



**MEMORANDUM**

May 15, 2015

**To:** House Subcommittee on Europe, Eurasia, and Emerging Threats  
Attention: Jessica Roxburgh

**From:** Derek Mix, Analyst in European Affairs (7-9116)

**Subject:** **Hungary Overview and Background Information**

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This memorandum responds to your request for information on Hungary in preparation for your upcoming hearing. Please contact me if you have questions or would like additional information.

**Domestic Overview**

The government of Hungary is led by Prime Minister Viktor Orban of the conservative Fidesz party. In April 2014, Orban was reelected to a second consecutive term in office when Fidesz and its affiliate party, the Christian Democratic People's Party (KDNP), won 45% of the popular vote in parliamentary elections.<sup>1</sup> Under Hungary's electoral system, this result translated into 117 seats for Fidesz and 16 for the KDNP in Hungary's 199-seat unicameral parliament, giving the Orban government its second consecutive two-thirds supermajority.<sup>2</sup> In 2010, Fidesz and the KDNP combined to win 53% of the popular vote, receiving 68% of the seats in parliament.<sup>3</sup> In February 2015, the government lost its parliamentary supermajority after the surprising victory of an independent candidate in a by-election to fill the parliamentary seat vacated by Hungary's new European Commissioner.

The Hungarian Socialist Party (MSZP) led the government of Hungary from 2002 to 2010. At the time of the 2010 election, however, many Hungarians were still angry over an audiotape leaked shortly after the 2006 elections, in which former Prime Minister Ferenc Gyurcsány admitted that he and his fellow Socialists had lied "morning, noon, and night" about the country's budget and economic situation during the campaign. Voters also blamed the Socialists for their perceived failure to manage the effects of the 2008-2009 global economic crisis—the economy had already been in steady decline in the late 2000s, and GDP plummeted 6.8% in 2009. Although the MSZP remains the main left-wing opposition party, Hungary's political left fractured following the 2010 election. An alliance of five center-left parties, including the MSZP, contested the 2014 election but between them won only 38 out of 199 seats, with 26% of the vote.

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<sup>1</sup> Orban also previously served as prime minister from 1998 to 2002.

<sup>2</sup> Hungary has a "mixed" electoral system in which 106 seats are filled via "first-past-the-post" single-member constituencies, and the remaining 93 seats via national party lists.

<sup>3</sup> After the 2010 election, Fidesz and the KDNP held 263 out of a then-total of 386 seats. In 2011, Fidesz introduced a new electoral system that reduced the number of parliamentary seats from 386 to 199.

Jobbik, a relatively new, far-right ultranationalist party, has gained prominence on Hungary's political landscape in recent years. Jobbik won 20.5% of the vote and 23 parliamentary seats in the April 2014 election and came in second place in the May 2014 European Parliament election, leading party officials to claim that Jobbik is now the country's main opposition party.<sup>4</sup> While its paramilitary arm, the Hungarian Guard (*Magyar Gárda*), was banned in 2009, critics charge that Jobbik continues to inflame anti-Roma and anti-Semitic sentiments in Hungary.

As the undisputed leader of Fidesz with no internal challengers, with decisive parliamentary support, and with the left-wing opposition weak and splintered, Prime Minister Orbán has commanded a dominant political position since 2010. The government's unusually strong parliamentary position has allowed Fidesz to push through virtually any legal act and make constitutional changes without needing any votes from opposition parties. The Orbán government has used this position to adopt a new national constitution and electoral law, and pursue major reorganizations of state institutions.

Many observers have expressed alarm that these reforms appear intended to weaken systemic check-and-balances on legislative and executive power, to centralize power around the prime minister, and to entrench Fidesz personnel and policies in the country's public life. During its 2010-2014 term, the Fidesz-led government placed restrictions on the constitutional court and made other changes to the judiciary; introduced measures that many believe reduce the independence of Hungary's central bank; implemented "unorthodox" fiscal policies such as levying special taxes on various industries and nationalizing private pension funds in order to reduce the budget deficit; and revised election laws in ways that, some argue, favor Fidesz in future votes. The government also adopted a controversial media law that many contend gives the party *de facto* censorship authority. The law enables a Media Council—staffed by Fidesz appointees with 9-year terms—to impose fines for media coverage deemed unbalanced or offensive to public morality. Many argued that the law would result in self-censorship by journalists fearful of incurring financial penalties. Hungarian officials defended the changes as necessary and long overdue. They argued that the law is largely derived from the media laws of other European countries, and was introduced not by fiat, but by the democratic process of parliamentary approval.

