

# DGAPanalyse

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May 2014 N° 7

## From Front-runner's 'EUphoria' to Backmarker's 'Pragmatic Adhocism'?

Hungary's Ten Years within the European Union in a  
Visegrad Comparison

by Daniel Hegedűs



Deutsche Gesellschaft  
für Auswärtige Politik e.V.

This paper is published as part of the research project "Central European Perspectives – Integration Achievements and Challenges of the V4 States after Ten Years in the EU", supported by the strategic grant of the International Visegrad Fund.



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## Summary

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The paper aims to give a brief but comprehensive summary of the internal and external dimensions of Hungary's EU membership and integration policy. It will outline and analyze the development paths and future perspectives in the fields of European and foreign policy, home affairs, and economics. Whether Hungary again becomes a front-runner in the European development process or remains a partially isolated backmarker hinges mainly on the direction taken in the broader European development. Nevertheless the country is currently establishing an alternative political model within European integration. It is still not clear whether this development conforms with basic European standards and represents a renaissance of the "Europe of Nations" concept or whether it steps over these common rules and goes in the direction of a political and economic "third way" model. If one focuses on Hungarian foreign policy, the option of a "Europe of Nations" is more likely; if one focuses on internal developments, then the "third way" model seems more likely. However, the country's European policy has since 2010 definitely turned in a very pragmatic direction compared to the "EUphoric" phase of former years. Hungary accepts the fact of a "multi-speed integration" and takes different pragmatic positions on very different policy issues, taking into consideration first and foremost an ad hoc interpretation of national interest rather than a comprehensive integration strategy.

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# From Front-runner's 'EUphoria' to Backmarker's 'Pragmatic Adhocism'?

## Hungary's Ten Years within the European Union in a Visegrad Comparison

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On the one hand, Hungary is a country with widely recognized economic reforms during the late state socialist era, the country that opened the Iron Curtain, was the first post-socialist state to join the Council of Europe, and effectively paved the way for liberal economic and political reforms in East Central Europe during the 1990s, thus securing its position in the first enlargement rounds of NATO and the EU, in 1999 and 2004 respectively. On the other hand, Hungary is a country with continuously decreasing competitiveness, with increasing external debt and economic imbalances during the first decade of the new millennium. According to its critics, since 2010 it has become an isolated, *enfant terrible* member state of the EU; the quality of the rule of law has been questionable, as have Hungary's democratic standards. In 2012–13 the country was threatened with suspension of membership rights under Article 7 TEU.<sup>1</sup> Contrary to that, internal and external supporters interpret the reforms of the last years as the re-establishment of democratically legitimized national elites' power and political space vis-à-vis alienated European technocracy. In their eyes, the country can be a possible pioneer in finding new answers to the current crises in European integration and in forging new paths for the future.

This paper aims to give a brief but comprehensive summary of the internal and external dimensions of Hungary's EU membership. It will outline and analyze the development paths in the fields of

European and foreign policy, home affairs, and economics. The author is well aware, however, that the question of the last decade's balance can hardly be answered in the current context. The reason is that Hungary now seems to be at an important turning point, having undergone significant changes over the last few years. This paper attempts to answer the question of whether the country is now once again fulfilling a pioneering role – developing a political counter-model based on the re-establishment of the national elite's political and economic sovereignty, and thus giving new impetus for the "Europe of Nations" concept – or if it is slowly becoming an isolated, thwarted EU member state.

The first, retrospective, part of the paper gives an overview of the main economic and political dynamics of last ten years, revealing the loss of competitiveness and the roots and consequences of the ineffective governance between 2002 and 2010 and highlighting the contradictions of the constitutional and political development after 2010 (1.1). It also focuses on Hungary's performance during the economic crisis after 2008 (1.2), and on the most important political controversies that have occurred between the European and national levels during recent years (1.3). The second part analyzes the dynamics and perspectives of Hungary's European and foreign policy (2.1), with special emphasis on relations with the European Monetary Union (EMU), fiscal integration, and the "deepening" of the European Union (2.2). It also puts the Hun-

garian position on European energy and climate policy under the microscope (2.3), as well as its “uploadings” to the European political agenda (2.4), and finally the country’s economic and trade partnership, and foreign policy networks (2.5).

## 1. Retrospective Overview

### 1.1. Historical assessment of a lost decade

Bearing in mind that 2004 did not constitute a fundamental turning point in Hungary’s economic and political development, it is first necessary to take a deeper look at the historical situation. The most crucial year in contemporary Hungarian political history was undoubtedly 2002, which marked the starting point for two political and economic processes that had a fundamental impact over the next eight years, and indeed to this very day. Both the rather low-intensity but continuous political and governance crisis and the increasing level of state debt can be traced back to the change of government in 2002. This was the most emblematic starting point of a development process that has led to the irreconcilable polarization of Hungarian political life and culture. After losing the 2002 election, the former governing Fidesz party and its chairman Viktor Orbán initiated a political discourse that relativized the outcome of the democratic elections with the famous phrase “The nation cannot be in opposition!” (“A Haza nem lehet ellenzékben!”),<sup>2</sup> expropriating the phenomenon of “nation” for its exclusive use and establishing a political environment in which (excluding perhaps the last common project of the country’s EU accession) any further compromise or cooperation between the country’s main political parties was impossible if not unthinkable with regard to virtually any important strategic issue. This stance led quite simply to a political cold war in Hungarian society.

On the other hand, the government lead by the Hungarian Socialist Party (MSZP) introduced a far-reaching social welfare program that aimed to raise public sector wages by approximately 50 percent and improve other welfare services, as it had promised in its election manifesto.<sup>3</sup> Despite the

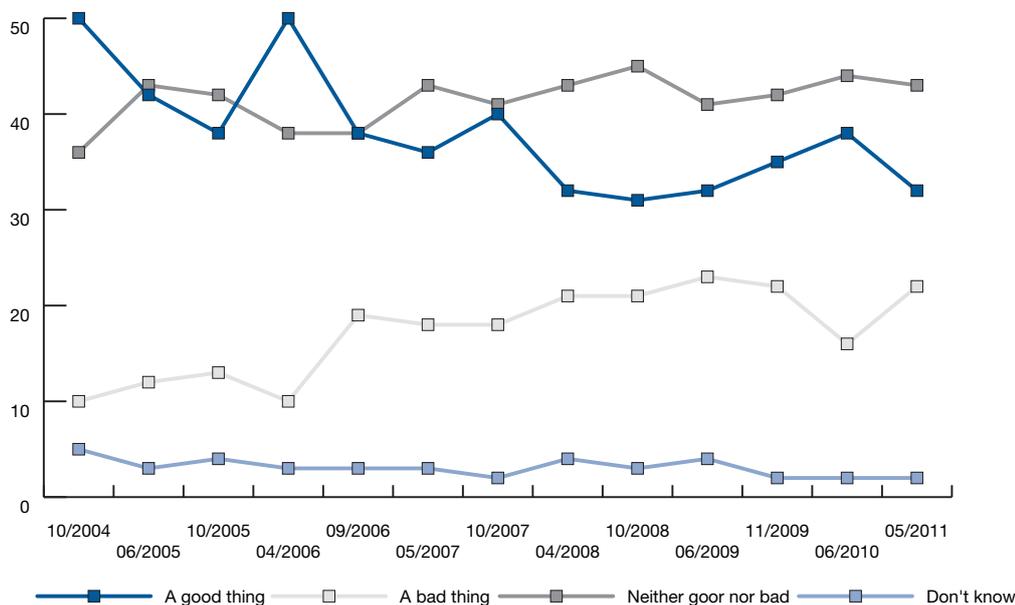
fact that the Hungarian economy had grown on a balanced and sustainable basis since the economic reform program of 1995, it was not able to provide the necessary basis for such an increase in public spending, which led to a rise in national debt. Since 2002, the government gross debt in GDP percentage has grown by approximately 3 percent annually, from a level of 55.9 percent in 2002 to 58.6 percent in 2003, 65.9 percent in 2006, 73 percent in 2008 and finally 82.2 percent in 2010.<sup>4</sup> In the years 2002–08, the budget deficit varied between -5 percent and -9 percent annually. The true situation of the Hungarian economy and public finances was first made clear to the general public mainly through a leaked speech by Prime Minister Ferenc Gyurcsány after the second election victory of the socialist-liberal coalition in 2006.<sup>5</sup> As a result of the extensive social and political opposition to Gyurcsány, who failed to resign after his scandalous confession, and because the Fidesz-led opposition declared the government to be illegitimate and consequently refused any dialogue with it, the country sank into a crisis of governance. Although there were clear initiatives to create structural reforms and restore the balance of public spending, they remained unsuccessful. The opposition effectively torpedoed the education and healthcare reforms with the “social referendum” of March 2009, pressing the government to suspend the system of individual financial contributions to healthcare and higher education.<sup>6</sup> The polarized political culture and impotency of government between 2002 and 2008 meant that by the time the economic crisis hit, Hungary was greatly in debt both in the public and private sectors and had a political elite that was barely able to overcome petty conflicts, let alone agree on the strategic issues needed for effective crisis management.

