

# Hungary

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*Capital:* Budapest  
*Population:* 10.1 million  
*GNI/capita:* US\$16,970

The social data above was taken from the European Bank for Reconstruction and Development's *Transition Report 2007: People in Transition*, and the economic data from the World Bank's *World Development Indicators 2008*.

## Nations in Transit Ratings and Averaged Scores

	1999	2001	2002	2003	2004	2005	2006	2007	2008
Electoral Process	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.75	1.75
Civil Society	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.50	1.50
Independent Media	2.00	2.25	2.25	2.25	2.25	2.50	2.50	2.50	2.50
Governance*	2.50	3.00	3.00	2.50	2.50	n/a	n/a	n/a	n/a
National Democratic Governance	n/a	n/a	n/a	n/a	n/a	2.00	2.00	2.25	2.25
Local Democratic Governance	n/a	n/a	n/a	n/a	n/a	2.25	2.25	2.25	2.25
Judicial Framework and Independence	1.75	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75
Corruption	2.50	3.00	3.00	2.75	2.75	2.75	3.00	3.00	3.00
Democracy Score	1.88	2.13	2.13	1.96	1.96	1.96	2.00	2.14	2.14

\* 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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Following the riots of the previous year, 2007 was marked by polarized party politics, radicalization of the extreme Right, and half measures to implement reforms. Since the systemic changes of the early 1990s, Hungary has successfully introduced a free-market economy, albeit with significant involvement from the state mostly in the redistribution of resources and human services. Following his reelection in 2006, Prime Minister Ferenc Gyurcsány and his second government set out to launch reforms in central administration, education, and health care. The laws required to implement the reforms were passed during the year, but most of them were watered-down versions thanks in part to resistance from Gyurcsány's own Socialist Party caucus.

Despite these difficulties, Hungary is a stable parliamentary system in which two parties—the Hungarian Socialist Party (MSZP) and the right-wing Young Democrats Alliance–Hungarian Civic Association (Fidesz)—dominate the legislature, with three minor parties forming independent factions. The country's democratic institutions are robust and likely to hold together despite reckless party politics and radicalization. Public opinion surveys show, however, that the political elite are losing touch with the public as they compete for power and disregard the need for substantial reforms. Political leaders have done little to reconcile the divisions between Left and Right, and illiberal rhetoric still pesters political life in Hungary.

While there have been some minor clashes between the police and extreme right-wing rioters, and antigovernment protests have become a staple of Hungarian politics, there were no incidents during the year similar to the September–October 2006 unrest. The tensions released in 2006, however, were built up over a longer period and stem from several factors, including the lack of fundamental reforms, the state's central role in offering services beyond its capacity, and public reliance on the state instead of the private and nongovernmental sectors. The country's unresolved Communist legacy, including the role of secret services before transition and the management of privatization, still haunts the sociopolitical landscape.

**National Democratic Governance.** The lowered intensity of street demonstrations in 2007 did not mean that the crisis of 2006 was over. The country spent much effort bracing for the 2008 referendum, likely to be won by the opposition if the turnout is sufficiently high. The strengthening of political extremism—including the formation of an openly racist “paramilitary” group (Jobbik's Hungarian Guard) and violent attacks on coalition politicians, their property, and the police—is a worrisome factor. The government began some of its promised reforms, but their fate is uncertain facing the 2008 referendum and resistance from rank-and-file

Socialist parliamentarians. The Fidesz party's allusions to the referendum as a means of forcing early elections may weaken the country's democratic governance. *Hungary's rating for national democratic governance remains at 2.25.*

**Electoral Process.** Hungary's electoral system ensures free and fair elections in which political parties can alternate in power at both national and local levels. The year was marked by preparations for the referendum on the government's reforms, involving a series of legal battles in front of the National Electoral Committee and the Constitutional Court. *Hungary's rating for electoral process remains unchanged at 1.75.*

**Civil Society.** Hungary's legal framework is generally hospitable to civil society, but tax regulations and other administrative requirements may threaten its long-term sustainability and development. A worrisome trend is the growing reliance of nongovernmental organizations (NGOs) on state funding. Additionally, the 2007 amendments to the tax code limiting tax-deductible charitable donations impede the ability of NGOs to diversify their funding. The strengthening presence of illiberal radical views in Hungarian civil society continued from 2006, with the establishment of the far-right Hungarian Guard. *Hungary's civil society rating remains unchanged at 1.50.*

**Independent Media.** Hungarian media are generally free and diverse. The market is dominated by commercial outlets in both broadcast and print media. Public service media continue to struggle with lack of funding and occasional political meddling, but some signs point to increasing stability and sensible reforms in programming on public TV and radio. Hungarian journalists broke impressive news stories related to politicians and public servants in 2007, some of which led to resignations and changes in policy. Political polarization in the media, however, continued to reflect the division of the country as a whole. Notably, some Hungarian media owners have used their outlets to pursue political agendas. *Hungary's rating for independent media remains at 2.50.*

**Local Democratic Governance.** The local governance sphere in Hungary struggles with efficiency issues, overfragmentation, and a lack of human and financial resources in many small municipalities. Despite nominally significant independence, local self-governments are overdependent on the central government as a result of the high level of redistribution of local taxes and other revenues. There is a hollowing-out process under way at the territorial level, with counties steadily losing their relevance as an effective tier of self-governance. The introduction of regions and small regions has only complicated matters further. The distribution of European Union development funds in the coming years will necessitate a more efficient system of regional and local self-government. *Hungary's rating for local democratic governance remains at 2.25.*

