the events of 2006 and by their inept handling of fiscal policy, even before the onset of the global economic crisis. Voter turnout in the first round was 64 percent, and as expected, the conservative Fidesz-KDNP coalition won a landslide victory. It captured nearly all of the single-seat constituencies, a majority of the regional party-list votes, and 68 percent of the seats overall. Two historical parties—the liberal SZDSZ and the conservative Hungarian Democratic Forum (MDF)—disappeared from the legislature, while two other parties—the Green and liberal LMP, with 4 percent of the seats overall, and the radical nationalist Jobbik, with 12 percent of the seats

overall—entered for the first time. The MSZP became the main opposition party, with just 15 percent of the seats in the parliament.<sup>9</sup>

These results amounted to a complete realignment of the party structure. Hungary previously had a *de facto* two-party system, with Fidesz on the right and the MSZP on the left. The new balance of forces leaves the country with a largely symbolic and fragmented opposition, and the parliament with little real control over the government so long as discipline in the ruling coalition is maintained. It remains to be seen how the newcomers to the chamber, Jobbik and the LMP, will cope with the situation. LMP struggled to find direction in 2010, while Jobbik used rhetoric last heard in the parliament in the 1940s, and the banned Hungarian Guard—an unarmed “paramilitary” movement affiliated with Jobbik—remained active. Both the LMP and Jobbik suffered from internal conflicts among their leaders.

Political parties in general are active in the country, especially the newer groups, which seem to be more responsive to grassroots concerns. Representation of women and minorities, particularly the Roma, is still unsatisfactory. The new legislation that will reduce the number of MPs to 200 as of 2014 contains provisions for the representation of ethnic and national minorities, but it does not mention women’s representation. The number of female MPs declined from 40 to 34 following the April elections; there are very few women in leadership positions in the government, and none at the ministerial level.<sup>10</sup>

Prior to the October 2010 municipal elections, the parliament amended the Law on the Election of Local Council Members and Mayors. The number of council members in the municipalities was reduced, the official campaign period was shortened from 72 to 60 days, campaigning was forbidden only on election day as opposed to 24 hours beforehand, and less time was allotted to collect the nomination slips required to stand as a candidate. The new legislation also reduced the number of local minority representatives. The changes favored major parties over smaller parties, civic associations, and independent candidates. The municipal elections were nevertheless considered free and fair, and resulted in an overwhelming victory for the governing Fidesz-KDNP bloc.<sup>11</sup>

The president of the republic is elected by the parliament for a five-year term and can be reelected once. In the first two rounds of the election, a supermajority is required; if it cannot be reached, the candidate can be elected by a simple majority in a third round. The term of President László Sólyom, a former president of the Constitutional Court, expired in 2010. Although he was originally supported by Fidesz and was eligible for a second term, the government opted to replace him with a more politically reliable candidate, Pál Schmitt, whom it had only recently installed as speaker of the National Assembly. The constitution grants the president limited powers to scrutinize legislation, but Schmitt made it clear that he intended to remain within the ceremonial boundaries of the office and support the government’s efforts.

## Civil Society

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
1.25	1.25	1.25	1.25	1.25	1.50	1.50	1.75	1.75	2.00

The legal framework is generally hospitable to civil society, accommodating various forms of nongovernmental organizations (NGOs). Associations, foundations, and nonprofit limited companies can be established and financed without significant administrative burdens. As a result, with 70,000 registered organizations, the Hungarian civil society sector can be considered vibrant and relatively strong.

Of the registered organizations, about 50,000 are regarded as active and functioning, and their scope of activities covers almost all aspects of society. They range from small associations targeting local issues to high-profile watchdog organizations that monitor legislative, governmental, and juridical procedures.

Hungary's rating on the NGO Sustainability Index, produced by the U.S. Agency for International Development (USAID),<sup>12</sup> has increased slightly—by 0.1 points to 2.8—and is now in a phase of steady consolidation on almost every indicator. It is lagging behind in only two areas: financial viability and public image.

Owing to the still feeble nature of private philanthropy and the lack of significant tax incentives for charitable giving, the NGO sector is financially vulnerable, relying almost solely on government and EU funds. This situation has slightly worsened in recent years due to the severe effects of the financial crisis and the need for drastic reductions in public spending. NGOs are subject to the same tax rules as ordinary companies, including high payroll taxes, making human resource development difficult.