European integration was perhaps the last common strategic goal of Hungarian elites after the democratic change in Hungary. Until 2004, elites were all undoubtedly euphoric, though later this enthusiasm was mostly just from the side of the socialist-liberal government. In their celebrated paper, Frank Schimmelfennig and Ulrich Sedelmeier distinguish three alternative models why political elites in candidate countries accept commitments and fulfill the enlargement criteria, or simply why they take part

in Europeanization processes.<sup>7</sup> According to their models, the attitudes of Hungarian elites if not their behavior can be largely explained not by the external incentives but by alternative social learning and lesson-drawn models. There was broad consent in Hungarian foreign policy after the creation of the “three-priority model”<sup>8</sup> in the early 1990s that there was no alternative to Euro-Atlantic integration; it was the only way to escape peripheral status and to join the global mainstream. This was the goal that motivated far-reaching reforms during the 1990s to secure Hungary’s position in the first NATO and EU enlargement rounds. Even though the integration norms remained mostly unreflected, they were widely accepted by the elites as both necessary and beneficial steps in some respects, offering a solution for the country’s social and economic challenges. Moreover, after 2004 the “mission accomplished” feeling made the Hungarian elites complacent and as a consequence of this, the country was not always able to exploit all the possibilities afforded by full EU membership status – the attitude that integration performance is both something positive per se and also a task for Hungary was never questioned. This is why this paper refers to this period of Hungarian policy towards the European Union as the “EUphoric phase”.

The general Hungarian public developed negative attitudes toward the European Union well before the governing elite did. Virtually all parts of the society had expected that EU membership would create a new economic situation with sustainable economic growth. When this expectation failed to materialize, mainly due to imbalanced public spending structure and over-taxation – that is, mainly for domestic reasons – confidence in EU institutions also started to shrink. The aggregated confidence rate in the three main EU institutions (European Parliament, Commission, and Council) peaked at 63.6 percent in 2004, the year of Hungarian accession, before dropping to 60 percent in 2006, 55 percent in 2008, and to 51 percent and 53 percent in 2011–12 respectively, not wholly undue to the not always Europe-friendly messages given out by the government<sup>9</sup> after 2010.<sup>10</sup> It is, however, important to mention that the confidence of Hungarian citizens in EU institutions is still higher than the EU average, and higher than in many other new member states. This phenomenon could well be explained in relation to Hungarians’ low rate of confidence in their own national institutions. The data gathered in answer to the standard Eurobarometer question of whether EU membership is beneficial for the country, are shown in the chart below:<sup>11</sup>

Generally speaking, do you think that (your country’s) membership of the EU (Common Market) is ...?



Source: European Union, Hungary (from 10/2004 to 05/2011)

On a strategic level, Hungarian foreign policy reflected the altered circumstances as early as 2008 with the adoption of the country's new external relations strategy.<sup>12</sup> The strategy emphasized the evident change of direction in foreign policy goals after successful accession to NATO and the European Union, projects that had clearly dominated Hungarian foreign policy for fifteen years, and assigned the new main goals of European policy as becoming a successful member state with effective interest representation, making the most of full membership, and participating at an equal level in all dimensions of European integration. Even though this re-orientation was self-evident, four years after the country's accession to the EU, it came a bit late. Symbolically, Hungary was at that time at the peak of its integration level. It joined the Schengen Area on December 21, 2007 and has theoretically still not given up its intention of joining the eurozone, although as a consequence of the tragic state of public finances and the Hungarian Central Bank's high interest rate policy, this was too high an integration level to be practical.

Between 2002 and 2010 Hungary effectively managed accession to the European Union and the Schengen Area and performed a business-as-usual European policy as far as integration was concerned, with the clear intention and motivation to take part at all levels. On the other hand, as a consequence of the government's political incapacity, Hungary lost nearly a decade. Its lack of appropriate structural reforms meant losing its earlier competitive advantages over other countries in the region. When the economic crisis hit in 2008 and new parliamentary elections were called in 2010, the country was seriously in debt and politically polarized. It is, however, also important to emphasize an important feature of this period: neither the quality of democratic institutions and rule of law, nor the shared attitudes of the elites toward European integration were ever questioned.

## 1.2 Muddling through an almost permanent crisis

Even though Hungary was hit hard by the economic crisis and was endangered both by the collapse of the national currency, the forint (HUF), in 2009 and by state insolvency in every year since 2011, it

must again be stressed that the country has been in a structural economic and competitiveness crisis and a governance efficiency crisis since 2002. Processes mentioned in the first section led to a high level of state and private debt, which has made the country extremely vulnerable to global economic turmoil and to decreasing competitiveness compared with economic rivals in the region. Although some macroeconomic indicators, mainly budgetary deficit and growth rate, have improved significantly over the last few years, other arguments support the thesis that Hungary's current economic model is not sustainable. The relative growth rate remains far behind the other Visegrad countries.<sup>13</sup> The Hungarian Central Bank's interest rate policy endangers the stability of the forint, as demonstrated by the destabilization of the Euro/HUF exchange rate in January–March 2014. The credit supply of the real economy is unsatisfactory, and the government is in the meantime only able to finance state debt by issuing bonds with relatively high interest rates. There is quite a bit to be said for the argument that Hungary is not a newly emerging small tiger (the "Pannonian Puma", a fairly public relations parlance), but is rather still one of the sick children of the European economy.<sup>14</sup>

At the beginning of the crisis, the Gyurcsány and Bajnai governments focused mainly on spending cuts and the securing of the IMF-EU-IBRD loan package amounting to approximately 20 billion euros for 2008–12.<sup>15</sup> Since 2010, the newly elected Orbán government has been following an economic strategy that György Matolcsy, minister of economic affairs in 2010–13, called "unorthodox economic policy". This has two main pillars. The first is a conservative fiscal policy that tries to reduce budget deficit with further spending cuts, mainly through the cuts in unemployment and social assistance benefits. The second is the involvement of unorthodox income sources in the state budget. Economic policy measures aiming for this goal achieved 11 billion euros by such measures as nationalizing private pension savings in 2011 – approximately 10 percent of the annual Hungarian GDP – and introducing sector-specific supertaxes for telecommunication and energy companies and banks between 2010 and 2013. Although some success was undoubtedly achieved, especially in terms of

reducing budgetary deficit, the consolidation must be judged to be unsustainable, as a consequence of the temporary character of these determining income sources in the fiscal stabilization. The dynamics in the real economy cannot secure a stable foundation for it.

Many important economic decisions made by the Orbán government served mainly to satisfy the party's voters and were not necessarily examples of good economic governance. Despite the "workfare society" discourse in its official economic policy, the government increased the social, health and pension assurance taxes paid by employers, something that clearly worked against achieving the goal of higher employment. And it was only done to create appropriate sources of income and balance the introduction of "flat tax" systems for employees, favoring mainly individuals with higher levels of income.

The reduction of private debt can be seen as a reasonable economic policy, because it could have contributed to reducing the country's structural economic vulnerability. However, government programs supporting individuals with foreign currency debts were again mainly aimed at gathering political support and simply redistributed some private debt among all taxpayers and the banks that provided the original loans.<sup>16</sup> Together with the sector-specific supertax this led to a bleeding-out situation for financial institutions operating on the Hungarian market. Under these circumstances, important financial players like Raiffeisen and Erste Bank started to consider whether they should leave the Hungarian market in the short or mid term. And as a direct consequence of the current policy, the credit supply of the real economy is far from satisfactory. The investment rate in the economy is diminishing continuously from approximately 23 percent around 2004-2005 and 22 percent in 2008 to 18 percent in 2010 and 16 percent in 2013.<sup>17</sup> According to leading Hungarian economists, an investment rate of around 16 percent is unfortunately no longer able to cover even the amortization lost in the economy. And the government's current policy clearly contributes to low-level credit supply and the wearing out of the Hungarian economy.