**Judicial Framework and Independence.** Fundamental civil and political rights are guaranteed by an independent judiciary, the Constitutional Court, and the ombudsmen. There is no systematic torture or ill-treatment of defendants in Hungary. The professionalism of the police came under heavy criticism from the opposition following the 2006 clashes with extreme right-wing rioters, resulting in criminal procedures against policemen. A series of scandals further eroded the credibility of the police and resulted in a leadership purge of the national and capital police forces. The long overdue debate on the accountability of the judiciary begun in 2006 continued in 2007 and may improve judicial practices. *Hungary's rating for judicial framework and independence remains unchanged at 1.75.*

**Corruption.** While continuous legislative efforts have brought Hungary's anti-corruption legal framework closer to international standards, the lack of effective implementation and political will in such areas as party finance reform means that the country continues to struggle with high-level corruption. Although the government launched an ambitious and comprehensive anticorruption initiative in 2007, the year also saw the breakdown of four-party talks on campaign finance reform and a number of high-profile corruption scandals, resulting in a mixed picture at year's end. *Hungary's corruption rating remains unchanged at 3.00.*

**Outlook for 2008.** The most important emerging issue will likely be the Fidesz-proposed referendum on the reforms of the government scheduled for 2008. Fidesz leader Viktor Orbán aims to force the government to repeal the reforms and maintain the status quo, eventually forcing an early election. Whether this is only rhetoric remains to be seen. Nevertheless, a crushing defeat as predicted by several opinion polls may paralyze the government until the 2010 elections. Radicalization will probably continue, and the foreseeable legal actions against the ultranationalist party, Jobbik's Hungarian Guard, will not stem the tide. Despite this, there is no likelihood of extremists threatening the country's democratic system or influencing political decision making in 2008 or the near future.

# MAIN REPORT

## National Democratic Governance

1999	2001	2002	2003	2004	2005	2006	2007	2008
n/a	n/a	n/a	n/a	n/a	2.00	2.00	2.25	2.25

Hungary's constitutional system overall ensures stable, democratic governance. Following general elections, the Parliament elects by absolute majority the prime minister, who is responsible for governance. Ministers are not subject to no-confidence votes, and the Parliament can remove the prime minister and cabinet only through the process of "constructive no confidence," which requires not only a vote of no confidence, but the previous nomination of and vote on a new prime minister. This method ensures that the new head of the executive will also hold the support of the majority of members of Parliament (MPs). As a consequence, the opposition has very little chance to oust an incumbent prime minister between general elections. The Constitutional Court, with its broad powers to control legislation and the executive's decisions, provides effective checks. The president of the National Audit Office, the president of the Supreme Court, the chief prosecutor, and members of the Constitutional Court are elected by the Parliament, usually after reaching a broad consensus.

The top legislative organ in Hungary is the 386-member unicameral Parliament (*Országgyűlés*). The government and ministries may pass lower-level legislation that must conform to laws in force. The work of the Parliament is mostly transparent, with easy access to information through the media, interactions with MPs, and a frequently updated, easy-to-use website,<sup>1</sup> although there are some restrictions on live television broadcasting. In 2006, the Társaság a Szabadságjogokért (Hungarian Civil Liberties Union, HCLU) sued the Ministry of Justice and Law Enforcement to publish the draft of the new Constitution, and a court of first instance ruled that the ministry must publish the material.<sup>2</sup> The appeals court, however, overturned the verdict and upheld the claim of the minister of justice and law enforcement, József Petrétei, that the document is a preparatory one and as such does not need to be published.<sup>3</sup>

Even though the country's political system and democratic institutions are stable, public confidence is low. According to a survey by the polling agency Tárki published at the beginning of 2007, public confidence in political institutions has decreased—in December 2006, only 23 percent of respondents expressed full confidence in the president of the republic, less than 10 percent trusted the government entirely, and only 3 percent trusted political parties. The only institution to gain trust, according to the survey, was the judiciary.<sup>4</sup>

The trend of losing faith in politicians and institutions continued throughout 2007. According to a Tárki survey published in December, only 47 percent of

respondents expressed a willingness to vote in the elections.<sup>5</sup> According to another survey conducted by Medián in the same period, only two prominent politicians, President of the Republic László Sólyom and Debrecen mayor Lajos Kósa, had approval ratings over 50 percent.<sup>6</sup> While this represents a slight increase from January 2007, when no politician had approval ratings over 50 percent, the overall picture is rather bleak. These trends are due largely to the controversy around the government's reform package, corruption scandals, and the tone of politics in Hungary. What makes these tendencies worrisome is the discernible popular alienation from mainstream politics.

Hungary's political leaders, most of whom gained experience in the 1970s and 1980s, appear unable to deliver on promises made or to effectively transform major state services.<sup>7</sup> Since the first free elections in Hungary in 1990, two major parties—the Hungarian Socialist Party (Magyar Szocialista Párt, MSZP) and Young Democrats Alliance–Hungarian Civic Association (Fiatl Demokraták Szövetsége–Magyar Polgári Szövetség, or Fidesz)—emerged to dominate the political landscape. The high costs of forming a viable new political party effectively inhibit any challenge to the current status quo. The result of the lack of a realistic third option in Hungarian politics has been that politicians in both major parties do not engage in substantive matters, nor do they appear compelled to respond voter feedback.

In 2006, the second government of Prime Minister Ferenc Gyurcsány pledged to carry out substantial reforms in education, health care, and social security. In the Hungarian parliamentary system, the opposition's chances to scuttle government-initiated legislation are minimal. Owing to the 2006 scandal connected to lies admitted by Gyurcsány, however, Prime Minister Gyurcsány lost his grip on the Socialist Party caucus, and the MSZP parliamentary bloc shattered the program.