The country's unique "1 percent system" is an important fundraising mechanism. Individuals can assign 1 percent of their income tax to an NGO of their choice, which generates a considerable proportion of civil society groups' resources. To encourage private investment in sports, a recent legal amendment established a new system in which companies are allowed designate 70 percent of their corporate income tax to support sports clubs. However, only five sports are eligible: soccer, hockey, water polo, basketball, and handball.

A recent survey revealed that about 3.5 million people, or 40 percent of those over the age of 14, have performed some sort of volunteer work.<sup>13</sup> Most of this work involved helping family or friends, but a growing number of people engage in organized volunteering activities, such as community projects to improve their neighborhoods. Most volunteers prefer to support children and the elderly, as well as people with learning or physical disabilities; fewer are willing to help Roma, people with addictions, and other marginalized groups.

There has been a growing tide of radicalization in Hungary, with extreme, illiberal views spreading among certain civil society groups and the overall population. However, the successes of Fidesz and Jobbik in the parliamentary elections seemed to have a calming effect on right-wing elements in the civil sphere. While almost all national celebrations since 2006 had involved some level of

rioting, the demonstrations marking the anniversary of the 1956 revolution were peaceful in 2010.

The new government in May 2010 immediately froze the most significant state funds for civil society entities, including the National Cultural Fund (NKA), the Research and Technology Innovation Fund (NKTH), and the National Civil Fund (NCA). Not only were new applications for funding delayed, but grant payments that had already been approved were also withheld. Since the civil sphere heavily relies on governmental funds, the suspension of payments put many organizations at serious risk.

The NCA was established in 2004 with the aim of centralizing state funds for civic groups, as well as eliminating direct political influence over funding decisions. To ensure the latter, the NCA's governing body and its thematic boards have been composed of the representatives of civil society organizations.

In late 2010, the government discussed plans for a “radical reform” of this system, with a new body to be established in 2012. State Secretary Bence Rétvári argued that the NCA's practices in giving out grants were questionable, and that new measures were needed to put an end to inefficient resource allocation.<sup>14</sup> The restructuring of the NCA was welcomed by many NGOs, which have often accused its governing council and boards of unfair distribution of funding. However, others expressed fears that the reform would endanger the tens of thousands of small organizations that rely mostly on NCA grants.

Many observers also raised concerns about the government's halving of the NCA's budget for 2011. It will only cover expenses for the first half of the year, and tendering procedures will be suspended again after June.

Although the image of most of the nonprofit sector is relatively good, recurring scandals such as the case of the Egymásért Alapítvány (Foundation for Each Other) have fueled mistrust toward NGOs in general. In 2005 and 2006, the former chairman of the foundation imported goods worth 1.4 billion forints (US\$7 million) as “donations” without paying tax on them, and used 900 million forints (US\$4.3 million) in foundation funds as his own. After being sentenced to prison for smuggling and embezzlement in December 2010, he fled from the court building in Budapest.<sup>15</sup> He was being sought under a European and international arrest warrant at year's end.

#### Independent Media

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
2.25	2.25	2.25	2.50	2.50	2.50	2.50	2.50	2.75	3.25

Hungary has a diverse media market that is dominated by private companies. Most are multinational print media houses, but a growing number of news outlets are now owned by Hungarian corporate interests. The most important outlets in the country are two foreign-owned commercial television stations (TV2 and

RTL Klub) and two tabloid newspapers (*Blikk* and *Metropol*) that are almost completely apolitical. Although the wide range of broadcast, print, and internet outlets provide space for a variety of ideas, many of them are openly supportive of individual political parties, meaning independent voices are rare. While the number of young journalists striving for high professional standards is steadily growing, on an ownership level the media scene still largely mirrors the deep political divisions of the country. This is particularly true among daily broadsheets, as almost all major papers can be clearly identified with one or the other political camp. Because of this partisanship and their often poor journalistic standards, the papers are steadily losing readers. The total circulation of the four major dailies, two on the left and two on the right, is now less than 150,000.<sup>16</sup>

Often with investments from affluent businesspeople who openly support Fidesz, a burgeoning right-wing media scene has developed in recent years. It includes print publications like the daily broadsheet *Magyar Hírlap*, radio stations such as Lánchíd Rádió, and the television channels Hír TV and Echo TV. It remains unclear how Fidesz's landslide election victory after eight years in opposition will affect this market.