A similar phenomenon can also be observed in the case of the energy companies. The supertaxes, combined with the financial burdens of the price regulation prescribed by the state as part of its "overhead cutting" ("rezsicsökkentés") campaign, brought a whole industrial branch to the edge of profitability for political reasons. According to its new strategy of welcoming investors in productive industrial branches but not in the service sector,<sup>18</sup> the government does not even try to oppose international energy companies leaving the market. Taking into consideration the enthusiasm and willingness with which state-owned companies are prepared to take over their shares, one might get the impression that the Hungarian government is striving to push foreign investors out of significant segments of the economy. And it does so with the main aim of regaining control over strategic economic sectors like energy and banking and to reposition politically friendly national elites in these sectors.

In addition, the uncertain legal environment has not been particularly attractive for foreign investors in recent years, and the only moderate amount of foreign direct investment (FDI) has again contributed to the lack of resources in the Hungarian economy. A fairly similar phenomenon can also be observed in the case of state finances. The absorption level of EU cohesion policy resources decreased after 2010<sup>19</sup> as a result of the restructuring of the national strategic reference frame and the institutional background responsible for the implementation. The government finally opted against a further IMF loan during 2012, which would have allowed cheaper financing of state debt and demonstrated the country's ability to acquire the appropriate resources via bonds from the international financial markets. The Orbán government simply wanted to avoid being shackled to an IMF loan and repeatedly emphasized the importance of sovereign economic governance, which it said it was capable of handling. This has been of crucial importance, because under the aegis of the "unorthodox economic policy", none of the real structural reforms that would have been prescribed by the IMF, were introduced in the country. Conservative fiscal policy has indeed reduced spending

and thereby contributed to an unfortunately lower investment in human resources, but no fundamental reform has taken place in important policy structures.<sup>20</sup>

Prior to 2010, Hungary experienced no noticeable emigration of the workforce.<sup>21</sup> While it remained low in regional comparison, in former Hungarian terms it has increased significantly since then. Currently statistics show that 16 percent of the general population and 56 percent of students imagine their future abroad.<sup>22</sup> There has been a slow stabilization of the employment figures, and in the fourth quarter of 2013 the number of employed peaked again above 4 million – a figure not seen on the Hungarian labor market for a long time. This, however, still only represents an employment rate of 59.7 percent, clearly the lowest in the V4.<sup>23</sup> A further negative sign is that the Hungarian central statistical office identifies the source of this higher employment level as being rooted in the public sector, while employment in the private sector is stagnating or decreasing. Not only the employment rate but also the real Hungarian GDP growth rate is clearly the lowest in the V4. Positive growth in 2010, 2011 and 2013 (1.1 percent, 1.6 percent and 0.7 percent respectively) has not been able to counterbalance the negative growth in 2009 and 2012 (-6.8 percent and -1.7 percent), and the Hungarian nominal GDP is still far from the level of 2008 (105,535.8 million euros in 2008 compared to 96,938.3 million euros in 2012).<sup>24</sup>

According to leading Hungarian economists, of the triad of factors mainly responsible for the constitution of GDP, internal demand, investment, and export, currently only one element, the export or the Hungarian trade balance, is performing appropriately. (It generates an annual surplus of approximately 7 billion euros in the trade of goods and services.) An important factor in achieving this surplus is obviously the fact that Hungary's traditional export markets, such as Germany and Austria, were not as seriously paralyzed by the economic crisis as other countries in the EU. As far as export structure is concerned, 80 percent of Hungarian exports stem from multinational companies operating within Hungary.

### 1.3. Political controversies: the permanently misunderstood country

It is hard to mention some well-selected controversies in Hungary's relationship with European integration, as it has been burdened with a wide-ranging and deep political conflict about the direction and effects of fundamental constitutional and political processes in the country since 2010. The alliance of Fidesz and the Christian Democratic People's Party (KDNP) won the 2010 elections with a 52 percent majority. According to the mandate distribution rules of the Hungarian election system, this gave them a two-third majority. The new Orbán government, interpreted this majority as *carte blanche* to initiate a fundamental reorganization of the country's constitutional and political structure. The acceleration of the legislation becomes abundantly clear when one observes that, whereas the average number of acts passed by parliament in any one calendar year used to be 100-150, the number rose to 200-250 a year during the period 2011-13. The speed with which new legislation was passed resulted in a decrease in legal certainty and rule of law standards but was officially justified with the extraordinary circumstances challenging the government and requiring crisis management. If we put the adopted laws under the microscope, it becomes clear that most of them were not aimed at crisis management but rather at establishing and stabilizing the governing elite's power position.

A detailed analysis of the Hungarian constitutional processes falls outside the scope of this paper.<sup>25</sup> Here it can be only focused on the issues on which the European Commission clearly intervened with the Hungarian government: the 2010 media act;<sup>26</sup> the independence of the data protection authority; the independence of the Hungarian Central Bank; the forced early retirement of judges; and finally the fourth amendment of the Hungarian Basic Law, which included the incorporation of certain regulations into the text of the constitution that the Constitutional Court had previously judged unconstitutional – thus avoiding the possibility of further norm control.

The widely discussed and criticized media act was adopted on December 21, 2010. Many of the detailed rules of this law can be evaluated without any doubt very differently in comparison with other European media legislation. However, according to the OSCE Representative on Freedom of the Media,<sup>27</sup> the law resulted in an increase of state control over electronic media in Hungary and pushed media employees toward self-censorship. Further, the reorganization of the Hungarian Media Authority opened up the possibility of carrying out far-reaching staff changes based on political lines under the cover of a restructuring process. The act was harshly criticized within the EU and it deeply harmed the symbolic and political appraisal of the first Hungarian Council Presidency during the first half of 2011.<sup>28</sup> As a result of the criticism, the Hungarian parliament amended the law on March 7, 2011, correcting the four points most criticized by the European Commission.<sup>29</sup> While the act remained widely debated<sup>30</sup> and was repeatedly placed on the agenda of the European Parliament<sup>31</sup> and the Venice Commission,<sup>32</sup> the European Commission did not initiate infringement procedure in the case.

This was the first time that the tactics of the Orbán government could be identified. These tactics are still used in connection with questionable legislative steps that still draw international criticism. According to this “two steps forward, one step back” tactic, the government adopts a law whose conformity with European standards is questionable. In answer to its international critics, the government then argues that special circumstances require fast legislation and that similar legal regulations are present in other constitutional systems. In doing so, it ignores an important principle of comparative constitutional law: that the effect of a legal regulation can vary extensively in different legal and political environments. And if these arguments do not silence the critics, the government introduces some superficial and some slightly real changes to calm international opinion but manages to keep for itself a large part of the benefits of the original legislation. Using this “trial and error” game, the Orbán government has been able to adapt almost the whole Hungarian political system to suit its own interests.

The fact that the EU does not have suitable tools at its disposal and is not ready to sanction politically a member state acting against European values and norms and steer it back to the common direction becomes evident in the case of the new Hungarian Basic Law of January 1, 2012 changing the former constitution. Although the political and legal situation in Hungary became far more serious than it had been at the time of the famous “Austrian case” in 2000, and the possibility of using the “thermonuclear option” embedded in Article 7 of the Treaty on the European Union (TEU) – the suspension of Hungary’s membership rights – also emerged,<sup>33</sup> in the end, no political sanctions were adopted. Instead, the European Commission did something for which it had clear authorization as “Guardian of the Treaties”. It initiated three accelerated infringement procedures on January 17, 2012 regarding the three points that most clearly violated EU law. These points were taken to protect the independence of the Hungarian Central Bank;<sup>34</sup> the independence of the judiciary (endangered through the forced early retirement of judges); and the independence of the data protection supervisory authority.<sup>35</sup> Surprisingly, the first issue was solved relatively quickly during July 2012, again with the help of Orbán’s “two steps forward, one step back” tactic. After Orbán signaled to President Barroso that he was prepared to act, and when the Hungarian parliament amended the statute of the Central Bank, the infringement procedure was closed that month. The European Court of Justice had to decide on the other two cases. On November 6, 2012 it ruled that the forced early retirement of judges was incompatible with EU law,<sup>36</sup> and on April 8, 2014 finally decided the same about the new Hungarian data protection regulations.