Discontent with the reforms, fueled partly by Fidesz and trade unions, and the perceived decline in living standards, protests against Prime Minister Gyurcsány, his government, and the coalition parties became a political staple in Hungary in 2007. More worrisome was the associated radicalization of elements in the political opposition. There were several violent attacks on the prime minister, as well as on the Socialist and Liberal parties, politicians, and other authorities. On December 11, Sándor Csintalan, former Socialist politician turned right-wing media personality, was attacked in his garage.<sup>8</sup> A relatively unknown, extreme right-wing group (Magyarok Nyilai Nemzeti Felszabadító Hadsereg—Arrows of the Hungarians National Liberation Army) claimed responsibility for the attack. The existence of the group, however, has not been verified.<sup>9</sup> In February, unknown perpetrators fired on the headquarters of the national police with an AK-47 assault rifle.<sup>10</sup> In December, two shots were fired at Minister of Education István Hiller's home.<sup>11</sup> Molotov cocktails were thrown at the residences of János Kóka, president of the Alliance of Free Democrats (Szabad Demokraták Szövetsége, SZDSZ), and Socialist MP László Ecsödi, as well as an MSZP office in Budapest.

Extreme right-wing party Jobbik launched its "self-defense" group, Magyar Gárda (Hungarian Guard), in August. The Hungarian Guard has held racist marches in Tatárszentgyörgy,<sup>12</sup> Kerepes,<sup>13</sup> and Érpatak.<sup>14</sup> Mainstream political parties have

condemned the formation of the group, and the Office of the Prosecutor filed a request with the Budapest Municipal Court to withdraw the group's registration. Independently, several municipalities declared that the Hungarian Guard will not be granted permission to demonstrate in their jurisdiction.

Hungarian law enforcement agencies and security services were under effective civilian control during 2007. Owing to the autumn 2006 events, the services had been severely criticized by the opposition and human rights groups. In November 2006, the government appointed a committee of prominent law enforcement experts and academics, chaired by former ombudsperson Katalin Gönczöl, to investigate police practices during the September–October riots. The committee's findings, released on February 5, 2007, indicated that responsibility was shared between the governing coalition, opposition parties, the police, and extremist groups.<sup>15</sup> Amnesty International expressed agreement with the findings.<sup>16</sup> Three former Constitutional Court justices, however, attacked the report as political and qualified it as exonerating the government from responsibility.<sup>17</sup> The Committee of Civil Jurists, an ad hoc group of lawyers opposed to the government, released its own report with findings contradictory to those of the Gönczöl committee.<sup>18</sup>

#### Electoral Process

1999	2001	2002	2003	2004	2005	2006	2007	2008
1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.75	1.75

Members of Parliament are elected for four-year terms in a two-round mixed electoral system. In the first round, voters may select candidates running in 176 single-seat constituencies and regional party lists from which 152 candidates may win seats based on proportional representation. Only those constituencies where no single-seat candidate won with an absolute majority in the first round go on to hold second-round elections. The remaining 58 seats are filled from the national party lists on a proportional basis, with a 5 percent electoral threshold. Hungarian elections are considered fair and free.

Following the 2006 national elections, the MSZP had 190 members and 49 percent of the seats and formed a coalition government with the SZDSZ, which controls 5 percent of the seats with 20 representatives. The center-right Fidesz secured 139 members and 36 percent of the seats. Fidesz ran in an electoral coalition with the Christian Democratic People's Party (Kereszténydemokrata Néppárt, KDNP), which secured 6 percent of the vote, or 22 seats. Yet the relationship between Fidesz and KDNP remained so close that one may question the independence of the KDNP faction. The Hungarian Democratic Forum (Magyar Demokrata Fórum, MDF) had the smallest faction with 11 members, or 3 percent of seats. There are currently three independent MPs in the Parliament. With 85 percent of the seats held by the two major parties, coupled with KDNP's close relationship with Fidesz, Hungary has become a de facto two-party system.

Following the two heated polls (national elections in the spring and municipal elections in October) and the riots of 2006, the opposition's insistence on a referendum on the government-proposed reforms became one of the main themes in Hungarian politics in 2007. To call a referendum, the proponent must collect at least 200,000 valid signatures, and the result is binding on the Parliament and the government. The opposition party proposed seven referendum questions to counter the government's reform package and maintain the status quo in the social and educational sectors. The initiative started an avalanche of counterquestions mostly from citizens, which escalated to comic proportions. Following a series of legal battles and several verdicts by the Constitutional Court, the National Electoral Committee approved six of Fidesz's questions: to maintain state ownership of hospitals and health service providers; to allow only pharmacies to sell drugs; to grant preference to family farmers in the purchase of farms and farmland; to exempt students in higher education from paying tuition fees; to abolish the visiting fee in hospitals and doctors' offices; and to abolish the hospital fee.<sup>19</sup>

According to a Gallup survey published in December and quoted by HírTv, 60 percent of respondents were expected to participate in the referendum, which would make the result binding<sup>20</sup> (referendums are successful and binding if 50 percent of registered voters cast a valid vote and at least 25 percent give the same answer to the question).<sup>21</sup> According to a Marketing Centrum survey, 44 percent responded that they would participate.<sup>22</sup> Both surveys predicted an overwhelming approval of Fidesz's questions. The referendum is scheduled for 2008, and if the results correspond to the surveys, the ruling coalition will find itself in a precarious situation.

