

# Hungary

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*Capital:* Budapest  
*Population:* 10.0 million  
*GNI/capita:* US\$18,210

Source: The data above was provided by The World Bank, *World Bank Indicators 2010*.

## Nations in Transit Ratings and Averaged Scores

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Electoral Process	1.25	1.25	1.25	1.25	1.25	1.25	1.75	1.75	1.75	1.75
Civil Society	1.25	1.25	1.25	1.25	1.25	1.25	1.50	1.50	1.75	1.75
Independent Media	2.25	2.25	2.25	2.25	2.50	2.50	2.50	2.50	2.50	2.75
Governance*	3.00	3.00	2.50	2.50	n/a	n/a	n/a	n/a	n/a	n/a
National Democratic Governance	n/a	n/a	n/a	n/a	2.00	2.00	2.25	2.25	2.50	2.50
Local Democratic Governance	n/a	n/a	n/a	n/a	2.25	2.25	2.25	2.25	2.50	2.50
Judicial Framework and Independence	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00
Corruption	3.00	3.00	2.75	2.75	2.75	3.00	3.00	3.00	3.25	3.50
Democracy Score	2.13	2.13	1.96	1.96	1.96	2.00	2.14	2.14	2.29	2.39

\* 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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The events that most characterized Hungary in 2009 were the formation of the new government under Gordon Bajnai following the resignation of Prime Minister Ferenc Gyurcsány, and the new political landscape that emerged as the result of the European Parliament elections in June. Prime Minister Bajnai was tasked with managing the effects of the global financial crisis, which brought a crushing blow to Hungary's already weakened economy, as well as with staving off early elections. The new prime minister succeeded at the latter and, it appears, achieved what was reasonably possible in the former.

Hungary has had a minority government since 2008 with the prime minister being of the Hungarian Socialist Party (MSZP). The major opposition party is the conservative, center-right Young Democrats Alliance–Hungarian Civic Union (Fidesz), while the former junior coalition partner, Alliance of Free Democrats (SZDSZ) maintained its support for the government on key issues from the opposition. Another two parties that have representation in Parliament are the conservative Hungarian Democratic Forum (MDF) and the Christian Democratic People's Party (KDNP), which has long lost its independence and is a *de facto* part of Fidesz.

The June 7 elections for the European Parliament (EP) brought a landslide victory for Fidesz–KDNP. The most important result was the disappearance of the liberals and the sudden emergence of the extreme, right-wing party, Jobbik, Movement for a Better Hungary (Jobbik), which won 3 out of Hungary's 22 seats at the EP. This restructuring of Hungary's party system could have long-lasting consequences for the country's democratic project.

Hungary's democratic institutions are robust and stable despite reckless party politics and radicalization. However, the public's alienation from politics, reflected in surveys and the success of the Jobbik party, gives cause for concern. The political elite appear to be losing touch with the public and disregard the need for substantial reforms. The division between the Left and Right is growing, and the political elite have not done much to reconcile it. Reluctance to tackle substantive problems, and the practice of symbolic politics with illiberal rhetoric, still pester political life in Hungary. 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.** Contrasting trends characterized the development of Hungarian democracy in 2009. While the Gyurcsány government failed to successfully manage the crisis at the beginning of the year, the new prime minister, Gordon Bajnai, and his government may contribute to increased economic and po-

litical stability. The extreme right-wing political party Jobbik emerged as a significant actor and could be a sign of shifting preferences among voters. *Prime Minister Bajnai's government was able to stay in power despite serious difficulties. It did not resolve the country's ongoing crisis of governmental legitimacy, but was able to manage the economic crisis. Therefore, Hungary's national democratic governance rating remains at 2.50.*

**Electoral Process.** Hungary's electoral system ensures free and fair elections in which political parties can alternate in power at both the national and local levels. However, the January midterm elections in Budapest's IX district brought to light some of the inherent weaknesses of the system. At the same time, the European Parliament elections in June and other midterm elections were conducted without any major problems. *Hungary's electoral process rating remains at 1.75.*

**Civil Society.** While there are no legal obstacles to the work of civil society in Hungary, tax regulations put a significant burden on nongovernmental organizations (NGOs), and in the long run may threaten their viability and sustainability. Overall, the NGO sector is financially weak. High payroll taxes make human resource development increasingly difficult for most NGOs, while the civil segment of the nonprofit sector has been steadily losing ground to state-funded nonprofit outfits, which are established to carry out service provision in areas such as education and healthcare. An encouraging trend has been the gradual emergence of major individual donors who increasingly follow Western-type models of private giving through foundations with well-developed funding programs. The radical tendencies detectable in parts of Hungarian civil society since 2006 continued through 2009 with the openly xenophobic, anti-Semitic, and anti-Roma Magyar Gárda Egyesület (Hungarian Guard Association) continuing to operate despite a ban by the courts in July 2009. *Civil society in Hungary remains vibrant despite financial obstacles. However, owing to the continued presence of Magyar Gárda and similar extremist groups, Hungary's civil society rating remains at 1.75.*