The political conflict between Hungary and the European institutions peaked during the spring of 2013 in the debate over the fourth amendment to the Hungarian Basic Law. The amendment was aimed at incorporating all the regulations of both the Basic Law’s transitional provisions and the Election Procedure Act into the text of the Basic Law itself, with the exception of rules regulating voter registration. In December and January the Hungarian Constitutional Court had already banned the regulations as unconstitutional, partially

for formal reasons and partially for substantial reasons. The amendment wanted to exclude the possibility of norm control by the Constitutional Court in such cases, and also to prohibit the Constitutional Court from using its former case law in the future – judgments and explanatory statements that were adopted before the Basic Law came into force (January 1, 2012). Despite the fact that both Manuel Barroso, president of the European Commission, and Thorbjørn Jagland, secretary general of the Council of Europe, protested personally to Orbán about the amendment and, together with the US State Department, tried to convince him to give his consent to a preliminary legal analysis by the European Commission prior to adoption by Hungarian Parliament, Orbán pushed the law through parliament on March 11, 2013. Although Hungary was internationally isolated for a while, it was slowly but clearly possible to see the signs of international and European resignation and exhaustion about Hungary. While the European Parliament endorsed the Tavares Report,<sup>37</sup> a very detailed assessment about the situation in the country, with many votes among the rows of the EPP itself, the monitoring and sanctioning mechanism proposed by the report were not implemented by either the Commission or the Council. In September 2013 the Hungarian parliament adopted the fifth amendment to the Basic Law, thereby correcting the regulations affecting the transfer of cases between courts and the issue of the rules for political advertisement in election campaigns. However, the usual outcome of the “two steps forward, one step back” tactic, a massive part of the sensitive and problematic regulations of the fourth amendment remained unchanged.

It is evident that Hungary’s relationship with European institutions, chiefly the Commission and the European Parliament has in recent years been shaped not by isolated controversies but by prolonged conflicts never previously experienced in the EU. European institutions tried to counteract political and legislative dynamics in Hungary that were aiming to execute a major restructuring of the constitutional system for the benefit of the governing parties, and also in an attempt to keep them within the limits of common European rules and standards. But the Hungarian government’s “two steps

forward, one step back” tactic, combined with the lack of motivation for explicit political action, resulted in largely thwarting these efforts.

Hungary remains a democratic country, and undoubtedly the democratic will of the Hungarian people decided which government they want during the parliamentary elections in 2014. But other elements of liberal democracy, like checks and balances and rule of law, have been significantly weakened over the last few years. And the longer Hungary continues its journey in this direction, the further it will end up from the Europe it had for decades dreamed of joining.

## 2. Perspectives

### 2.1. Regional and European dynamics: Hungary in the EU and in the V4

Hardly any EU member state was able to remain unaffected by the various economic and political consequences of the crisis in the years after 2008. The crisis not only shocked European societies and decision makers but also contributed to further structural development of European integration. The sometimes federalist, sometimes intergovernmental steps that aimed at deepening functional and political integration within the eurozone also contributed to the accelerated “two-speed Europe” and “flexible integration” processes within the EU. In this integration scenario Hungary undoubtedly belongs to the second speed group. On the other hand, not only did the crises directly affect integration politics but, as the current Hungarian Foreign Policy Strategy paper states, “it is a general tendency due to the economic and social challenges that the foreign and Europe policies of each country are increasingly determined by domestic political considerations.”<sup>38</sup> This is a foreign and European policy approach that is hardly valid in any other member states, even the most Eurosceptic ones. Internal developments of questionable political character (described and analyzed above) stood in a strong interrelationship in the form of an interaction triangle both with the country’s position and appraisal within the EU and with the

qualitative development of the Hungarian policy toward the European Union. The main outcome of this dynamic was a major shift in Hungarian foreign policy attitudes toward European integration, a turning away from the integration and performance based “EUphoric” approach to another behavior, which this paper calls “pragmatic adhocism”. Based on the analysis and interpretation of interviews made with officials from the Hungarian ministry of foreign affairs (MFA) and of the current foreign policy strategy, “pragmatic adhocism” displays two main characteristics: (1) There is no one comprehensive Hungarian strategy toward European integration that defines goals and development paths for the country’s policymaking, the main argument for this being that the country would most likely be unable to realize it. And as consequence of this, (2) Budapest accepts the existence of a “two-speed European integration” and answers it with a pragmatic “variable geometry” policy toward the EU. This means that instead of following a coherent strategy, Budapest’s political decisions and partnership networks vary significantly depending on the different issues and policy fields. The only two guidelines are national interest and the “values” of Hungarian foreign policy defined on an ad hoc basis.

Although there are different references to this “value base,” all of them are strongly linked to the concept of a “Europe of Nations.” According to the current Hungarian Foreign Policy Strategy, universal values (like peace, security, democracy, human rights, social responsibility and the individual and collective rights of minorities) are tightly and organically followed by “national basic values” defined in the form of national sovereignty, both individual and collective rights of minorities, and the “sense of shared national belonging spanning borders”.<sup>39</sup> The harmonization of interests and values happens again without clear priorities, but as the strategy formulates it, based on the analysis of relevant circumstances – in other words – in an ad hoc manner. Analyzing interviews with leading officials from the ministry of foreign affairs, the value structure of the current Hungarian foreign and European policy can be described in the following way:

- (1) Hungary is clearly interested in a strong and united Europe.
- (2) Social and cultural cohesion and demographic sustainability in the European Union are crucial dimensions of the fitness and strength of this integration. From the Hungarian perspective this has two main consequences:
  - a) Europe is strong when its member states are strong. And this recognition will lead to the acceptance of “different national ways” within the scope of European integration (a “Europe of Nations”).
  - b) The social and cultural cohesion of Europe can only be secured on the basis of common Christian values (“Christian Europe”).<sup>40</sup>
- (3) Hungary rejects any form of “federation by stealth” but on the other hand, accepts the fact of flexible integration, as long as it remains open for later accessions.

When this value and interest base is compared to the similar section of the country’s 2008 External Relations Strategy,<sup>41</sup> it is clear that no part has been changed as drastically as this one. On the other hand, no substantial change took place as far as the strategic priorities of Hungarian foreign policy are concerned – perhaps “just” a symbolic switch in the hierarchy. Issues related to Euro-Atlantic integration, including all EU affairs, were relegated to second place following the priority of neighborhood policy and regional relations, the latter also comprising policies toward Hungarian minorities living abroad. “Global opening” is held to be the third priority.<sup>42</sup> This structural and symbolic subordination of European affairs vis-à-vis interstate relations in the neighboring regions determined by national interest and minority politics reflects clearly the switch from “EUphoria” to a more pragmatic, more nation-centered and conservative value oriented approach.

Another area that illustrates this symbolic change has been the quality of public political speeches in Hungary. This paper cannot undertake a comprehensive overview of all the country’s political discourses, but will concentrate on just the public

speeches by Viktor Orbán, prime minister between 1998 and 2002 and again since 2010. The phenomenon of “double talk” where European affairs are concerned exists in nearly all member states of the European Union. There is often a huge difference between what the politician says at the European and at the national level. But only in a few member states has anti-European discourse reached such a level as in the Orbán speeches of recent years. The comparison of the European Union to the Soviet Union and Brussels to Moscow in his national holiday address on March 15, 2012, and his often used phrase “fight for independence”<sup>43</sup> against external influence (represented mainly by foreign investors and multinational companies in the economic sector, and by the European Union in political terms) shows that European integration, or at least some institutional and policy dimensions of it, are currently seen as threats by Hungarian decision makers. And they are presented both as threats and as an “image of the enemy” to the Hungarian public. Even though this “image of the enemy” is flexible and refers mostly to the current political conflicts of the Hungarian government, it clearly reflects how European integration has changed from “something wanted” to “something alien” and how the discursive categorization of Europe turned from “we” to “they” in Hungarian government communications. That the spirit of this policy pervades not only in political communication but also in political action – and that the Orbán government is ready to act against important European values and principles when it serves to stabilize its position of power – could be a logical conclusion of the issues noted above. And if one accepts this conclusion, it can have far reaching consequences. If the focus remains exclusively on the foreign political actions and communications of the Hungarian government, then even the change in the foreign political discourse, the partial devaluation of European affairs, the prioritizing of national interest (in the sense of the “Europe of Nations” concept) does not seem to be disturbing or dangerous, because these elements remain within all manner of current European political discourse. It could be said that Hungary is looking for its own way and a new “Sinatra doctrine” could be introduced in the integration theory but that this way can be interpreted

as a European way. But if we also put the country’s internal political and economic development under the microscope, what we can see is not necessarily very comforting. Whether the dynamics of Hungarian politics will remain within the discursive, value and political frames of European integration, or whether the Hungarian way will evolve from a European one into a “third way scenario,” can only be judged in the longer term.