While political parties are active and often successful in mobilizing supporters, actual membership is low at about 1 percent of the population. Forming parties in Hungary is relatively easy, and according to the National Election Office, approximately 200 political parties are registered. Most of them, however, do not have enough support and resources to run in elections.<sup>23</sup>

Minority representation at the national level is still unsatisfactory. From the 2006 spring elections, only 40 women and 3 Roma gained seats in the 386-member Parliament. By constitutional requirement, the Parliament should have ensured real representation for ethnic minorities by 1992. Yet in November, the Parliament voted against a proposed law that stipulated 30 percent of the government and 50 percent of the electoral party list be women.<sup>24</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 qualified majority is required; if it cannot be reached, a third round is held where the candidate with a simple majority is elected. Presidential elections are usually heated but fair. The last presidential elections were held in 2005 and resulted in the election of László Sólyom, former president of the Constitutional Court and a political outsider from the civil society organization Védegylet (Protect the Future), nominated by Fidesz. While the Constitution limits the president to mostly ceremonial functions, Sólyom has tried to stretch these boundaries with a mixed record.



## Civil Society

1999	2001	2002	2003	2004	2005	2006	2007	2008
1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.50	1.50

Hungarian law effectively facilitates the registration and administration of non-governmental organizations (NGOs), and there are no legal obstacles to the work of civil society organizations. At the same time, tax regulations put a significant burden on NGOs and in the long run may threaten their viability and sustainability.

In 2005, there were 56,694 NGOs in Hungary, according to data from the National Statistics Office. Forty percent of NGOs are foundations, while the rest are registered as associations, including both public benefit companies and public benefit associations. Two-thirds of registered foundations were active in education, social services, and culture, with the majority focused on sports and other recreational activities.<sup>25</sup> In addition, a range of influential human rights organizations, think tanks, and political foundations attest to the maturity and breadth of Hungarian civil society.

Despite steady growth over recent years, only about 1 percent of employed Hungarians work in the civil sector.<sup>26</sup> The high payroll tax makes human resource development increasingly difficult for NGOs, and some international NGOs based in Hungary have relocated to neighboring countries, such as Slovakia, to keep operational costs down.<sup>27</sup> Volunteers are increasingly seen by NGOs as an attractive addition to paid labor, and the public's interest in volunteering is also growing. However, the percentage of Hungarians who volunteer is still only half of the European Union (EU) average of 33 percent.<sup>28</sup>

In spite of growing overall incomes in the civil society sector, financial sustainability remains a serious problem. According to the National Statistical Office, the total income of the Hungarian nonprofit sector in 2005 was 854 billion forint (US\$4.9 billion). Of this, the share of nonprofit organizations (mostly foundations and public benefit corporations) created by the government or by various municipalities was 497 billion forint (US\$3.1 billion), or close to 60 percent.<sup>29</sup>

One discernible and potentially worrisome trend is the steady increase in state funding for the nonprofit sector. While state funding between 2000 and 2005 grew by 8 percent for private foundations and 18 percent for private associations, it increased by 85 percent for government or municipality-founded nonprofit organizations. Even more worrying, the share of private funding dropped in the same period, from 16 to 13 percent.<sup>30</sup> These numbers underscore the disproportionate reliance of the Hungarian civil society sector on central or local government-related funding and the still feeble nature of private philanthropy in Hungary.

Changes to the tax code in 2007 related to charitable donations—specifically, lowering the annual income ceiling for tax-deductible private donations—eliminated important incentives for private giving, especially for potential major donors. This decision further reduced the room for civil society organizations to diversify their funding sources and to decrease their dependence on state and municipal funding.

An increasingly important source of funding for NGOs is the annual 1 percent donation citizens can designate from their income tax. In 2007, the growing amount of 1 percent donations to civil society organizations reached 8 billion forint (US\$46 million).<sup>31</sup> These contributions, however, represent supplementary revenue for the majority of beneficiaries and are a dominant source of income for only a small segment of the sector.<sup>32</sup> With only about half of taxpayers actually designating their 1 percent for NGOs, further publicity is needed to utilize the full capacity of the law to support the functioning of independent civil society.

Another important source of funding is the National Civil Fund (NCF), initiated in 2003. The NCF is a budget-financed program to match the total funds contributed by taxpayers every year through 1 percent donations. By law, the funds transferred annually to the NCF program cannot be less than 0.5 percent of the personal income tax actually paid by citizens in the previous budgetary year.<sup>33</sup> The NCF operates on an application basis and provides both project and organizational funding to NGOs. The NCF's various decision-making colleges (11 in total) are made up of civil society representatives, while its 15-member council includes both NGO delegates and delegates from the government. Despite being a vital source of funding for Hungarian civil society, the NCF has been criticized for paternalistic and non-meritocratic funding policies and inadequate control in conflicts of interest within the decision-making colleges and the council.<sup>34</sup>

There are six major trade union alliances in Hungary in addition to other labor-interest groups, such as vocational chambers and professional associations. Unions, most of which have low membership and are seen as politically affiliated, have further increased their reputation for partisanship with high-profile participation in protests and strikes against the government's various reform measures. In December, the League of Independent Trade Unions (*Liga Szakszervezetek*) announced an indefinite general strike, which was seen as politically motivated.<sup>35</sup> The strike, which fizzled after only a day, was the seventeenth strike action in 2007 to protest the Gyurcsány government's reforms in health care, transportation, education, and public services.