**Independent Media.** Hungarian media operate within a constitutional framework that ensures freedom of speech, opinion, and information. Media outlets reflect a wide variety of views and are mostly free of blatant pressure from political or economic interests. However, the competition for two countrywide radio frequencies indicated that political pressure and influence might be increasing in the media sphere. Scandals surrounding Magyar Televízió (MTV), the public television broadcaster, and the unraveling of the frequency tender exposed the systemic weaknesses of the sector and raised serious questions about media independence and corruption. *Owing to recurring political meddling in the Hungarian media market, controversies surrounding the public broadcaster, and questionable modifications to the press law, Hungary's independent media rating worsens from 2.50 to 2.75.*

**Local Democratic Governance.** The local governance sphere in Hungary struggles with efficiency issues owing to over-fragmentation. Despite their legally

enshrined autonomy, local self-governments suffer from overdependence on the central government's redistribution of local taxes and other revenues. The year was dominated by the increasingly tense standoff between municipalities and the central government as a result of the decision to cut as much as HUF 120 billion (US\$587 million) from the local government system. The lack of local financial sustainability, absence of broad and progressive reform, and continuing tension in impoverished regions of the country between minority and majority populations provide fertile ground for inefficient and corrupt political forces. *Owing to a lack of progress on reforming key aspects of the local governance system, mounting evidence of financial strains, and growing tensions between local and central governance, Hungary's local democratic governance rating remains at 2.50.*

**Judicial Framework and Independence.** The Supreme Court secured a new president in 2009 after a year of wrangling between President László Sólyom and Parliament. However, the ongoing lack of transparency and accountability in the justice system were not addressed during the year. Despite a judicial ban of the Magyar Gárda, members of the group continued to organize rallies and took on the appearance of police and military forces in an apparent attempt to position themselves as a viable alternative to local police. *Owing to the continued lack of transparency, accountability, and effective enforcement of rulings, as demonstrated by the continued presence of the Magyar Gárda, Hungary's judicial framework and independence rating worsens from 1.75 to 2.00.*

**Corruption.** While Hungary's institutional anticorruption framework looks impressive, implementation of related laws and regulations is patchy at best owing to the lack of human and financial resources and, primarily, political will. Prime Minister Bajnai appeared sincere in his desire to put the fight against corruption high on his reshuffled cabinet's agenda in 2009. The main result of the government's dedication was the development and subsequent passage in Parliament of an omnibus anticorruption bill late in the year, but it received strong criticism from stakeholders and expert organizations. Despite these efforts, the year was dominated by high-profile corruption scandals, with party politics and financing playing some role in almost all the cases. *Owing to numerous high-profile cases of corruption implicating top-ranking officials, Hungary's corruption rating worsens from 3.25 to 3.50.*

**Outlook for 2010.** General and municipal elections will be held in Hungary in the spring and autumn, respectively. All polls support the prediction of an overwhelming Fidesz victory, with the question being whether the party will be able to secure a two-thirds majority. Fidesz will need to address the country's economy, which is in serious disrepair after a decade of poor management topped by the global financial crisis. Financial questions will also impact the media sphere, where scandals surrounding the public broadcaster MTV and the frequency tender in 2009 raised serious questions about the future of media independence in Hungary.

# MAIN REPORT

## National Democratic Governance

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
n/a	n/a	n/a	n/a	2.00	2.00	2.25	2.25	2.50	2.50

Hungary is a parliamentary democracy in which the executive power lies with the prime minister, who is elected by an absolute majority of Parliament following general elections. The prime minister bears the responsibility for governance and can only be removed, together with the entire cabinet, through the process of “constructive no-confidence,” which requires a vote of no confidence combined with the nomination of a new prime minister who must secure the support of a parliamentary majority.

The top legislative organ in Hungary is the 386-member unicameral Parliament (Országgyűlés). The government and the ministries may pass lower-level legislation that must conform to laws in force. The president, elected by Parliament for a five-year term, has mostly representative functions as well as limited control over the nomination and appointment of public officials. The president may also refer legislation back to Parliament or the Constitutional Court before signing it into law.

The Constitutional Court has broad powers to check the decisions of the legislative and executive branches. Its members, as well as the president of the National Audit Office, the president of the Supreme Court, and the chief prosecutor are elected by Parliament, usually after reaching consensus.