If the focus of the analysis is moved from the EU to the Visegrad cooperation, it can be seen how many different interpretational frames exist for the V4. Setting aside those discourses that stem from diplomats who work mainly in this field (and are consequently always very enthusiastic) and those who aim to perform good public relations for the V4 (to enhance the group’s influence at European level together with the Hungarian influence within it) and taking a broader strategic look, it becomes evident that Visegrad is only one of the interest representation forums for Hungarian foreign politics, even if it is one of the most important. The rule of “pragmatic adhocism” also applies to Hungary’s Visegrad cooperation, which means that regardless of the existing common cultural and historical heritage, it is first and foremost a platform for Hungarian foreign policy to enhance its influence at the EU level in different policy fields where there is a pragmatic common interest among the Visegrad states. Secondly, the V4 is a framework for the management of neighborhood relations, though not in all fields. Historical and past political experiences show that it is not a conflict management or mediation platform. Neither real interest conflicts nor symbolic tensions find their way onto the agenda either in the V4’s European or neighborhood dimensions. However, according to the current Foreign Policy Strategy, the V4 is a useful framework for representing common interests and positions more effectively in the field of energy and cohesion policy, the development of transport infrastructure, and even the common foreign policy interest toward a more dynamic European Eastern Partnership and Western-Balkan enlargement policy. Certainly it is more efficient than anything any of these member states could achieve on their own.<sup>44</sup> Last but not least, the V4 also has an increasing pragmatic importance as a consequence of the growing trade volumes between the Czech Republic, Hungary, Poland, and Slovakia.

Even if there are some uncertainties concerning the future European role of the Visegrad Group, the cooperation has flourished in recent years, and this renaissance can be traced back to two important factors. The first of these is the aforementioned shaping of the group as a “pragmatic ad hoc cooperation platform” along clear common interest lines. Although there is unquestionably a common cultural background among the Visegrad States, which plays an important role in mutual understanding and internal communication between the countries, its role should not be overestimated.<sup>45</sup> Contrary to the common belief and prevailing public relations, history is a factor that not only connects but to a certain extent also divides the Visegrad countries. When we consider the medieval or early modern period – and most importantly, the common experiences during the period of state socialism – the commonalities are in many cases self-evident. But the first half of the twentieth century left behind a very divisive heritage. The politically complex and unresolved issue of the Beneš decrees is perhaps the tip of the iceberg – an issue that is perhaps more often discussed in the Czech Republic and in Slovakia than in Hungary.<sup>46</sup> Nevertheless, Visegrad has already experienced “bad weather” periods, e.g. between 2006 and 2010, when emblematic conflicts between Slovakia and Hungary at high political levels overrode possible cooperation at the policy level which was needed. The first key factor in the current constructive cooperation is the above-mentioned pragmatism, which foresees an active cooperation in issues and policy fields where clear common interests exist, and does not incorporate issues that could cause division. From this perspective, V4 is not an all-round alliance but a practical ad hoc cooperation platform. If any conflict emerges among partners, it is better not to involve it in the V4 frameworks, otherwise it could only diminish the cooperation in general, as earlier examples have clearly illustrated.

The second key factor in Visegrad’s success was the (unfortunately rather slow) appreciation of V4 common power and influence at the European level, especially in the Council of the European Union. According to the voting mechanism in the Council laid down in the Treaty of Nice, the V4 combined has the same number of votes (58) as

Germany and France together.<sup>47</sup> But it must not be forgotten that this voting mechanism will only be in use until October 31, 2014, after which it will be replaced by the double-majority rule laid down in the Treaty of Lisbon. According to the provisions of the Treaty of Lisbon in the transitional period up to March 31, 2017, any member state can request the use of the Nice rules for a particular vote or can call for the application of the “Ioannina Compromise”. However, the days of the V4’s numerical weight are numbered. The four countries will represent only 14.285 percent of the member states and 12.62 percent of the European population. Nevertheless, a big difference can be found in how a blocking minority can be established in the Council. Until now, this required 91 votes or at least 38 percent of EU population. With their 58 votes and some allies, the V4 Group alone was not far from the threshold of 91 votes, irrespective of their population ratio. Under the new rules, a blocking minority can be constituted by at least four member states representing at least 35 percent of the EU population. This will bring the V4 far from the threshold of a blocking minority when large member states do not support it. The effect and consequences of this change are barely predictable.

The new rules could well lead to the devaluation of the V4 as a cooperation platform in the EU, because although it would continue to allow the formulation and communication of common interests, they will no longer make it possible to effectively represent them. Nevertheless this “devaluation scenario” applies to all current regional groups of smaller member states in the EU not just to the V4. The other possible development path could be identified as the “networking scenario” by which regional groups of smaller member states preserve their influence by cooperating among the regional groups more closely. Such initiatives are not necessarily new for the Visegrad countries. They have proven to be pioneers in this field with the flexible cooperation format Visegrad Plus, which involves Romania, Austria, Slovenia and other countries, as well as with the existing links with the Benelux and Baltic countries (V4+B3) and the Nordic Council. Visegrad Plus could become the basic format of interest representation for the future. Whether it will increase the influence of the current Visegrad

Group as a whole (when all four countries can maintain their central role in game) is again a question for the future. The networking scenario and the mainstreaming of Visegrad Plus could theoretically also lead to fragmentation among the original four members or to a development in which the V4's original common cultural background and historical consciousness slowly diminishes and in the end Visegrad Plus will hardly be distinguished from the numerous ever-changing coalitions along different European legislative and political issues. The question "quod vadis, Visegrad" is more relevant than ever.

Current Hungarian foreign policy has other ideas as to how the transformation of the voting system in the Council of the European Union might influence the future of the Visegrad cooperation. According to the current Foreign Policy Strategy, priority should be given to increasing V4's international prestige, and it does not envisage any expansion of the cooperation. On the other hand, interviews with leading Hungarian officials from the ministry of foreign affairs show that the policymakers always emphasize the openness of Visegrad positions and the readiness of the participating countries to represent the common interest in cooperation with other EU partners. This means that the institutional and symbolic form of the V4 will probably remain unchanged in the future, although preparations for anchoring and positioning it in greater regional and functional cooperation networks demanded by the new decisionmaking process in the Council after 2014/2017 are still ongoing.

## 2.2. Economic and monetary union and the questions of further fiscal and monetary integration

No phenomenon in the history of European integration has made the existence of a two-speed or multi-speed integration as incontestable, self-evident, and unavoidable as the financial crisis experienced since 2008. It has pushed eurozone members struggling for the survival of the common currency into further integration forms. Meanwhile, non-eurozone member states, and especially the East-Central-European ones, have found themselves

lagging behind like second-class member states on the periphery. Different countries opted for different political paths to answer the challenge. Unlike Estonia and Latvia, which accelerated the process complying with the Maastricht criteria and successfully managed accession to the monetary union in a very short time, or Poland, which repeatedly stressed its efforts and strong intention to comply with the criteria and join as soon as possible (thus avoiding losing influence in the integration process), Hungary choose another strategy.

In keeping with the principle of "pragmatic adhocism", the Hungarian approach to the reform and further deepening of the Economic and Monetary Union (EMU) is both diverse and structured. According to Hungarian MFA officials, the country officially supports the EMU reform process, but not at all costs. Hungary is obviously deeply interested in a well functioning and strong eurozone, though not primarily from a monetary but more from a broader economic perspective. European monetary policy does not affect the country in practical terms, but as nearly 70 percent of its exports go to eurozone member states, Budapest is inevitably concerned about the vitality of these markets. Theoretically Budapest supports all reform proposals in the eurozone, if

- they do not aim at further institutionalization;
- they are not compulsory for non-eurozone member states but are left open so that member states can join voluntarily at a later date;
- they do not affect the member states' competencies in connection with tax sovereignty;
- they do not support "federalism by stealth".