The diversity of the media sector also provides space for the most radical viewpoints, with a thriving scene of far-right, anti-Semitic, racist, and ultranationalist websites and niche magazines. Meanwhile, as a legacy of unpopular communist rule, radical leftist ideas are almost absent from public discussion.

The number of regular internet users in Hungary reached 6.1 million by the middle of 2010. With an internet penetration rate of 61.8 percent, Hungary is not far below the EU average of 67.6 percent.<sup>17</sup>

Although investigative journalism is still struggling, the number of articles seeking to highlight political corruption and unethical business practices is steadily growing. Major online news portals such as Origo, Index, and Hírszerző (the first two of which have almost a million unique users per day) employ qualified investigative journalists and are among the most cited and reliable sources in the mainstream media. In addition to international NGOs, some local journalist associations also work to promote investigative journalism as a fundamental tool of democratic control. Conferences, free trainings, and scholarships are available for journalists seeking to improve their professional skills.

The political realignment in 2010 brought fundamental changes to the media field. In June, Fidesz introduced a sweeping package of media legislation that, having passed through the parliament over the subsequent months, was set to take full effect on January 1, 2011.<sup>18</sup> Referred to in part as a “new media constitution,” the legislation was expected to bring “strictness in content control, clarity in market regulation, effectiveness and rationalized operation in public-service broadcasting, and transparency in authority.”<sup>19</sup> It established a new National Media and Infocommunications Authority (NMHH) by merging the National Communications Authority (NHH) with the National Television and Radio Commission (ORTT). Besides granting licenses and broadcasting frequencies, the ORTT had also been responsible for monitoring the programs of public and

commercial broadcasters, a duty that it often failed to fulfill. It was consequently subject to heavy criticism, and was accused of being ineffectual, particularly with regard to the two major commercial television channels.

The new NMHH's main body for content regulation, the Media Council, consists of five members. The council's president—currently Annamária Szalai, a former Fidesz delegate to the ORTT—is first appointed directly by the prime minister as head of the NMHH as a whole and then automatically becomes the head of the Council as well, with a mandate of nine years in both positions.<sup>20</sup> The other four members of the Media Council are elected by a two-thirds parliamentary majority, which in practice means that Fidesz is able to appoint all five members, and no opposition representation is ensured.<sup>21</sup> While the ORTT monitored only broadcast media, the new Media Council's scope of authority has been extended to print and online media. The Media Council will be able to impose steep fines on media outlets that do not respect its guidelines, which are vaguely defined by the law and may therefore be applied arbitrarily. For example, grounds for being fined include providing unbalanced or immoral coverage. Such subjective criteria are likely to result in significant self-censorship.<sup>22</sup> Fines for broadcast outlets can be as high as US\$934,000. For weekly and daily print outlets, fines can reach US\$120,000 and US\$47,000, respectively.

All media outlets will be required to register with the NMHH, which has the power to issue and revoke licenses, including for online content.<sup>23</sup> Former OSCE representative on freedom of the media Miklós Haraszti has argued that the “single greatest danger for the freedom and pluralism of the media” in Hungary is the arbitrary language governing tenders for licenses. If an outlet has been reprimanded by the Media Council within the past five years, the companies owning it may be refused a license.<sup>24</sup> This may lead media owners and editors to temper criticism of the government for fear of being denied a license at the next renewal interval.

The lack of reliable and independent funding, combined with regular political meddling, has devastated public-service media since Fidesz came to power. Moreover, the new media legislation completely redraws the public-service media landscape. By creating a central property management and production fund, it deprives three previously independent institutions of their financial and organizational autonomy. A significant number of staff members were fired from Hungarian Television (MTV), Hungarian Radio (Magyar Rádió), and Danube Television (Duna Televízió), and the number of employees for these organizations is now capped at 49, meaning trade union rights are severely limited. News for these stations will be centrally produced and distributed by the Hungarian News Agency (MTI). The power to appoint chief executives for all four public outlets rests solely with the president of the Media Council.<sup>25</sup>

The new chief executive of MTI defended the public media overhaul by arguing that a public-service journalist should be loyal to the government, since “it is unfair to accept a commission and then to offend the procurer.”<sup>26</sup> MTI will offer its news service for free, which will have the effect of undercutting all privately owned news sources, most of which are already under significant financial pressure.