Hungary's constitution and laws provide for a stable democratic system, though events in recent years have demonstrated that the country's leadership has had difficulty fully embracing democratic values and principles in practice. The mishandling of the riots of 2006 and 2007 that followed then-prime minister Gyurcsány's admission to lying during the electoral campaign, the failure of promised reforms, the crises in government since 2008, and the global economic crisis have undermined public trust in government institutions and eroded the credibility of the political elite. This has been exacerbated by entrenched statist-authoritarian attitudes as shown in a study by Progresszív Intézet.<sup>1</sup> According to the Pew Research Center, public approval for Hungary's change from autocracy to democracy has dropped 18 percent since 1989 and is now at only 56 percent, a score comparable to Russia's. The fact that the overall approval rating for democratization is lower than the approval ratings of almost all key democratic values is also significant.<sup>2</sup>

After enduring a difficult year, it appeared that Prime Minister Ferenc Gyurcsány was able to consolidate his minority government in 2009, but in March he surprised his party and the country by announcing his resignation. A search began soon after for the new prime minister candidate for the constructive vote of no confidence that eventually took place on April 14. Within a period of 2 weeks,

18 names were proposed either by the Hungarian Socialist Party (MSZP), other political parties, or the press. At the end of the process, MSZP nominated Gordon Bajnai, a former business executive and confidante of Prime Minister Gyurcsány, and with the assistance of the Liberal Alliance of Free Democrats (SZDSZ), the former coalition partner to MSZP, he was elected. While Prime Minister Bajnai initially talked of forming a government of experts, he was unable to disregard the demands of the various platforms and leaders of MSZP and ended up with a mixed cabinet of party politicians and non-partisan technocrats.

The June 7 elections for the European Parliament (EP), described by the Young Democrats Alliance-Hungarian Civic Union (Fidesz) as a large sample poll on the legitimacy of the Socialist government, highlighted the disillusionment of the Hungarian electorate. While Fidesz, as expected, won a landslide victory and MSZP lost most of its seats, the radical, right-wing Movement for a Better Hungary (Jobbik) was able to win three EP seats and was particularly successful in areas long considered Socialist strongholds. In the aftermath of the EP elections, Hungary faced a new political reality. SZDSZ was unable to win seats for any of its candidates and subsequently disintegrated, while the conservative Hungarian Democratic Forum (MDF) won a seat for Lajos Bokros, former Socialist minister of finance and well-known, neo-liberal economist. Jobbik, on the other hand, emerged as the third force in Hungarian politics following the Socialists with a small margin, apparently consolidating itself for the 2010 general elections.

Jobbik's success is due partly to its ability to thematize public discourse around the issue of security in general, and what it calls "Gypsy criminality" in particular. The Jobbik-founded Hungarian Guard (Magyar Gárda Egyesület, or Gárda), an unarmed paramilitary group known for its marches in Roma neighborhoods, was banned by the court in 2009, yet there is more to the party's success than simply playing the racist card in a time of economic hardship. In the past six years, Jobbik has grown through strategic public actions, media presence and, more importantly, a consistent critique of the democratic transition, the developments of the past two decades, and the ruling elites. The party also seems to break with the few consensual foundations of Hungarian foreign policy, that is, its European Union (EU) and Atlantic orientation. While Jobbik's pro-Iran and pro-Palestinian stance is not surprising, given the politics of earlier, radical, right-wing formations such as the Hungarian Justice and Life Party (MIEP), the strong pro-Russian commitment that party leaders emphasize is new.

While Hungarian domestic political discourse rarely ventures into foreign policy, the subject came to the forefront when, shortly after Prime Minister Gyurcsány announced his resignation, the Russian energy firm Surgutneftegaz acquired 21.4 percent of the Hungarian oil company MOL from the Austrian oil company OMV for double the market price.<sup>3</sup> The transaction, which alarmed the Hungarian policy community, was thought to have been part of the larger competition between Nabucco and the South Stream pipelines. The issue is of high strategic and political importance in the region and, until resolved, may contribute to instability at the national level.

Upon taking office in 2009, Prime Minister Bajnai was quickly tasked with crisis management and staving off an early election, and proved successful in both. The Hungarian government has been in a crisis of legitimacy since 2006; the coalition broke up in 2008, and the global financial crisis topped years of government mishandling of the economy and reforms. And yet, the governing Socialists, this time led by the technocrat Bajnai, managed to hold on to power until the end of their term. At the end of 2009, Prime Minister Bajnai was able to push through the 2010 budget and averted governmental bankruptcy. The prime minister did not touch any of the major redistribution systems and will leave a contracted economy to the next government, but he was able to stabilize the country's economic and financial situation by obtaining necessary loans and maintaining a strict fiscal policy.