Some opponents have charged that the sum total of Fidesz's actions during its tenure in office can be viewed as undemocratic. Domestic and international observers criticized the 2011 adoption of the new constitution ("Fundamental Law") as hasty and non-inclusive—only Fidesz representatives voted for approval and the government rejected calls for a popular referendum.<sup>5</sup> In 2013, the Fidesz-dominated parliament passed the so-called Fourth Amendment, enshrining in the new constitution several measures that parliament had passed earlier, but which had been rejected by the constitutional court.<sup>6</sup> By requiring two-thirds parliamentary majorities to amend many of its new policies, observers note that Fidesz has effectively tied the hands of any future opposition-led governments by making its legislation extremely

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<sup>4</sup> In the European Parliament election, Fidesz-KDNP, which belongs to the mainstream center-right European People's Party (EPP) group in the Parliament, won 51.5% and Jobbik won 14.7%.

<sup>5</sup> Among other provisions, the new constitution changes the name of the country from Hungarian Republic to simply Hungary, places restrictions on the judiciary, establishes the *forint* as the legal currency, and requires that the national debt not exceed 50% of GDP. Some observers have questioned the constitution's references to Hungary's Christian heritage, as well as its restrictive provisions regarding marriage, cloning and abortion. Analysts also note that, absent Fidesz concurrence, the new constitution, which went into effect January 1, 2012, will be extremely difficult to amend.

<sup>6</sup> These included: a requirement that students receiving state scholarships repay their assistance if they emigrate; a ban on homeless people sleeping in certain public areas; a provision restricting political commercials to state-run media; a definition of marriage as "between man and woman"; and restrictions on the power of the president and the constitutional court to review future amendments based only on procedural grounds, not content.

difficult to revise or overturn. Supporters of Fidesz maintain that its platform responded to “a sense of huge urgency” to reverse the graft, cronyism, and economic stagnation wrought by the previous Socialist government. In late 2011, for example, government spokesman Zoltán Kovács summed up, “It’s a little bit curious for an external observer because it seems to be fast, it seems to be too much at once, but that’s actually what we have promised. ... We are refurbishing, we are renewing the country.”

Some critics assert that after Orban’s previous term focused on institutional checks-and-balances, Fidesz has pursued an aggressive agenda since the 2014 election to consolidate its concentration of power by targeting external checks-and-balances—media and civil society. In June 2014, the parliament quickly pushed through a media sector advertising revenue tax that largely targets the German-owned RTL *Klubradio* channel, Hungary’s most popular commercial entertainment channel, and one of the few media outlets critical of the government. Even with the vast majority of Hungarian media outlets supportive of Fidesz, the bill was strongly protested by the media sector on the grounds that it singled out *Klubradio* for political reasons. The parliamentary sponsor of the bill explained, “Those who over the past long years have made tabloid programs impossible to watch, at the expense of their public service duties, will have to stop that...Those worried about press freedom are just beating around the bush—this bill has nothing to do with press freedom.”<sup>7</sup> In a move reminiscent to many of recent events in Russia, the Orban government has also recently raided the offices of several Norwegian-funded civil society organizations that have been critical of the government, launching audits of the groups with accusations that they are foreign agents involved in “political meddling.”