The trend in politicization and radicalization of civil society that was observable in 2006 continued unabated in 2007. With the political parties eager to attach themselves to any potentially popular cause, the room for effective advocacy for civil society organizations shrank in 2007, while new organizations with unabashedly radical platforms were registered. Of these, the Hungarian Guard, formally registered as a cultural association by the far-right Jobbik, stood out as the most virulently illiberal in its racist, homophobic, and anti-Semitic views.

## Independent Media

1999	2001	2002	2003	2004	2005	2006	2007	2008
2.00	2.25	2.25	2.25	2.25	2.50	2.50	2.50	2.50

Hungarian media are mostly free and reflect a variety of views and interests. The vast majority of media outlets are controlled by private companies, many of them multinational, although a growing number are owned by Hungarian corporate interests, such as the influential outlets Index, *Napi Gazdaság*, Echo TV, InfoRadio, and *Magyar Hírlap*.<sup>36</sup> Despite the diverse media scene, political interference is not uncommon, although it is practiced in less direct and obvious ways than in the late 1990s.

While the 1996 Law on the Media introduced commercial broadcasting and broke up the state-controlled broadcasting monopoly, it has been constantly criticized for not creating the proper legislative and financing framework for the transformation of these outlets into genuine public service broadcasters. As a result, public broadcasters have become the battleground for intense political struggles, through closely-controlled connections to state financing and government agendas.

Half of the board members of the public service broadcasters are appointed by governing political parties, the other half by the opposition. For additional civilian involvement and control, the Law on the Media allows NGO representatives to sit on the boards. However, many of the NGOs that delegate these members are considered to be closely connected to political parties.

The National Television and Radio Board (ORTT), a regulatory and supervisory body, was also established in 1996 with a board comprising delegates from political parties. ORTT monitors the activities and programs of public and commercial broadcasters and also grants licenses and broadcasting frequencies.

One of the most important and controversial media-related stories of 2007 was the July decision by the Constitutional Court to abolish the jurisdiction of ORTT to act against broadcasters that violate the Law on the Media in their programming.<sup>37</sup> The decision removes ORTT's previous jurisdiction to levy fines or suspend the broadcasting of television and radio stations. The decision leaves a significant vacuum in the enforcement mechanism of the Law on the Media.<sup>38</sup>

The restructuring of public service radio—initiated by its new chairman, György Such, who was elected in 2006—elicited criticism from employees, some of whom expressed their extreme resistance by hunger striking.<sup>39</sup> These sweeping reforms aimed at streamlining production, reducing staff, and revamping programming to increase market share.

Hungarian broadcast media are dominated by commercial channels, most of which are foreign owned, although in 2007 the trend of Hungarian commercial interests entering the media market continued. A notable earlier development in this area was the 2005 creation of a media portfolio by entrepreneur Gábor Széles with the purchase of the daily *Magyar Hírlap* and the founding of Echo TV.

Széles is considered an opponent of Prime Minister Gyurcsány, and his media outlets exhibited clear and growing partisanship in their news and commentary in 2007.

Besides the three state-supported channels, two commercial stations—RTL Klub (affiliated with the Belgian–French RTL–UFA) and TV2 (owned by a Hungarian–American–Scandinavian consortium)—also reach the entire population. There are over 200 local or regional public, commercial, nonprofit, and cable radio stations, most limiting their programming to entertainment without significant news content.

While Hungarian journalism generally strives for high standards and journalists are trained professionals, the lines between factual information, analysis, and commentary are often blurred. The media scene largely mirrors the deep political divisions of the country, often impairing journalistic objectivity.

Libel and state secrecy laws are among the most noticeable burdens on the press. Hungarian court rulings in libel cases have consistently demonstrated the weaknesses of the system. The courts effectively curtailed the ability of journalists to quote controversial remarks about public figures, since, according to the criminal code, libel constitutes not only statements that damage an individual's reputation, but also the act of publicizing derogatory statements.

In an encouraging development, investigative journalist Antónia Rádi was acquitted in December after a four-year trial for disclosing state secrets. Rádi had been on trial since 2003 for reporting to news weekly *HVG* on a criminal case.<sup>40</sup> However, her acquittal was the result of a technicality and not of changes in legislation—which, according to Miklós Haraszti, media freedom representative of the Organization for Security and Cooperation in Europe (OSCE), “allows for the acquittal of journalists who report on state secrets only if the classification was not carried out properly, or the officials compromised the classification procedure in other ways.”<sup>41</sup>

Though leading media figures have argued that Hungarian journalism lacks agreed-upon ethical standards and norms,<sup>42</sup> some media outlets were successful in revealing corruption or unethical behavior among politicians and public servants, providing encouraging examples of professional journalism. The leading online news portal, Index, succeeded in forcing a court decision against the Ministry of Industry to reveal details of a contract with the South Korean tire manufacturer Hankook. The contract detailed the amount and nature of state subsidies (15 billion forint, or US\$92 million) provided to the company in setting up its new manufacturing plant in eastern Hungary, information the ministry initially withheld, citing business confidentiality.<sup>43</sup>

In December, Richard Pimper, deputy chief of staff of the Office of the Prime Minister, was forced to resign after another prominent online news portal, Origo, revealed that he ordered payment of 6 million forint (approximately US\$35,000) for a poorly prepared study on regional development, commissioned by the Office of the Prime Minister. In addition to Pimper's resignation, the company that produced the study was ordered to repay the sum.<sup>44</sup>

Another notable journalistic scoop published by *Manager Magazin* reported that the leading Hungarian telecom company, Magyar Telekom, was entangled in an apparent bribery case through its Montenegrin subsidiary. As a result of this and subsequent reports in the magazine and other Hungarian media, the chairman of Magyar Telekom, Elek Straub, was forced to step down. For her work on the investigative series, Éva Vajda, then deputy editor in chief of *Manager Magazin*, received the 2007 Göbölös Soma Award for Investigative Journalism.