### Electoral Process

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1.25	1.25	1.25	1.25	1.25	1.25	1.75	1.75	1.75	1.75

Hungarian elections since transition have been assessed as free and fair. Members of Parliament are elected for four-year terms in a two-round mixed electoral system. In the first round, citizens cast their votes for candidates running in 176 single-seat constituencies and regional party lists. Only those constituencies where no single-seat candidate was able to secure a seat with an absolute majority in the first round hold a second round of elections. Another 152 candidates may win seats based on proportional representation. The remaining 58 seats are filled from the national party lists on a proportional basis. Parties must reach the 5 percent threshold to gain seats from the regional and national party lists.

Over the years, Hungary's party structure has transformed into a *de facto* two-party system with Socialist MSZP and center-right Fidesz dominating the political landscape. Minor parties have also made it into Parliament either independently, such as conservative MDF and liberal SZDSZ, or in tandem with a major party, like the Christian Democratic People's Party (KDNP) whose parliamentary presence depends on Fidesz.

This status quo was broken in 2009 when Fidesz-KDNP won a landslide victory in the June 7 EP elections, garnering 56.36 percent of the vote and sending 14 Members of European Parliament to Brussels. MSZP lost most of its seats but with a result of 17.37 percent was still able to fill four seats, and MDF was able to maintain its presence with 5.31 percent of the vote and one seat. While it was expected that the extreme, right-wing Jobbik party would do well, its 14.77 percent win was truly surprising and granted them three seats in the EP. At the same time, liberal SZDSZ, with its worst ever electoral result of 2.16 percent, is out of the EP.<sup>4</sup> Even newcomer Politics Can Be Different–Humanist Party (LMP–HP, or simply LMP) attracted more voters with 2.61 percent.

LMP also challenged the status quo among the country's mainstream political parties. Grown out of the civic sector, LMP appeared on the political scene in

2008; its leader, Andras Schiffer, is a well-known human rights lawyer. The party's ideology is based on a liberal interpretation of human rights combined with a strong environmentalist thrust and a leftist critique of capitalism. As such, LMP is probably the first Western European-style, center-left party in Hungary. LMP may be the new political force to fill the vacuum left by the disappearance of SZDSZ, a party weakened by internal strife, corruption scandals, and a questionable strategic alliance with MSZP since 1994.

The topic of downscaling the 386-member Parliament—perennial fodder in Hungarian politics—emerged at the beginning of the year when then-prime minister Gyurcsány proposed to simplify the electoral system by eliminating single-seat constituencies and introducing a one-round, national party list system in which 199 members of Parliament (MPs) would be elected. Other parties in the Parliament paid lip service to the necessity of reform and proposed their own systems, effectively killing meaningful debate on the issue. While the Hungarian electoral system ensures free and fair elections and proportional representation, it is very complex and costly. Expected changes in the party structure may open a window of opportunity for the next Parliament to settle this question.

Several midterm elections were held in Hungary during the year. In the Pécs mayoral race, the MSZP candidate, Speaker of the House Katalin Szili, was soundly defeated by Zsolt Páva of Fidesz. In the IX District of Budapest, an election was convened to fill the seat of resigned SZDSZ parliamentarian Ferenc Gegesy, which was marred by fraud committed by MDF, MIEP, and the Hungarian Social Green Party (MSZZP). The weakest link in the electoral system is the nomination slip, which is issued to individual voters at the beginning of the campaign. Candidates are required to present 750 slips in order to run, and parties are required by law to later destroy the slips and all information contained in them. However, it is common for parties to store the data and trade slips in order to support allies or weaken opponents.

Political parties are active in the country, and even though membership is low, they have a good capacity to mobilize voters. Representation of minorities, particularly Roma and women, is still unsatisfactory. In the 2006 spring elections only 40 women and 3 Roma candidates won seats in Parliament.

The president of the republic is elected by Parliament for a five-year term and can be re-elected 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. The term of President László Sólyom—former president of the Constitutional Court—expires in 2010, and it remains a question whether he will be re-elected by Parliament. While the constitution limits the president to mostly ceremonial functions, Sólyom has tried to stretch these boundaries through his use of limited veto in legislation, by referring laws to the Constitutional Court, by nominating individuals for public office, and through his public activism—all with mixed results.



## Civil Society

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
1.25	1.25	1.25	1.25	1.25	1.25	1.50	1.50	1.75	1.75

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

According to the latest data available from the Central Statistics Office, the Hungarian civic sector consisted of 64,925 organizations, with around two-fifths of these (24,096) registered as foundations and the rest (40,829) taking various nonprofit organizational forms, such as public benefit corporations, associations, unions, and chambers.<sup>5</sup> The civic sector as a whole is financially weak. High payroll taxes make human resource development increasingly difficult, and international NGOs that previously considered Hungary an attractive location have been increasingly looking for other locations to avoid the high taxes and employer contributions that have made attracting and retaining talent difficult.