Numerous U.S. and European commentators criticized a speech delivered by Prime Minister Orban to an ethnic Hungarian group in Romania on July 26, 2014. In the speech, Orban stated:

“...while breaking with the dogmas and ideologies that have been adopted by the West and keeping ourselves independent from them, we are trying to find the form of community organization, the new Hungarian state, which is capable of making our community competitive in the great global race for decades to come...democracy does not necessarily have to be liberal...societies that are built on the state organization principle of liberal democracy will probably be incapable of maintaining their global competitiveness...”<sup>8</sup>

The venue of the speech also reinforces the observation that the “protection” of the approximately 2.2 million ethnic Hungarians living in neighboring countries remains a prominent nationalist-historical issue in Hungary. Orban’s embrace of such conservative, nationalist, and historical issues has allowed Fidesz to accommodate right-wing supporters, with the added calculation of seeking to prevent further shifts in support toward Jobbik. Nationalist-minded Hungarians continue to harbor resentment over the 1920 Treaty of Trianon, which carved off 70% of the Kingdom of Hungary’s territory after World War I and left large ethnic Hungarian communities living in what is today Romania, Slovakia, Serbia, and Ukraine. Orban has elevated the memory of Trianon and “responsibility” for ethnic Hungarian populations into elements of state ideology and emphasized the minorities issue in foreign policy. His government has caused tension with Hungary’s neighbors by supporting greater autonomy for Hungarian minority communities, and Fidesz introduced a simplified procedure for granting citizenship to ethnic Hungarians residing outside the country’s borders.

While the Orban government continues to hold a large absolute majority in parliament, some observers point to the loss of the supermajority to suggest that support for Fidesz is beginning to decline. Others

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<sup>7</sup> Margit Feher, “Hungary Adopts Tax on Advertising Revenue,” *The Wall Street Journal*, June 11, 2014.

<sup>8</sup> “Prime Minister Viktor Orban’s Speech at the 25th Balvanyos Summer Free University and Student Camp in Tusnadfurdo, Romania,” July 26, 2014.

argue that the loss of the supermajority is mainly symbolic, and that the party had largely completed its program of sweeping changes in any case. Proponents of the argument that Fidesz is weakening were emboldened when the government canceled a proposed Internet tax in October 2014 after demonstrators took to the streets of Budapest in protest. A March 2015 poll showed support for Fidesz at 24%, a two-year low, although among respondents with a clear party preference support for the party was 40%.<sup>9</sup>

## Relations with the European Union

Hungary joined the European Union (EU) in 2004. In recent years, relations between Hungary and the EU institutions have been confrontational. In 2012, the EU initiated infringement proceedings (a pre-litigation procedure) against Hungary on the grounds that the Orban government's legislation affecting the judiciary, the central bank, and the data protection authority were contrary to EU law regarding the independence of such institutions. Also in 2012, the European Parliament adopted a resolution raising concerns about democracy, rule of law, and the protection of human rights in Hungary. Later that year, the European Commission (the EU's executive) pronounced itself satisfied with Hungary's pledge "to take tangible steps" on the central bank law. Nevertheless, although Budapest indicated that it would comply with several of Brussels' demands, Prime Minister Orban has repeatedly and harshly criticized the EU in speeches and interviews at home. For example, at the September 2013 Fidesz party congress, he criticized "...sweet-talking bankers, greedy multinationals, EU bureaucrats and their Hungarian lackeys."<sup>10</sup>

In addition, the EU has criticized Hungary's media law that was adopted in 2010 (described above). The Hungarian government amended the media law in February 2011 to accommodate suggestions from the European Commission, but came in for renewed criticism after the government awarded the broadcasting license for *Klubradio* to another company that it believed would be less critical of Fidesz. Shortly thereafter, a Budapest appellate court ruled that *Klubradio* should retain its broadcast frequency; in 2013 a fourth court case was decided in the station's favor, and the Media Council finally granted it a long-term frequency and signed a 7-year contract.<sup>11</sup>

The EU rules requiring a budget deficit no greater than 3% of GDP have obliged the Orban government to make deficit and debt management a priority. In 2013, Hungary exited the EU's Excessive Deficit Procedure for the first time since joining in 2004, providing a symbolic boost for the Orban government. Given the relatively poor relations between Hungary and the EU, however, the European Commission continues to monitor Hungary's budget especially closely. Ironically, EU-related budget pressures have also provided the Orban government with added justification for its "unorthodox" sectoral tax policies that it has used to raise revenue as well as achieve political aims.