Local media owned by regional municipalities have also become increasingly likely to act as mouthpieces for government policy, as Fidesz won 22 out of 23 major municipalities in the October 2010 local elections.

The new media legislation triggered a storm of indignation in the country as well as abroad. OSCE representative on freedom of the media Dunja Mijatovic issued a strong statement, saying that the package “violates OSCE media freedom standards and endangers editorial independence and media pluralism.”<sup>27</sup> In a December 2010 letter to the Hungarian government, European Commission vice president Neelie Kroes raised specific concerns as to whether the media legislation was in compliance with the EU Audiovisual and Media Services (AVMS) Directive, or with more general EU standards on respect for freedom of expression and media pluralism.<sup>28</sup> Despite the outcry, President Pál Schmitt signed the last of the new rules into law on December 30. Journalists noted a marked difference in the Hungarian media atmosphere in late 2010, as outlets began to adapt their practices in anticipation of the new regulatory system.

#### Local Democratic Governance

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
n/a	n/a	n/a	2.25	2.25	2.25	2.25	2.50	2.50	2.50

Under the constitution and the 1990 Law of Local Self-Governance, each of Hungary’s 3,200 villages and towns may directly elect their local units of self-government, consisting of a mayor, a council, and other entities. Some functions are shared between the municipal governments and those of the 19 counties, which serve as the regional administrative units.

This high level of decentralization was a symbolic element of Hungary’s political transformation after the fall of the communist regime. However, it has resulted in inefficiency and a serious lack of financial and human resources in local government. Despite some centralization of administrative tasks in recent years, most villages and towns still maintain full-fledged municipalities, managing local public services, state administration tasks where local expertise is necessary, and development functions. However, due to the high level of unemployment and the absence of industry in certain parts of the country, many have no significant revenues from local business and are almost solely dependent on the central government’s redistribution of taxes. Thus their legally enshrined autonomy is quite limited in practice. These problems particularly affect such impoverished areas as the eastern county of Szabolcs-Szatmár-Bereg or the marginalized southwestern corner of the country known as Ormánság.

About 10 percent of the country’s towns and villages became critically indebted over the last several years, according to a recent PricewaterhouseCoopers analysis.<sup>29</sup> The nominal per capita amount of state aid has been steadily decreasing since 2005. Furthermore, to reduce the budget deficit, the government delegated more public-service responsibilities to local governments in 2005, without ensuring the

necessary resources. At the same time, a legal amendment allowed municipalities to issue bonds, and no central supervisory body or unified registration system was set up to monitor or control the practice. As a result, the value of the issued bonds increased twentyfold in two years, and is now worth about 747 billion forints (US\$2.8 billion), according to the State Audit Office.<sup>30</sup> Some 93 percent of the bonds are valued in foreign currency, meaning the volatility of the Hungarian forint poses a further risk to the nearly 300 issuing municipalities. There is an urgent need for a solution to the problem, as 92 percent of the issued bonds will be due for repayment in the first half of 2011. Without major central reforms, local councils are unlikely to find a way out of the debt trap.

When it joined the EU in 2004, Hungary agreed to reform its local and regional self-government structure to bring it into line with existing EU policies and meet the eligibility criteria for EU development funds. A system of 174 small regions (subcounty units) and seven regions (supracounty units) were created for development purposes, and they now exist side by side with the old county system. This has led to a situation in which the division of competencies is insufficiently defined.

The capital, Budapest, comprises 23 autonomous districts, each with an elected mayor and assembly. The structure is topped with an independently elected mayor and council on the citywide level. This two-tiered system, in which the districts are not subordinated to the Budapest municipality, leads to a lack of coordination on key decisions and projects.