One of the most persistent and problematic trends has been the increasing reliance on state funding (governmental and municipal). The civil segment of the Hungarian third sector has been steadily losing ground (at least in terms of its share of overall financial resources) to state-funded nonprofits, which are established to carry out service provision in education, healthcare, and so on. Between 2000 and 2008, the share of government and municipal funds in the total income of the nonprofit sector grew from 28 to 44 percent, while the share of private donations shrunk from 16 to 11 percent.<sup>6</sup>

An increasingly important source of civil society funding is the annual 1 percent donation that citizens may designate from their income tax. In 2007, these donations to NGOs reached 8 billion forint (US\$46 million).<sup>7</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. 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.

An encouraging trend in Hungarian philanthropy has been the gradual emergence of major individual donors who increasingly follow Western-type models of private giving through foundations with well-developed funding programs. Among them are some of Hungary's richest, such as banking magnate Sándor Csányi, whose private foundation spends around US\$800,000 a year to support educational programs for disadvantaged children, and real estate tycoon Sándor Demján, whose eponymous foundation disbursed US\$5.7 million in 2008 alone for university scholarships and to assist disadvantaged children in economically depressed regions of the country.<sup>8</sup> These and similar initiatives may provide a model of homegrown philanthropy and, through partnerships with experienced NGOs, contribute to the long-term sustainability and independence of Hungarian civil society.

The radical tendencies detectable in parts of Hungarian civil society since 2006 continued through 2009. The openly xenophobic, anti-Semitic, and anti-Roma Hungarian Guard (Magyar Gárda Egyesület, or Magyar Gárda) remained the focal point and main outlet for political radicalism across the country. Although banned by the court, the Magyar Gárda retained its significant capacity for mobilization.

There are six major trade union alliances in Hungary in addition to other interest groups, such as vocational chambers and professional associations. Following the inauguration of the Bajnai government and the announcement of a massive austerity package to curb the country’s soaring deficit, various trade unions signaled their willingness to take to the streets and cease work if the government’s plans adversely affected their members. Many of these threats came to pass, and the government and citizens had to contend with a series of strikes, from railway, postal, hospital and airport workers in the second part of 2009. In April, news reports revealed that a union representing over 5,500 police employees signed a cooperation pact with Jobbik. Judit Szima, secretary general of Tettrekész Magyar Rendőrség Szakszervezete (“Ready to Act” Hungarian Police Union), signed the agreement with leaders of Jobbik and received a prominent slot on Jobbik’s list of candidates for the European Parliament. The ensuing investigation by the chief prosecutor’s office determined that the agreement violated the constitutional requirement of political neutrality for the armed forces and the police and called for the agreement to be terminated.

Independent Media

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
2.25	2.25	2.25	2.25	2.50	2.50	2.50	2.50	2.50	2.75

Hungarian media operate within a constitutional framework that ensures freedom of speech, opinion, and information. The country’s media outlets reflect a wide variety of views and are mostly free of blatant pressure from political or economic interests. The majority of outlets are controlled by private companies, many of them multinational, although a growing number are owned by Hungarian corporate interests. These include the influential Index, InfoRadio, and *Napi Gazdaság*, as well as smaller outlets like Echo TV and *Magyar Hírlap*. 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. In 2009, a number of events surrounding Magyar Televízió (MTV), the public television broadcaster, and the competition for two countrywide radio frequencies indicated that political horse-trading and undue pressure are never far from the Hungarian media landscape.

While the 1996 Law on the Media introduced commercial broadcasting and broke up the state-controlled media monopoly, it has been constantly criticized for not creating the proper legislative and financial framework for the transformation of these outlets into genuine public service broadcasters. In 2009, the shortcomings of the current system came into sharp relief, raising doubts about the sustainability of

the existing model. The public MTV has functioned without an elected chairman since 2008, and the continuing deadlock in nominating and confirming a new chairman highlighted the dysfunctional nature of the oversight framework of public broadcasting. Consequently, MTV continued to operate under the leadership of caretaker vice-chairman Balázs Medveczky.

In September 2009, Medveczky decided to terminate MTV's long-running (and generally pro-MSZP/SZDSZ) morning show, *Nap-kele*, replacing it with an internally produced program. The matter quickly evolved into a scandal with political overtones, especially in light of the immediate decision by the opposition parties (Fidesz and the Christian Democrats) to lift their self-imposed boycott of MTV's morning show, which they initiated in 2008 citing political bias in the editorial policies of *Nap-kele*.