Prime Minister Orban has been criticizing EU immigration policies, arguing that he considers many of the common rules on immigration too loose and that member states should retain full sovereignty over immigration decisions. Following the January 2015 terrorist attacks in Paris, Orban called for immigration to Europe to be largely halted. The prime minister has indicated Hungary may proceed with new national legislation strictly limiting immigration, even if the move is opposed by Brussels. The European Parliament criticized a "public consultation" questionnaire on immigration policy sent out by

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<sup>9</sup> "Medián poll shows support for Fidesz is at two-year low," *Hungary Matters*, April 9, 2015.

<sup>10</sup> "Orban Says Fidesz Won't Be Servant to EU, Banks," *Politics.hu*, September 30, 2013, <http://www.politics.hu/20130930/orban-says-fidesz-wont-be-servants-to-eu-banks/>.

<sup>11</sup> "EU Voices 'Grave Concerns' Over Hungarian Media Laws," *AFP*, February 9, 2012, "Hungarian Radio Resists Muzzle; Government Tightening Grip on Media, Banking, and Judiciary, Critics Say," *International Herald Tribune*, March 13, 2013, and "Hungary Opposition Radio Finally Signs Broadcast Contract," *AFP*, May 2, 2013.

the Hungarian government in April 2015 for seemingly blaming the EU for the presence of asylum-seekers and refugees in Hungary and linking migration with terrorism.<sup>12</sup> Orban called a May 2015 draft proposal by the European Commission to distribute asylum seekers among EU member states under a quota system “mad and unfair.”<sup>13</sup>

## Relations with NATO and the United States

Since the fall of Communism in Central and Eastern Europe, the United States and Hungary have maintained strong bilateral links, particularly on security matters and through NATO. Although some Hungarian officials engage in rhetoric critical of the EU, there is little or no parallel criticism of NATO. Hungary considers NATO to be the main pillar of its national security, and U.S. officials consider Hungary to be a solid member of the alliance that is consistently willing to cooperate and contribute troops to multilateral operations, particularly including Afghanistan.<sup>14</sup>

The Obama Administration has taken issue with the Orban government over several matters, however. For example, during the run-up to parliamentary consideration of the Fourth Amendment in early 2013, the State Department urged delay and review of the measure, stating that the U.S. government “shares the concerns expressed by the Council of Europe about [the] proposed amendments ... [;] they deserve closer scrutiny and more deliberate consideration, as they could threaten the principles of institutional independence and checks and balances that are the hallmark of democratic governance.”<sup>15</sup> At a March 2013 hearing of the congressional Helsinki Commission, a State Department official stated that “in the last two years [the U.S. Government has] been open about our concerns regarding the state of checks and balances, and independence of key institutions, in Hungary[,]” and that “if the Government of Hungary does not address these concerns, not only will the lives of Hungarian citizens be affected, but it will also set a bad precedent for OSCE participating States and new members and aspirants to NATO.”<sup>16</sup>

In October 2014, the United States announced a travel ban against six unnamed Hungarians, reportedly including government officials, due to “credible information that those persons are either engaging in or benefiting from corruption.”<sup>17</sup> The sanctions came as a warning about Hungary’s perceived backsliding on democratic values. According to the then-Chargé d’Affaires at the U.S. Embassy in Budapest, corruption is a symptom of Hungary’s weakening democratic institutions. The Chargé further explained:

"At a certain point, the situation, if it continues this way, will deteriorate to the extent where it is impossible to work together as an ally...That's what we want to avoid, because we are allies, we are friends, we are strong NATO partners, and we want to try to help Hungary avoid this downward trend in its own society, and this obstacle to good relations with us and with others...We have spoken about this for so long that at a certain point you have to decide if you believe these things, if they are more than words, what is the action you take?"<sup>18</sup>

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<sup>12</sup> Adam Halasz, "MEPs Challenge Orban's 'Horrible' Migration Survey," *EU Observer*, April 29, 2015.

<sup>13</sup> "Hungary's PM Orban calls EU refugee quota plan 'mad'," *EurActiv*, May 8, 2015.

<sup>14</sup> The U.S. State Department's "U.S. Relations with Hungary—Fact Sheet" (September 24, 2013) characterizes Hungary as “a valued partner in the transatlantic partnership...[that] has been a firm ally in coalition operations....”