If this position could be formulated in a single phrase, it would use the words of a planning staff diplomat: "The Eurozone should solve its problems, but in a way that does not harm us."

Concerning the concrete measures, Budapest, after signaling some concerns together with the Czech Republic, later left the club of opposing countries and supported the European Fiscal Compact and

in March 2013 ratified as a non-eurozone member state the intergovernmental Treaty on Stability, Coordination, and Governance in the Economic and Monetary Union (TSCG). It was an important sign that Hungary is ready to take steps to avoid further political marginalization in the EU. And also a necessary step, not only in light of the questionable constitutional and legislative adventures implemented in the country but also from the perspective that Hungary did not participate in the previous project of the Euro Plus Pact in March 2011. On that occasion, this non-attendance might have raised the suspicion that Hungary was planning on joining the eurosceptic club (of the UK, the Czech Republic and Sweden) for the long term, but fortunately these fears were never realized in practice. It is important to stress that in cases when the government refused its support for different projects and proposals – like the Euro Plus Pact or the introduction of a European Financial Transaction Tax (FTT) – it happened mainly to safeguard national economic policy sovereignty. In other words, the decisions were made on the basis of the political attitude toward European integration and not on the basis of economic policy considerations. Hungary has followed a very strict fiscal policy since 2008, which has helped it avoid state insolvency on many occasions. And even though there is a huge difference between pre and post 2010 crisis management of the social-liberal and Fidesz-led governments (mainly concerning the involvement of the IMF and other international actors), this strict fiscal policy was extensively implemented throughout the whole period, so joining the Euro Plus Pact would not constitute a further burden for Budapest. But it included the proposal for the introduction of the Common Consolidated Corporate Tax Base (CCCTB), which crossed the “red line” of the current Hungarian integration policy, questioning the member states’ tax sovereignty, just as the FTT proposal did. Despite the fact that Hungary itself established a financial transaction tax during 2013, it rejected a European FTT for these reasons.

Hungarian foreign policy is fairly skeptical as far as the possibility of comprehensive European treaty reform is concerned. According to planning staff officials, a prolonged debate about the treaty

structure would necessarily weaken the EU, while treaty reform or just the further development of the EMU would not necessarily make it more successful. Should this happen, however – and this is something that cannot really be influenced by Budapest – then treaty reform is for Hungary preferable to an intergovernmental solution that would further fragment European integration.

Concerning Hungary’s accession to the eurozone, there are at least common denominators for all Hungarian policy stakeholders. First of all, as a consequence of the accession treaty, a legal obligation exists for the country to enter the monetary union in the undetermined future. Secondly, the question is politically not an issue of immediate importance, and even the change in the Polish position concerning the importance of the introduction of the euro could not positively influence Hungarian decisionmakers. Nevertheless, many stakeholders in the Hungarian MFA share the position that if Hungary would like to count in the European Union, and would like to maintain an appropriate influence on how the integration develops in the future, the country must join the eurozone. On the other hand, attitudes in other relevant ministries are not necessarily as supportive as in the MFA, and strong actors share the opinion (as they have in a latent but influential way since 2004) that a sovereign national monetary policy constitutes a key factor in the country’s further economic growth and catching-up to the economic level of older member states. This is why, even though the country has never been as close to complying with the Maastricht criteria as it is now, the political will to join the eurozone has perhaps never been so tepid.

Hungary’s budget deficit reached +4.3 percent and -2.0 percent in 2011 and 2012,<sup>48</sup> fulfilling in two consecutive years the -3 percent threshold criteria, although the budget surplus from 2011 is a result of nationalizing the private pension insurance funds and is thus not a sustainable figure. The debt-to-GDP ratio reached 82.1 percent, 79.8 percent, and 79.2 percent, respectively, in the last three years. Because of these decreasing tendencies, the European Commission qualified this benchmark as fulfilled, even though the figures are above the 60

percent Maastricht limit. The annual inflation rate reached 3.9 percent in 2011, 5.7 percent in 2012, and 1.7 percent in 2013<sup>49</sup> with volatile changes, but as the “benchmark countries” (the three EU member states with the lowest HCIP rates) changed in this time frame, their inflation average also changed significantly. In March 2012, when the reference rate was 3.2 percent,<sup>50</sup> Hungary fulfilled the criteria according to the European Commission with its twelve month average, at that time 4.3 percent.<sup>51</sup> Owing to the volatility of Hungarian inflation development, matching the criteria is even more occasional than not and is dependent on many external factors (e.g. energy prices), but the country has rarely been so close to meeting the inflation benchmark as recently. A similar development can also be observed in the case of the long-term interest rate criteria, albeit again with a great volatility caused mainly by the country’s need for external financing. The twelve-month average of Hungarian ten year bond yields dithered above 7 percent during 2012 and 2013, while the benchmark remained close to 4.8 percent, again nearly missing the permitted 2 percent difference.<sup>52</sup> Whether these figures are sustainable or not and whether they belong to a stable or to a decreasing economy – is subject to wide and intensive debate.<sup>53</sup> It remains true that the figures have almost never been so close to the required benchmarks, and while the government could emphasize its intent to move nearer to monetary integration, the signs it gives are quite the opposite.

The new Hungarian Basic Law defines the forint (HUF) as “the official currency of Hungary,”<sup>54</sup> giving a constitutional rank to the national currency and limiting possibility of introducing the euro without a two-thirds constitutional majority in parliament. Whether or not this step conforms with the country’s EU accession treaty, which prescribes the future introduction of the euro as a clear legal obligation, can again be a subject of discussion. The fact remains that Hungary never joined the ERM II, which means that the country is always at least two years away from the introduction of the common European currency. This step can be easily taken when a sustainable Euro/HUF central rate could be found, which would reflect a serious intention toward the EMU.

However, under the abovementioned circumstances, and with the lack of any serious political motivation to move in the direction of the eurozone, Hungarian foreign policy can do only one thing. It can try to hold open the doors for accession in the distant future so that the country can join the eurozone as an equal partner, fulfilling the same obligations as everybody else in the club.

### 2.3. Energy and climate

It is hard to find a policy field in which Visegrad countries have such a strong and well-elaborated common position as European energy policy.<sup>55</sup> If this common position on energy and climate issues could be summed up, it would be identified as emphasizing the principles of supply security, competitiveness, and the national competence to determine the appropriate energy mix – naturally in conformity with the climate and energy policy obligation formulated in the EU’s Lisbon and Europe 2020 strategies.

The fundamentals of Hungary’s energy policy are laid down in the National Energy Strategy 2030 (NES) adopted by the government in July 2011. The document identifies (1) securing energy supply; (2) enhancing competitiveness; and (3) promoting sustainability as the three pillars of Hungary’s future energy policy. They stand in synergic relationship with each other and are succeeded by the following five policy components: (1) enhancing energy efficiency; (2) increasing decentralized use of renewable energy sources; (3) further exploiting of safe nuclear energy, which alone could allow a broader electrification of the transport sector; (4) enhancing bipolar use of agriculture for energy production; and last but not least (5) fully connecting to the European energy networks and further improving them. Another interest is the preservation of the Hungarian coal and lignite mining capacities, as a partially strategic reserve, which could contribute to the maintenance of a moderate natural gas consumption and supply price, a crucial question of competitiveness for the Hungarian industry.

The role of energy security can be easily understood by the supply side of the current Hungarian energy mix.<sup>56</sup> The primary energy consumption of

the country in 2011 was 1072 petajoules (PJ). It was covered to 37.8 percent by natural gas, to 26.6 percent by crude oil, and to 10.5 percent by coal – 74.9 percent by fossil energy resources in total. The share of nuclear energy and renewables was 15.7 percent and 7.7 percent, respectively in addition to 2.1 percent from other sources. Some 74 percent of natural gas consumption, and nearly 99 percent of the crude oil supply, is imported from the Russian Federation via the Brotherhood Gas Pipeline and Druzhba Oil Pipeline. Concerning gross electricity production, which reached 37.37 TWh in 2011, 43.7 percent of this was covered by the four reactor blocks of the Paks nuclear power plant, 31.3 percent by natural gas, 16.7 percent by coal and other solid fuels, 8.1 percent by renewables, and finally 1.3 percent by crude oil. Hungary is also a net electricity importer of around 13 percent of its annual gross electricity consumption, even if the import is seasonal and focuses mainly on the summer months. The country's exposure to and dependence on Russian energy supply is self-evident though not as serious as with other East Central European or even Visegrad countries (e.g. Slovakia), as past Russian-Ukrainian gas disputes and supply crises have shown.