In October, Socialist MP György Jánosi announced that his party would push for cutting MTV's 2010 budget by as much as 25 percent. For many, this seemed like a direct response from the governing party to the *Nap-kele* affair. In November, Parliament passed (with votes from the Socialists and the opposition MDF) the motion to cut budget support for MTV, with protests from both Fidesz and the former coalition party, the liberal SZDSZ. Following the decision, MTV appeared to be sliding toward complete disarray with daily news about planned cuts in staff and bureaus, and an impending strike by disgruntled employees. In the final months of 2009, allegations of possible criminal conduct surrounding the move of the public broadcaster to its new headquarters earlier in the year resurfaced with fresh investigations announced by police and the prosecutor's office.

The National Television and Radio Board (ORTT), a regulatory body comprising delegates from parliamentary parties, monitors the activities and programs of public and commercial broadcasters and also grants licenses and broadcasting frequencies. As such, it is perhaps the most important regulatory actor tasked with maintaining European standards in Hungary's electronic media field. In 2009, ORTT appeared on the wrong side of the year's biggest media-related scandal with almost immediate international implications. In October, ORTT announced the results of the tender for the two countrywide commercial radio frequencies. To widespread astonishment, the two incumbents (Sláger Rádió and Danubius Rádió) lost their concessions to two newcomers awarded frequencies worth billions of forints in future ad revenue. The chairman of ORTT, former privacy ombudsman László Majtényi, openly criticized the decision that was passed by a majority of board members in a rare show of bipartisanship.

Even before the decision was announced, Majtényi publicly called for the elimination of the winners' bids on the basis of unrealistic business plans. At the same time, the ownership backgrounds of the two successful consortia—one is linked to business interests reportedly close to the governing Socialist party, the other to a business holding with links to the opposition Fidesz—have quickly led to speculations about backroom deals between the two largest parliamentary parties. This suspicion was further substantiated when the director of one of the losing consortia, Barbara Brill, told reporters that she and colleagues were approached by

individuals allegedly representing one of the main political parties and promised ORTT support for the bid in return for half of the revenues.<sup>9</sup>

Because some of the owners of the booted radios were Western investors, the matter quickly gained an international dimension: on November 18, nine ambassadors, among them those of the United States, Britain, Germany, Switzerland, and France, wrote an open letter decrying the lack of transparency in key business sectors in Hungary, including the media.<sup>10</sup> In December, the U.S. House of Representatives passed a non-binding resolution calling on Hungary to “respect the rule of law, treat foreign investors fairly, and promote a free and independent press.”<sup>11</sup> In protest against the tender, László Majtényi, hailed as politically independent and highly principled, resigned from his position as chairman on October 29. Subsequently, he turned to the prosecutor’s office and requested an investigation into the legality of the frequency tender. His resignation appeared to signal a new nadir in the history of political meddling in Hungarian media.

Late in the year, modifications to the country’s press law increased the administrative hurdles for registering new print publications, as well as mandating that existing ones meet additional criteria by submitting information and documentation on layout and design components. The Hungarian Publishers’ Association protested the changes, noting the negative impact on press freedom of raising market entry barriers for new publications and putting additional administrative and financial burdens on existing ones.

Local Democratic Governance

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
n/a	n/a	n/a	n/a	2.25	2.25	2.25	2.25	2.50	2.50

Decentralization was essential to the transformation of Hungary’s political system during transition. In the current, highly devolved local self-government system, 19 counties serve as the main administrative units at the regional level, while at the local level, cities and villages maintain their own elected legislative bodies and executive organs. Decentralization, however, led to a dramatic increase in the number of local political units that can elect their own representatives and executive. Hungary has approximately 3,200 municipalities, complete with mayor, council, and administration. As a result, local governance in Hungary struggles with over-fragmentation and inefficiency, and despite their legally enshrined autonomy, local self-governments suffer from overdependence on the central government’s redistribution of local taxes and other revenues.

Local governance has been further complicated by successive waves of reform since the mid 1990s, some related to Hungary’s EU accession and proposed distribution of EU development funds. Still, the country’s 174 small regions (sub-county units) and 7 development regions (supra-county units) have created

additional levels of governance without clear jurisdiction and competences. Counties remain important political factors because of their elected assemblies and the county electoral lists in the national elections. Yet, as functional units of governance, they have little influence or jurisdiction. 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.