After taking over the national government with a two-thirds parliamentary majority in the spring of 2010, Fidesz also secured an overwhelming margin in the autumn municipal elections, winning in 22 out of Hungary's 23 major cities. The MSZP even lost in areas that had long been considered unconquerable Socialist bastions, or “red towers,” such as the eastern city of Miskolc. Fidesz won control of all 19 county assemblies, but in its most symbolic victory, it captured the capital's mayoral position for the first time. Budapest has traditionally been a liberal-left stronghold, and Gábor Demszky of the SZDSZ had served as mayor since 1990. In his election-night speech, Prime Minister Orbán commented on the result by saying that “the nation has finally got back its capital.” This statement openly recalled the belligerent communications strategy that was begun by Fidesz during its first national government in 1998–2002, and which is based on the constant verbal exclusion of all non-Fidesz voters from the nation.

#### Judicial Framework and Independence

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00	2.25

Civil, political, social, and cultural rights are recognized and protected by the Hungarian constitution. Citizens are equal before the law, and the judiciary serves as the primary safeguard of constitutional rights. The judiciary is organized in a

four-tier system of local courts, county courts, high appeals courts, and the Supreme Court. Local and county courts have jurisdiction over their territorial districts, with county courts also serving as local appeals courts in minor cases. The high appeals courts have regional jurisdictions, with seats in Budapest and four other towns. The Supreme Court serves as a final appeals court and ensures the uniform application of laws, developing a limited form of case law.

Since 1990, the eleven-member Constitutional Court has shaped the legal framework of Hungary. Its members are elected by the parliament from among the country's legal scholars. The court's primary function is to safeguard constitutional rights through its interpretation of the constitution and control of legal norms. Since it lacks an effective enforcement mechanism, however, some decisions, most notably on the representation of minorities in the legislature, have not been implemented by the parliament.

As part of the drive to weaken the institutions that constitute checks and balances in the country's constitutional system, the Fidesz government in 2010 amended the constitution to strip the Constitutional Court of its jurisdiction over important matters that, under the constitution, are already closed to public input via referendum. As a result, the topics in question, including taxation and the national budget, are now the exclusive preserve of the parliament. Importantly, the Constitutional Court is not authorized to intervene to protect property rights.

In September, a parliamentary subcommittee investigating infringements on civil and political rights between 2002 and 2010—that is, under the previous government—summoned several leaders of the judiciary to question them on decisions following the antigovernment riots of 2006. The intimidation implied in such a hearing has the potential to harm judicial independence, especially with respect to politically sensitive cases.<sup>31</sup>

Under a reform enacted in 1997, the judiciary has been administered by the National Judicial Council, whose head is the president of the Supreme Court. Nine members of the council are elected by and from among judges; the other members are the ministers of justice and of finance, the chief prosecutor, the chairman of the Hungarian Bar Association, and one delegate each from the parliament's judicial and finance committees.

The chief prosecutor is nominated by the president of the republic and elected by the parliament. The Fidesz government in 2010 extended the chief prosecutor's term from six years to nine, and eliminated lawmakers' right to question him in the parliament. Moreover, the law governing the chief prosecutor's election now calls for a two-thirds vote. These changes effectively entrenched Péter Polt, an Orbán confidante who was elected in December, in the office for more than two parliamentary terms.

The parliament elects four ombudspersons to report on human rights, privacy rights, the rights of ethnic and national minorities, and the right to life and a healthy environment. The ombudspersons operate independently from the judiciary and have no legal authority. They provide a complementary mechanism to protect human rights through their investigations and reporting to the parliament.

Citizens have the right to turn to the ombudspersons to investigate human rights violations.

While tensions between the Romany minority and the ethnic Hungarian majority have been high for years—in part due to manipulation by the extreme right—there were some positive developments in 2010. The suspects in the previous year’s series of murders of Roma were prosecuted, and in October a negotiated agreement ended a school segregation dispute in the northeastern village of Taktaharkány. Following a report by the local elected Romany self-government body, successful negotiations were held with the participation of the school, the local minority government, the Antidiscrimination Authority (Egyenlő Bánásmód Hatóság), and the Chance for Children Foundation.<sup>32</sup> This process and the resulting agreement are encouraging and could serve as a model for the resolution of similar conflicts. Nevertheless, the overall situation of the Roma in Hungary remains dire, and the increased political influence of the extreme right may not be helpful.