While there is no systematic pressure on journalists by law enforcement authorities, the arrest of two journalists covering an unauthorized demonstration and its dispersal by police in November resulted not only in protests from human rights watchdogs, including Freedom House,<sup>45</sup> but also in criticism from OSCE media freedom representative Miklos Haraszti.<sup>46</sup>

In Hungary access to the Internet is free of governmental interference and monitoring. According to the Central Statistics Office, 32.3 percent of Hungarian households had access to the Internet in 2007 (up from 22.1 percent in 2005). Broadband penetration has shown significant growth in recent years (68.2 percent of all Internet access was broadband in 2006)<sup>47</sup>, which in turn led to the proliferation of independent online news sources, some of which, like Index.hu, have become genuine competitors to both print and electronic media.

#### Local Democratic Governance

1999	2001	2002	2003	2004	2005	2006	2007	2008
n/a	n/a	n/a	n/a	n/a	2.25	2.25	2.25	2.25

Meaningful decentralization was essential to the transformation of Hungary's political system after the transition, and its core element was the development of a highly-devolved system of local self-government. The system's main pillars are enshrined in the Constitution and the Act of Local Self-Governance of 1990, whereby local communities are entitled to directly elected self-government to manage local affairs.

Hungary's territorial division is also defined in the Constitution, creating a two-tier self-government system: At the regional level, 19 counties serve as the main administrative units, while cities and villages with their own elected legislative bodies and executive organs function as the local units of self-government. There are no hierarchical relations between regional and local self-governments.

The welcome process of decentralization, however, led to a dramatic increase in the number of local political units that can elect their own representatives and executive. As a result, the local governance sphere in Hungary struggles with efficiency issues owing to overfragmentation: Most small villages with populations under 1,000 (54 percent of the smallest settlements) maintain full-fledged municipalities, most of which suffer from a lack of human and financial resources.<sup>48</sup> Despite their legally-enshrined autonomy, local self-governments suffer from

overdependence on the central government's redistribution of local taxes and other revenues.<sup>49</sup>

Hungary's local and regional self-government structure has been further complicated by successive waves of reform since the mid-1990s, some related to Hungary's EU accession and the envisioned systems for the distribution of EU development funds.<sup>50</sup> The main thrust of these reforms was twofold. On the one hand, the creation of small regions—cooperative associations of small municipalities within the same county—aimed to ameliorate problems stemming from weak local capacity and scarcity of resources. The small regions serve three main functions: performance of local public services, management of state administration tasks where local knowledge and expertise are necessary, and operation of development functions.<sup>51</sup> On the other hand, the formation of regions—seven in total, six of which comprise three counties each, while one includes the capital and Pest county—was intended to bring Hungary's regional governance system in line with existing EU policies, which envision “a community of regions,” and enable more effective implementation of large-scale, EU-funded regional development programs.<sup>52</sup>

But without systematic reform of the existing two-tier system, the designation of 174 small regions (sub-county units) and seven development regions (supra-county units) essentially created additional levels of local self-governance without sufficiently elaborating their jurisdiction and competences. This situation is partly a result of the government's failure to pass legislation in 2006 to replace counties with regions as the main units of regional self-governance and in 2004 to make it mandatory for small municipalities to belong to designated small regions.

Counties therefore remain important political factors thanks to their elected county assemblies and the county electoral lists in the national elections. Yet as functional components of local governance, they have little influence or jurisdiction.<sup>53</sup> This hollowing out at the county level is further exacerbated by the increasingly important role played by the seven regions, which are the main conduits for processing EU cohesion funds.

The capital, Budapest, presents a unique challenge to effective local governance. The city is divided into 23 districts, which, with their elected assemblies and mayors, enjoy rights equal to those of other municipal self-governments. This makes citywide policy making extremely difficult and limits the ability of the city assembly and mayor to govern effectively.

In 2007, the various levels of regional and local self-governance received attention for their intended role in channeling significant EU development funds. Between 2007 and 2013, Hungary is entitled to 24 billion euros (US\$38 billion) for development projects, and a significant portion of these funds will be managed through seven regional development councils (RDCs), made up of representatives from relevant ministries, the heads of county assemblies, mayors of major cities, and delegates of small regions.<sup>54</sup>

Owing to the overwhelming victory of opposition candidates in the September 2006 municipal elections, there is ample room for political friction in the RDCs.

Not surprisingly, the opposition has criticized the government for attempting to influence decision making through the main national coordinating body of EU development funds, the National Development Agency (Nemzeti Fejlesztési Ügynökség).<sup>55</sup>

Yet party politics so far have exerted less influence over the functioning of the RDCs than previously feared. The need to roll out viable development programs that can bring significant funds to a given region might account for this uncharacteristically consensus-seeking atmosphere in most RDCs.<sup>56</sup> It remains to be seen whether this trend will continue in the coming years, when the amount of funding is set to increase.

Hungary's 13 recognized national and ethnic minority groups have the right to establish national and local minority self-governments. Financed by the state budget, minority self-governments can maintain institutions that help to preserve their culture and ethnic identity. As a result of 2005 amendments to the 1993 Law on the Rights of National and Ethnic Minorities, candidates for seats in minority self-governments may now run only with the nomination of minority civil society organizations and are required to declare their familiarity with the language, culture, and traditions of the given minority. The amendments were instituted to prevent non-minorities from holding positions in minority self-governments as a way to gain personal or business advantage, but some critics voiced concern over a registry that would display sensitive ethnic data.