Any comprehensive reform of the system would include a drastic cut in the number of municipalities, reduction in the number of elected officials and administrative staff, abolition of the county system, and further decentralization of financing. This is difficult to implement since changing the relevant laws requires raising a two-thirds majority in Parliament, a major challenge in the polarized atmosphere of Hungarian politics. Such reform proposals would likely trigger significant pushback from the powerful “municipal lobby” found among members on both sides of the political divide.<sup>12</sup>

After his inauguration as prime minister in April 2009, Gordon Bajnai nominated Zoltán Varga as Minister for Local Governance and Regional Development. Despite his initial pledges to seek consensus with the opposition to spur reform, Varga conceded that the attempts were “a failure.”<sup>13</sup> Instead, the year was dominated by an increasingly tense standoff between municipalities and the central government over the decision to cut as much as HUF 120 billion (US\$587 million), or nearly 10 percent, from the local government system in the 2010 budget, part of the overall austerity package initiated by the Bajnai government to rein in Hungary’s soaring deficit.

The reduction in the local business tax and its re-centralization to the Tax and Financial Control Administration, as well as a 5 percent increase in the value-added tax, have further added to the financial woes confronting municipalities. In fact, municipal financing has become the centerpiece of the dispute between the central government and municipalities. The ability of municipalities to independently distribute locally collected taxes has been steadily shrinking over the years, with local income tax returns to the municipalities falling from 40 percent in 1994 to 8 percent in 2009.

Meanwhile, the responsibilities of municipalities—including overseeing and partly financing local education, healthcare, and social services—have been growing.<sup>14</sup> The debate over conditionality in social assistance at the municipal level, for instance, continued in 2009. Some municipal councils formally proposed the introduction of debit-style “social cards” as a means of controlling the distribution of social aid to the needy. Yet many, including Hungary’s ombudsman for minorities, Ernő Kállai, accused those supporting tougher criteria for welfare and unemployment benefits of thinly veiled racism as the vast majority of recipients belong to the country’s sizeable and disadvantaged Roma minority.

## Judicial Framework and Independence

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.75	2.00

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, the 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 jurisdiction, 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.

Parliament elects four ombudspersons to report on human rights, privacy rights, the rights of ethnic and national minorities, and the right to life and 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 reports to Parliament. Citizens have the right to turn to the ombudspersons to investigate human rights violations. The Ministry of Education employs a commissioner to protect student rights in the educational system.

Since 1990, the eleven-member Constitutional Court has shaped the legal framework of Hungary. Its members are elected by 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. Lacking an effective enforcement mechanism, however, some decisions, most notably on the representation of minorities in the legislature, have not been implemented by Parliament.

The Hungarian judiciary functions as an independent branch of power. Since the reform of 1997, it is self-governed by the 15-member National Judicial Council, whose head is the president of the Supreme Court. 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 Parliament's judicial and finance committees. The chief prosecutor is nominated by the president of the republic and elected by Parliament.

According to law, Parliament elects the president of the Supreme Court with a two-thirds majority, based on the nomination of the head of state. In 2008, the mandate of the previous president of the Supreme Court, Zoltán Lomnici, ended. The election for his replacement became a yearlong standoff between Parliament and President Sólyom, who has worked to decrease the influence of partisan politics in institutions like the judiciary and to bring more independence to the Office of the President. After several nominations, Parliament elected Andras Baka, a former judge on the European Court of Human Rights, as Supreme Court president in June 2009.

The lack of transparency and accountability in the Hungarian justice system did not noticeably improve in 2009. The trials of policemen involved in atrocities committed during the riots of 2006 continued to drag on, hampered by difficulties in collecting evidence reportedly caused by police cover-ups.

Intolerance against religious, sexual, and ethnic minorities, especially the Roma, is strong in Hungary, although a court ban on the Magyar Gárda has given some respite to Roma living in villages and small towns. Nevertheless, Jobbik, the radical, right-wing political party behind the Magyar Gárda movement, vowed to continue its marches and recruitment rallies, arguing that the Magyar Gárda is a separate entity from the Magyar Gárda *movement* itself, which simply refers to a random group of people wearing the distinct Magyar Gárda uniform.

Indeed, throughout 2009, Magyar Gárda demonstrations continued across the country, and members increasingly took on the appearance of police and military forces, apparently attempting to position the Magyar Gárda as a viable alternative to local police (often seen as impotent in the face of petty criminality). Just days after the final ruling on the Magyar Gárda ban, police used force to disperse protestors wearing Magyar Gárda uniforms in downtown Budapest, stirring debates over legal interpretations and application of the law on peaceful demonstrations. In July 2009, the Budapest Court of Appeals confirmed the earlier ban and dissolution of the Magyar Gárda and warned members that if they continue organizing under the guise of the *movement* they will be held liable under the court's ruling. However, police forces still appeared hesitant to stop and disperse Magyar Gárda marches and public gatherings in a number of locations around the country. In late September, Magyar Gárda members surrounded the house of a Roma family in Kiskunlacháza, demanding the handover of a family member who was accused of attacking a local resident—the police defused the situation. The Magyar Gárda also continued to be a noticeable presence at various Jobbik events.