<sup>15</sup> Victoria Nuland, “Proposed Amendments to the Hungarian Constitution—Press Statement,” March 7, 2013.

<sup>16</sup> Brent Hartley, “Hearing Before the U.S. Commission on Security and Cooperation in Europe,” March 19, 2013.

<sup>17</sup> Veronika Gulyas, "The US Cancels Visas for Hungarians Involved in Corruption," *The Wall Street Journal*, October 17, 2014.

<sup>18</sup> "Washington introduces Russia-style sanctions against Hungarian officials," *EurActiv*, October 21, 2014.

Prime Minister Orbán's chief of staff responded that the Hungarian government was not made aware of the details of the U.S. allegations, telling the Hungarian Parliament's national security committee:

"The government of Hungary is somewhat baffled at the events that have unfolded because this is not the way friends deal with issues... "If you say you have credible information on something and then talk about government officials, then you help Hungary only if you provide us whatever credible information you have."<sup>19</sup>

## Relations with Russia

Despite Hungary's commitment to NATO and its relations with the United States, the Orbán government has emphasized that it has other foreign policy interests, including building closer relations with Russia. Analysts note that the Hungarian government appears to be one of the most "pro-Russian" governments of the NATO and EU countries. To a certain extent, ideological similarities between Prime Minister Orbán and Russian President Vladimir Putin contribute to cordial relations: although Hungary is still a democracy and Russia is not, both leaders have been organizing their respective states in contrast to the "liberal, Western model," with Orbán naming Russia (along with Singapore, China, India, and Turkey) in his July 26 speech as the type of state model likely to be successful in the future. In addition, Putin's doctrine of "protecting" ethnic Russian populations that live outside the borders of Russia evokes the Hungarian nationalist view of ethnic Hungarian minorities that live outside the borders of Hungary, described above. According to some Western observers, Hungary has played an unhelpful role in the Ukraine crisis by advocating greater autonomy for a region of western Ukraine inhabited by approximately 150,000 ethnic Hungarians.

Hungary has considerable ties to Russia in the energy sector. Russia provides over 76% of the natural gas consumed in Hungary, accounting for one quarter of the country's primary energy supply, and Hungary was a strong supporter of Gazprom's now-cancelled South Stream pipeline that would have crossed Bulgaria, Serbia, Hungary, and Slovenia (bypassing Ukraine) to reach Austria and Italy. Russia also supplies the fuel for Hungary's Paks nuclear power plant, which provides about 40% of the country's electricity. Under a deal reached in 2014, Russia will loan Hungary €10 billion (approximately \$11.2 billion) to finance the construction by Russia's state-owned Rosatom of two new units at the Paks plant.

Although it joined its EU partners in condemning the annexation of Crimea as illegal, and signed on to the multiple rounds of sanctions imposed against Russia by the EU since mid-2014 (EU sanctions must be adopted unanimously by all 28 member states), Hungary has been among the countries most reluctant to impose sanctions in response to Russia's actions in the on-going Ukraine conflict. In an August 15, 2014 interview, just two weeks after the adoption of sectoral EU sanctions and one week after the announcement of retaliatory Russian measures against European food products, Prime Minister Orbán called for a re-think of the EU's sanctions, stating "The sanctions policy pursued by the West, that is, ourselves, a necessary consequence of which has been what the Russians are doing, causes more harm to us than to Russia...In politics, this is called shooting oneself in the foot."<sup>20</sup> Although Russia is Hungary's largest non-EU trading partner, with Hungarian exports to Russia valued at approximately \$3.4 billion in 2013, this figure represents only 2.6% of Hungary's total exports.<sup>21</sup> Analysts assert that the sanctions are likely to have a larger indirect impact on Hungary through a potential slowdown in the German economy.

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<sup>19</sup> *ibid.*

<sup>20</sup> Gergely Szakacs, "Europe 'shot itself in foot' with Russia sanctions: Hungary PM," *Reuters*, August 15, 2014.

<sup>21</sup> Economist Intelligence Unit, *EU-Russia sanctions hit Hungary mainly via Germany*, August 8, 2014.