Such supply crises have, however, provided a great impetus for Hungarian energy policy to diversify supply routes, enhance regional energy networks, make up for lacking interconnectors with the neighboring countries, and further develop the country's unique strategic gas reserve capacities.

The matter of energy dependency is, as with other countries in the region, most urgent with regard to gas imports. This is not only because of the much lower share of crude oil in the energy mix, or the seasonal character and low intensity of electricity imports, but also because of the existing infrastructure, which allows use of alternative supply routes for these other resources. The import of crude oil is also possible from the Adriatic Sea via the Adriatic branch of the Druzhba oil pipeline. As far as electricity import is concerned, there is no similar dependency phenomenon. Hungary receives approximately 68 percent of its imported electricity from Slovakia (6.0 TWh in 2009)<sup>57</sup> and a much lower share from Ukraine (2.7 TWh in 2009). Hungary

also exports a large amount of electricity, mainly to Croatia (3.3 TWh) and Serbia (1.3 TWh). The capacity of the existing electricity interconnectors is 30 percent of domestic generation capacity, and the level of cross-border traded electricity amounts to 40 percent of the total electricity supply. This is clearly a high figure compared to the 7 percent IEA average. Further interconnectors to Austria and Croatia were implemented in the last few years, while others to Slovakia are under negotiation. These additional Hungarian-Slovakian grids can play an important role in the future, allowing a more significant north-south electricity flow, which is necessary for the fully effective utilization of renewable energy investments in North Germany and mastering the harmful "loop flow" phenomenon in the Visegrad countries. In a nutshell, if we also consider the coupling of the Czech-Slovakian-Hungarian electricity market, which has been operational since September 2012, it is safe to say that the interconnection level of the Hungarian electricity grid is much more developed than it is for example, in the case of gas, so the security of energy supply cannot be so easily endangered. Nevertheless, some further electricity interconnection clusters are recognized as "projects of common interest" (PCI) under the aegis of the Connecting Europe Facility (CEF).<sup>58</sup>

Concerning the strategic question of gas supply and the decentralization of the supply routes, Hungary has followed a very pragmatic strategy and supported both of the competing macro level projects in the region, which aim to open new transit routes that avoid Ukraine. These include the Nabucco and South Stream projects. Following this path and trying to avoid betting everything on one card, Budapest was even ready to risk very sharp US criticism when it signed the agreement about the participation in the South Stream project in February 2008. The opposition, led by Fidesz at the time, sharply criticized the socialist-liberal government for this and called the South Stream agreement "treason." But after coming to power in 2010, the Orbán government effectively followed the same strategy regarding the pipeline projects. Moreover, the government not only continued the high-level energy cooperation with Russia in the gas sector but has further deepened it with a highly

controversial credit and implementation agreement on the modernization of the Paks nuclear plant, which was signed in January 2014.

Hungarian national energy companies have had a reasonable share in the implementation of both gas pipeline projects, securing the Hungarian national interest for appropriate gas supply. Nabucco's suspension in June 2013 has obviously overshadowed the project in Hungarian energy policy planning. On the other hand, regardless of the European Commission's objection to South Stream in early December 2013, the Hungarian government and Gazprom reiterated their intent to start with the construction of the Hungarian section of the pipeline in April 2015. It is scheduled to be up and running as early as 2017. South Stream Transport Hungary, the company responsible for the construction and operation of the pipeline, is a 50-50 percent joint venture between Gazprom and the state-owned Hungarian Electricity Works (MVM). As it is formulated in the Hungarian National Energy Strategy, "the well-balanced partnership with Russia is an essential element of Hungarian energy supply security."<sup>59</sup> This very pragmatic approach has been followed by all the very different Hungarian governments. Hungary's long-term oil-price-indexed contract with Gazprom runs out in 2015 and has to be re-negotiated soon. Even though the Visegrad countries always complain about the comparatively higher gas prices, they need to accept that to date there has been no initiative to establish a common body to bargain with the Russian supplier. And as Hungarian officials have said, there is currently no chance for a common position, as the three other Visegrad states have already re-negotiated and extended their contracts during the last few years. A common re-negotiation of the price level, as Poland did in 2012, could be seen as a logical step but unfortunately has no chance of political realization.

The other strategic axis of the gas supply infrastructure development – the north-south pipeline interconnection – displays in contrast strong common Visegrad interests and features. The project is identified as a priority project of the European Energy Infrastructure Package, and its work is coordinated in the EU's High Level Group for

North-South Interconnections. The main aim of the project is to allow bidirectional gas flow among Poland, the Czech Republic, Slovakia, and Hungary, linking the liquid natural gas (LNG) terminals in Poland and Croatia. Although many branches of the pipeline are recognized as "projects of common interests" (PCI)<sup>60</sup> under the aegis of the Connecting Europe Facility (CEF) program (which allows European financial support for the projects) Hungarian officials consider the implementation work to be very intensive on a bilateral level, especially in terms of the preparatory and coordination measures required for the investments.

According to the National Energy Strategy, Hungary does not aim to realize a concrete form of energy mix. Instead, Hungarian energy policy tries to guarantee the country's secure energy supply, taking economic competitiveness, ecological sustainability, and the consumers' purchase power into consideration. These priorities are currently translated into the form of the so-called "Nuclear-Green-Coal" scenario. It is restricted to the field of electricity production and primarily foresees the long-term maintenance of the level of nuclear power within the energy mix, which would keep the CO<sub>2</sub> emission levels from electricity production within set limits. The four 500 MW reactor blocks of the Paks nuclear power plant will be definitively decommissioned between 2032 and 2037. According to the agreement signed in Moscow on January 14, 2014 between Zsuzsanna Németh, Hungarian minister for national development and Sergey Kiriyenko, chairman of the Russian company Rosatom, construction work on the two VVER-1200 reactors with 1200 MW gross capacity will start in 2015 and be completed in 2023. Some 80 percent of the investment will be covered by a Russian loan worth 10 billion euros. However, at the time of writing, many circumstances that could endanger the project's future are still unclear. First of all, the whole procedure seems to violate European public procurement obligations, which could lead to intervention by the European Commission. Moreover, a 10 billion euro loan for the state-owned Hungarian Electricity Company (MVM) with state responsibility also seems to violate the debt limit rules of the new Hungarian Basic Law.<sup>61</sup> Despite some remaining uncertainties with regard to the Hungarian nuclear power plant expansion plans, the national energy strategy foresees

that, with these capacities, Hungary could reduce its electricity imports and could become an electricity exporter by the time the last old reactor block is taken out of service in 2037.

As far as the coal component of the “Nuclear-Green-Coal” scenario is concerned, there are two main reasons for maintaining coal’s share in electricity production. First of all, the country still has approximately 10.5 billion tons of coal and lignite ready to be mined, which constitutes an important internal backup energy resource in the event of a gas or other energy supply crises. On the other hand, it must be noted that, with the spread of carbon capture and storage (CCS) technology, a climate-friendly increase of coal’s share of the energy mix could well be possible in the future. From this perspective, the continuous preservation of the professional culture, human resource, and technological background of coal and lignite mining once again takes on strategic importance.