### Corruption

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
3.00	3.00	2.75	2.75	2.75	3.00	3.00	3.00	3.25	3.50

While Hungary's institutional anticorruption framework looks impressive, owing largely to reforms and legislative initiatives to reach EU standards, implementation of related laws and regulations is patchy at best. This is due to the lack of human and financial resources and, primarily, political will. Parliamentarians, judges, and other public officials are required to declare their assets annually, although many are suspected of transferring assets to family members to avoid full disclosure. 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 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 (ÁSZ) is the supreme audit organization to monitor public spending and ensure transparency. The president and vice president of the ÁSZ are elected by Parliament for 12-year terms. Because of its long mandate and high level of independence, the ÁSZ plays a key role in anticorruption efforts. However, its recommendations are not binding and are often ignored by officials and law enforcement. The mandate of ÁSZ President Árpád Kovács expired at the end of 2009 with no apparent replacement on the horizon.

Upon taking office, Prime Minister Bajnai appeared sincere in his desire to put the fight against corruption high on his reshuffled cabinet's agenda. But amidst the worst economic crisis Hungary had experienced since the early 1990s, Bajnai was forced to sound an embarrassing retreat on one of his key appointments. Tamás Vahl, tagged by Bajnai to become minister of economy, was forced to withdraw his candidacy after the anticorruption watchdog Transparency International (TI) warned that Vahl's previous employer, the Hungarian branch of the software giant SAP, was fined HUF 690 million (US\$3.4 million) by the Hungarian Competition Authority (GVH) for its participation in a price-fixing cartel.<sup>15</sup> Despite this inauspicious start, the prime minister reacted forcefully to developing scandals at various state- and municipal-owned companies, chief among them the Budapest Transport Company (BKV). In August 2009, the government mandated the compulsory publication of managerial salaries at these enterprises.

The main result of the government's dedication to combating corruption was the development and subsequent passage in Parliament of an omnibus anticorruption bill late in the year. The bill included four distinct components: enhanced protection for whistleblowers, creation of a stand-alone anticorruption agency (Agency for the Protection of Public Interest and Public Procurement, Közérdekvédelmi és Közbeszerzési Hivatal), and substantial modifications to the law on public procurement, including a so-called Integrity Pact to ensure greater transparency in the much-maligned public procurement process.

President Sólyom sent parts of the law to the Constitutional Court for review, specifically those related to public procurement and the new agency. There was also strong criticism from various experts and stakeholders such as TI and the Eötvös Károly Public Policy Institute. It remains to be seen how much of the law will survive and enter into force as planned on March 1, 2010, not to mention how successful its actual implementation will be only weeks before the parliamentary elections that will likely bring the current opposition party, Fidesz into power. Meanwhile, 2009 was dominated by high-profile scandals revealing the complex maze of corruption at state-owned companies and municipalities. In almost all the cases, party politics and financing played some role.

One of the year's most persistent scandals centered on BKV, which received extensive media attention for paying hundreds of millions of forints to consultant



companies, some registered offshore, that delivered mostly poor quality work. Additional scandals included excessive severance packages paid to departing managers of the deeply indebted BKV. At the end of the year, the company's director of legal affairs was arrested by undercover police for receiving HUF 10 million (approximately US\$49,000) in a plastic bag in a parking garage; the same week police issued an arrest warrant for the company's IT director. BKV director István Kocsis was also at the center of numerous suspected cases of gross mismanagement or alleged corruption, although most of these were related to his previous senior positions at the Hungarian energy conglomerate MVM and the Paks Nuclear Reactor. The investigation later widened to include one of the rising figures in the Socialist party, Budapest Vice-Mayor Miklós Hagyó.

Other high-profile cases of corruption in 2009 included a land-swap deal between casino investors and a government agency in which the investors gained ownership of prime real estate in return for deliberately overpriced land originally in their possession. As a result of the investigation and subsequent prosecution, the deputy director of the National Property Management Corporation, Fülöp Benedek, was found guilty and sentenced to a five-year suspended prison sentence. Another corruption scandal involved Budapest VI district mayor György Hunwald, who was caught in a widespread real estate scheme in which municipal property was sold to offshore investors below market prices with officials pocketing the difference. Hunwald was taken into custody pending a sprawling investigation that revealed years of systemic government corruption in his district. In these and other cases at least some of the misspent state funds were channeled back to political parties, highlighting the direct link between corrupt practices in the business and political spheres.

Still, political party reform remained unresolved in 2009, despite considerable efforts by various civil society organizations (including TI) to urge parties to adopt a well-developed and civic-initiated reform package on campaign financing. This area of high-level corruption is proving to be particularly corrosive as it involves all parties in the democratically elected Parliament and leads to widespread public disillusionment with the democratic process as a whole.

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