#### Judicial Framework and Independence

1999	2001	2002	2003	2004	2005	2006	2007	2008
1.75	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75

The Hungarian Constitution recognizes and protects the equality of its citizens before the law, as well as fundamental political, civil, economic, and social rights. The primary safeguard of human rights in the country is the four-tier judicial system, organized in local courts, county courts, the highest appeals courts, and the Supreme Court. Citizens can also turn to four ombudsmen (two newly elected in 2007), functioning independently from the judiciary. The ombudsmen are elected by the Parliament and protect privacy rights, ethnic and national minority rights, and the right to life and a healthy environment. Ombudsmen have no legal authority, but through their reporting to the Parliament they provide an effective complementary mechanism to protect human rights. The Ministry of Education and Culture employs a commissioner to protect student rights within the educational system.

The 11-member Constitutional Court, working since 1990, has shaped the legal framework of Hungary. Its members are legal scholars elected by the Parliament, with three new justices and one reelected justice in 2007. The Court's primary function is to safeguard human rights through its interpretation of the Constitution

and control of legal norms. Lacking an effective enforcement mechanism, however, some decisions, most notably on the representation of minorities in the legislature, have not been implemented by the Parliament.

The judiciary functions as an independent branch of power. Since the reform of 1997, it is self-governed by the 15-member National Judicial Council. The head of the council is the president of the Supreme Court, currently Zoltán Lomnici. Nine members are elected by and from among judges; the other members are the minister of justice and law enforcement, the chief prosecutor, the chairman of the Hungarian Bar Association, and one delegate each from the Parliament's judicial and financial committees. The chief prosecutor is nominated by the president of the republic and elected by the Parliament.

The judiciary came under serious criticism in 2006, particularly from Mária Vászárhelyi of the weekly *Élet és Irodalom* (*Life and Literature*) and Zoltán Fleck, a leading sociologist of law, who urged the reform of the judiciary to overcome its alienation from society, intolerance of criticism, and lack of transparency and accountability.<sup>57</sup> While there was no visible improvement in 2007, the public discussion of this matter was a positive development.

Another area that needs more transparency is the judiciary's recruitment mechanism. According to László Gatter, president of the Capital Court, the county court of Budapest, relatives of judges are favored in the selection process for vacancies,<sup>58</sup> and promotions depend on personal connections rather than merit. The recent launch of a training academy for judges is an effort to increase professionalism and quality of work within the branch. Judges are not permitted to discuss cases with the press. The rationale for this rule is that the press often targets judges who pass important or controversial verdicts, and judges cannot defend themselves in public. But the practical result is it serves to reduce the already low transparency of the courts' functioning.<sup>59</sup>

To increase transparency and accountability, Judge Janos Cserni created a new association within the judiciary (Association for an Honest Judiciary Administration Association—Tiszteességes Bírósági Igazgatásért Közhasznú Egyesület, or Tibike). The association immediately became a subject of controversy among judges and drew attacks on Cserni.<sup>60</sup>

Intolerant views against minority groups are well entrenched in Hungarian society, including discrimination against Roma. Amnesty International's 2007 *Report on Hungary* duly criticizes the country for discrimination against and segregation of Roma, particularly children in the educational system.<sup>61</sup> The Jászladány case, in which non-Roma parents led by the mayor created a private school with public resources that excluded Roma children, has not been settled despite nearly six years of protest by a local civil rights group and widespread outrage.<sup>62</sup>

After the riots of autumn 2006, the credibility of police was further challenged by events in 2007. A policeman was caught stealing 460,000 forint (US\$2,700) following the shooting of a hostage-taker in a failed bank robbery in Budapest.<sup>63</sup> The policeman was sentenced to one year and eight months (suspended for four years).<sup>64</sup> Three policemen were detained in a kidnapping case in Kisvárd, allegedly



part of a gang war among cigarette smugglers.<sup>65</sup> In May, a 21-year-old woman accused five policemen of raping her during a routine traffic control.<sup>66</sup> In response, the prime minister sacked Budapest police chief Péter Gergényi, national police chief László Bene, and Minister of Justice and Law Enforcement József Petrétai.<sup>67</sup> The Office of the Prosecutor dropped the rape case in December 2007, however, owing to lack of evidence against the policemen.<sup>68</sup>

## Corruption

1999	2001	2002	2003	2004	2005	2006	2007	2008
2.50	3.00	3.00	2.75	2.75	2.75	3.00	3.00	3.00

On paper, Hungary's institutional anticorruption framework looks impressive, owing largely to reforms and legislative initiatives to reach EU standards. In 2001, the government adopted a Comprehensive Strategy Against Corruption, introducing a range of mandatory instruments on conflicts of interest and financial disclosure along with a host of punitive measures to deter corrupt practices.

In the following years, the State Secretariat on Public Finance was created to monitor public procurement and the handling of public finances, and the Glass Pocket Act was passed in Parliament, with unanimous support, to provide additional mandatory disclosure mechanisms on public spending. In 2006, the Law on Lobbying was enacted to inject transparency into lobbying efforts by special interest groups. However, implementation of anticorruption laws and regulations is patchy at best, owing to a lack of human and financial resources, as well as political will.

Parliamentarians, judges, and various other public officials are required to declare their assets annually, although many are suspected of transferring assets to family to avoid this legality. MPs are not restricted from engaging in business activities or assuming positions at state-owned companies before or after their mandate.