### Corruption

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
3.00	2.75	2.75	2.75	3.00	3.00	3.00	3.25	3.50	3.50

Hungary fell behind the region’s average score on Transparency International’s 2010 Corruption Perceptions Index (CPI) and is now ranked 50 out of 178 countries surveyed. Despite government promises to tackle corruption, no significant measures have been put in place in recent years. As a result, some 75 percent of Transparency International (TI) survey respondents now believe that corruption has been increasing in Hungary, with most of them naming political parties as the most corrupt institutions.<sup>33</sup> This common perception is not only a key obstacle in fighting everyday corruption but has also led to widespread public disillusionment with the democratic process as a whole.

In terms of low-level corruption, the most affected sector is health care. Doctors are commonly given cash-filled envelopes in exchange for better treatment. According to TI’s survey, 26 percent of respondents had paid bribes, a serious increase compared with the previous year.

When asked, people openly and eagerly condemn corruption, and according to TI’s Global Corruption Barometer, 9 out of 10 Hungarians would even be willing to report corruption cases. Nevertheless, last year’s survey found that 63 percent of people confronted with corruption in reality never reported the incident.<sup>34</sup> This is partly due to the lack of an adequate system to protect whistleblowers, which would be essential to motivate citizens to take personal action against corruption.

Party financing and public procurement are among the areas most afflicted by major corruption. According to recent estimates, graft occurs in 65 to 75 percent of all public procurement processes.<sup>35</sup> While on the surface all parties have long insisted that the party financing system needs to be fundamentally transformed,

behind the scenes such an overhaul has never been seriously considered. This is partly because the reform would require a two-thirds parliamentary vote. That in turn, until recently, would have meant an inconceivable consensus between Fidesz and the MSZP. Moreover, lacking sufficient public pressure, the major parties have had little incentive to change a system that serves their interests.

The new Fidesz government, with its two-third parliamentary majority, could tackle the party financing problem on its own, but no concepts have been proposed so far. In the meantime, parties continued to abuse state and municipal resources for their 2010 parliamentary and municipal campaigns, raise funds through illegal channels, and spend money in ways that are incompatible with the letter as well as the spirit of the law. According to experts, 9 forints out of 10 are channeled to party campaigns through potentially illegal channels and from potentially illegal sources, and the money spent by parties on campaigns doubles every four years. The State Audit Office has often been accused of failing to fulfill its duty to provide real control over parties and resisting the full exploitation of its mandate to monitor campaign spending.

A few weeks before the April 11 parliamentary elections, a court of first instance sentenced János Zuschlag, a former MP with the MSZP, to eight and a half years in prison for embezzling state subsidies. Zuschlag and more than a dozen of his accomplices were accused of creating fictitious NGOs to collect subsidies totaling 75 million forints (US\$356,800). Given the relatively minor financial damage and the fact that the defendant made partial restitution well before sentencing, the harshness of the penalty was unprecedented, raising concerns that it was politically motivated. Critics of the sentence argued that criminals convicted of manslaughter can receive lighter punishments. However, others pointed out that the complex corruption case was the first in Hungary's recent history that was directly related to a governing party, and that the ruling therefore had symbolic importance.

An enormous number of new corruption scandals emerged later in the year, due in part to the activities of Gyula Budai, a special commissioner for accountability and anticorruption who was appointed by Prime Minister Orbán to uncover the wrongdoings of the previous MSZP government. The cases affected former and current chief executives of state-owned companies, parliamentary politicians, mayors, and even the two previous prime ministers, Ferenc Gyurcsány and Gordon Bajnai, who had to give testimony in connection with a billion-dollar casino development project. A few months later, Budai told the press he had proof that Gyurcsány and Bajnai had given false testimony. They in turn sued Budai for slander and violation of privacy rights.<sup>36</sup> In November, Budai launched another attack on Gyurcsány, suggesting that an unnamed person whose right of immunity is under review in connection with the case must be the former prime minister himself, and expressed his hope that the chief prosecutor would not "cover up" for Gyurcsány. Budai was then accused of making a public threat and giving political orders to the judiciary.

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