Instead of a designated independent body, a number of state institutions are empowered to fight corruption. The main investigative law enforcement body is the police, while high-level corruption (involving MPs, ministers, and heads of public departments) and organized crime cases fall under the jurisdiction of the Central Investigation Department of the National Office of the Prosecutor. Additional institutions with enforcement authority, such as customs and tax agencies, also have separate units to combat corruption.

The State Audit Office (Állami Számvevőszék, ÁSZ), the financial and economic audit organization of the Parliament, is the state's supreme audit organization to monitor public spending and ensure transparency in public finance processes. The president and vice president of the ÁSZ are elected by Parliament for 12 years, with supportive votes of two-thirds of all MPs. The Constitution requires a two-thirds vote from a parliamentary quorum to pass (and amend) an act on the ÁSZ and its operational guidelines. Because of its mandate and high level of independence, the

ÁSZ plays a key role in anticorruption efforts. However, its recommendations are not binding and therefore are often ignored by lawmakers and law enforcement authorities.<sup>69</sup>

In its National Integrity Systems study, published in 2007, Transparency International identified four critical weaknesses in Hungary's anticorruption legislation: a lack of protection for whistle-blowers, improper and weak conflict-of-interest regulations, lack of transparency in recruitment at public institutions, and restrictions on the availability of public interest information. The study pointed at party financing, corruption among police and other law enforcement authorities, and public procurement as the most acute areas of corruption.<sup>70</sup>

In all three areas, 2007 provided examples that underscore the study's findings. Toward the end of the year, separate cases highlighted inadequate safeguards surrounding public procurement. After the *Hungarian Post* acquired 4,800 bicycles for its delivery staff in a public tender, the selection of the tender's winner and the price paid (1.1 billion forint [US\$6.86 million]) for the bikes were both widely criticized.<sup>71</sup> The deputy chief of staff of the Office of the Prime Minister was forced to resign after it was revealed that under his supervision, 6 million forint (approximately US\$35,000) was paid for a substandard study produced by an outside contractor.<sup>72</sup>

In a statement referencing both cases, Transparency International stressed that the public procurement mechanism in Hungary is open to serious corruption and that despite highly regulated procedures, only about 10 percent of public procurements were conducted properly. The statement specifically criticized the use of "confidential business information" as a way to limit transparency in public procurement tenders.<sup>73</sup> It is estimated that corruption increases the cost of public procurement by approximately 25 percent.<sup>74</sup>

Police corruption also remained a recurrent topic in 2007 media reports, such as revelations that the new national police chief, József Bence, paid bonuses to a girlfriend while she was his subordinate at his previous position at the Customs and Finance Guard.<sup>75</sup> Allegations of corruption also reached high into the government when a former business associate of Minister of Finance János Veres was sentenced to three and a half years in prison for tax evasion and false accounting between 1991 and 1994. Veres claimed to have no knowledge of his business partner's wrongdoing.<sup>76</sup>

In September, MSZP politician Janos Zuschlág was arrested for using fake nonprofits to defraud the National Civil Fund of monies earmarked for civil society groups and channeling them to the Socialist Party.<sup>77</sup> The ongoing investigation touched even the prime minister, who was interviewed by the police. Gyurcsány served as minister of youth and sport during the time Zuschlág's faux NGOs received funds from the ministry.<sup>78</sup> Tamás Deutsch, minister of youth and sport in the Fidesz cabinet between 1998 and 2002, was also questioned by police as a witness.

A sprawling international investigation into bribes paid by the defense company BAE Systems to politicians in various countries in return for defense contracts

reached Hungary when it was reported by Swedish and U.S. media that in 2001, Hungarian political parties received millions of dollars as payment for the purchase of Gripen fighter jets.<sup>79</sup>

Spending by Hungarian political parties is way above the declared income from state support and donations. According to a recent study by the Eötvös Károly Public Policy Institute, parties spent as much as 10 times the allowable limit of 385 million forint (US\$2.4 million) for national election campaigns.<sup>80</sup> While parties must report their finances annually, the ÁSZ does not carry out its own investigations, even when discrepancies appear between the declared expenses and the price of services procured by the parties, as is the case with TV ads and street posters.<sup>81</sup> The 2007 roundtable negotiations among all parliamentary parties on a proposed reform package, including party and campaign financing, got off to a promising start but collapsed in August.<sup>82</sup>

During 2007, the government also launched an ambitious initiative to tackle corruption in a comprehensive and strategic manner by tasking the minister of justice and law enforcement to elaborate a long-term strategic document and a short-term program of action.<sup>83</sup> To coordinate this newest effort, the Anticorruption Coordination Body (AKT) was established in August. The AKT, which also included civil society representatives in its deliberations, designated four priority areas to combat corruption: EU development funds, party financing, public procurement, and the administrative authorization process. A National Strategy and Action Plan to combat corruption was expected to be completed by early 2008.

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“Egyetért-e Ön azzal, hogy az államilag támogatott felsőfokú tanulmányokat folytató hallgatóknak ne kelljen képzési hozzájárulást fizetniük?” [Do you agree that students continuing state-sponsored studies do not pay educational fees?]

“Egyetért-e Ön azzal, hogy a háziorvosi ellátásért, fogászati ellátásért és a járóbeteg-szakellátásért a jelen kérdésben megtartott népszavazást követő év január 1-jétől ne kelljen vizitdíjat fizetni?” [Do you agree that for family medical attendance, dentistry and outpatient care no visiting fees be paid from 1 January of the year following this referendum?]

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