The Hungarian energy policy landscape is a bit more complicated when it comes to the use of green energy and renewable sources (RES). The presence of sources like wind and water energy in adequate quantity and intensity is limited by geographical factors. Wind energy can be used effectively mainly in the so-called Pannonian Wind Corridor in the western part of Hungary. On the other hand, there are great resources of geothermal energy that could be accessed, through mainly for heating and not for electricity production. The country’s agricultural circumstances mean that the other RES with a broad supply basis in Hungary is biomass. This could enable further decentralization of energy supply in rural areas, but again does not necessarily allow an excessive restructuring of the energy production toward more intensive use of RES. At the end of 2012, wind turbines with a total capacity of 328.93 MW were installed in the country, representing 42 percent of all renewable capacities.<sup>62</sup>

Hungary’s national climate goals outlined in the Europe 2020 strategy imply 20 percent improvement in the field of energy efficiency, 20 percent reduction of CO<sub>2</sub> emissions and a 13 percent RES share. Concerning the Gross Final Energy

Consumption indicator, the portion of RES in 2005 was 5.2 percent. This rose to 8.7 percent in 2010.<sup>63</sup> Parallel with the adoption of the National Energy Strategy in 2011, the government increased the national CO<sub>2</sub> reduction goal to 14.5 percent by 2020, aiming to exceed the Europe 2020 goals. On the other hand, the energy strategy emphasizes the importance of RES primarily in the context of energy security, and identifies energy efficiency measures as key tools in securing the CO<sub>2</sub> emission targets.

As far as the new climate goals to be achieved by 2030 are concerned, Hungary shared the common Visegrad position presented jointly at the Warsaw Climate Conference in November 2013. According to this, the European Union should not make any legally binding unilateral declarations about the reduction of greenhouse gas emissions if other important global players do not accept parallel measures. With regard to “ETS backloading”, Hungary has confidence in the new EU Emissions Trading System (ETS) and is currently gathering implementation experiences. Unlike the Czech Republic and Poland, Hungary has not asked for any exceptional measures. Budapest’s position is to make no claims for free allowances, because while the costs are undoubtedly present in the EU ETS, there is also significant income for the state from auctioning allowances. This is an approach that can effectively balance the economy at the national level between private costs and public income, independent of the price of the allowances.<sup>64</sup>

In addition to backloading, Hungary will almost certainly also support the Commission’s proposal on the new climate goals until 2030. The one and only binding greenhouse gas emission reduction goal would perfectly reflect the flexible Hungarian approach. When countries like Hungary can more effectively achieve their emission targets through energy efficiency than through the expansion of RES, then the way that countries implement climate policy should remain open and flexible. The output is what counts, not how member states fulfill their obligations. However, although both the Commission proposal and Hungary’s position could change significantly during future rounds of negotiations, their initial support can at present not be questioned.

## 2.4. Hungarian priorities and “uploading” at the European Political Agenda

According to the Europeanization and domestic impact thesis by Tanja Börzel and Thomas Risse, one possible path for member states to reduce the degree of “misfit” between European and national-level policy/politics and to ensure the convergence among the two levels is “bottom-up Europeanization” or “uploading”. This consists of member states trying to make their national preferences part of the European political agenda at the community level.<sup>65</sup> Obviously, each case of interest representation can be seen as a form of uploading, but in this section the scope of the phenomenon is limited to the thematization of something new, but an important issue from the national perspective, on the European political agenda.

Taking this limitation into consideration, this section will try to summarize the most important European issues from the perspective of Hungarian politics, will introduce one real instance of “uploading” by the country in recent years, and finally will focus on some issues where it is hard to decide whether they can be identified as “uploading” or as “expropriated topics” (because of the fact that the policy elaboration and the thematization and representation were divided among different actors in the European Union).

Regardless of whether we review the “Euphoric” phase (up to 2010) or the pragmatic phase (from 2010) of Hungarian EU policy, a common element is that the European Union was partially promoted by – and the policy performance of the national government measured by – the degree to which European financial resources were secured from the (re)distributive cohesion policy and common agricultural policy (CAP).

During the planning of the Multiannual Financial Frames (MFF) for both 2007–13 and 2014–20, Budapest’s top priority was to maintain (or possibly increase) the budgetary share of these policy fields parallel to securing the highest possible stake for the country itself. Because the countries of the 2004 EU enlargement round joined during the last

third of a running MFF (2000–06) and because the budgetary impact of enlargement were not properly taken into account, the preparation of the MFF 2007–13 provided the first possibility for the new member states to contribute to and represent their interests on an equal level during the preparation of the long-term European financial frame. The Visegrad countries therefore maintained a strong degree of cooperation in order to avoid the divisive strategy that had been used effectively against them during the accession negotiations – especially concerning agricultural subsidies and direct payments. During the preparation of the current MFF (2014–20), all Visegrad countries participated in the “Friends of Cohesion” group, with the strategic aim of counterbalancing the initiative of the net payer countries to decrease the overall EU budget and the share of cohesion policy within it. Even though it was not a simple matter effectively to manage a group of member states who not only have a common interest in maximizing cohesion policy resources but now also compete with each other with regard to the distribution of these resources, the “Friends of Cohesion” performed well from a Hungarian perspective. Although the overall budget for cohesion policy decreased slightly (from 347,410 million euros in 2007 prices for EU 27 compared to 322,332 million euros in 2013 prices for EU 28) and Hungary’s share fell quite significantly (from 25,307 million euros in the period of 2007–13 to 20,498 indicated for 2014–20), the Hungarian government signaled its satisfaction after the birth of the MFF deal. According to officials from the Hungarian MFA, this is because the country’s government has had significant fears that, as a consequence of the questionable constitutional changes and effects on rule of law since 2010, Hungary will be sanctioned with a discriminative reduction of designated resources. Thus far these fears have not been realized. Concerning the reform of cohesion policy, Budapest supported the restructuring of resources to the Europe 2020 priority areas, especially supporting growth and employment, and was also ready to back the German mediation initiative that aimed to enhance efficiency in cohesion and agricultural policy spending in exchange for maintaining the budgetary level.

In those areas of the cohesion policy that fall outside securing resources, Hungary's performance has changed significantly in recent years. Until 2010 Hungary had a very ambitious goal: to be among the best performing member states in the field of cohesion policy. The country's absorption level in 2004–06 reached 107 percent,<sup>66</sup> and there was some disappointment that the Hungarian commissioner could not become responsible for this policy area. But after the government change in 2010 this impressive performance was set back by the restructuring of the national strategic reference frame and the institutional structure responsible for its implementation, both of which have had a vastly negative effect on absorption. In January 2013 Hungary was only able to reach a project selection rate slightly above 70 percent and a rate of claimed/paid expenditures of below 40 percent, which was only able to rise above 50 percent by the end of the year.<sup>67</sup> Even though the financial dimension of the country's European flagship policy was secured with the MFF, the implementation is now seriously underperforming compared to previous government cycles.

The EU's other important redistributive policy, the common agricultural policy (CAP), also has special importance from a Hungarian perspective. Hungary's two main priorities are (1) the equalization of direct payments among member states; and (2) possibly the limitation or exclusion of foreign ownership of Hungarian land, mainly with the help of the new 2013 Land Ownership Act, even after the land purchase moratorium runs out in April 2014. According to Hungarian officials, the government is even ready to face proceedings before the European Court of Justice (ECJ) regarding this topic, which has mainly internal political reasons. The governing Fidesz party would obviously not like to lose support among more conservative rural voters. On the contrary, even though losing the case against the Commission could cause some damage for the country itself, the political profit for Fidesz would be invaluable. The government would again be able to present itself as the loyal protector of the national interest against external influence.

The most original Hungarian contribution to the current structure of European integration has most certainly been the inclusion of the protection of persons belonging to minorities into the primary European law (Art. 2 TEU) and thus a prime example of Hungarian "uploading." The upheavals of the twentieth century left approximately 2.5–3 million Hungarians living in neighboring countries – a proportionally high number considering that Hungary itself has barely ten million inhabitants. According to both the former constitution, after 1989, and the new Basic Law that has been in force since 2012, the Hungarian state bears constitutional responsibility for Hungarian minorities living abroad.<sup>68</sup> The country has shown great interest in the different international legal instruments for protecting minorities since the very beginning of the 1990s, and was one of the first countries to sign and ratify the European Charter for Regional or Minority Languages (ECRML) and the Framework Convention for the Protection of National Minorities (FCNM), both treaties adopted under the aegis of the Council of Europe (CoE).<sup>69</sup> There was and is, however, a huge difference among CoE member states when it comes to adopting and implementing these obligations.<sup>70</sup> And as a consequence of the not really minority-friendly nation building processes in East Central Europe on the one hand, and of the partial inefficiency of the international legal minority protection instruments on the other, Hungary has placed its highest hopes on European law and its supranational legal system with clear legal compliance obligations.

A further motivation for Hungary's "uploading" was constituted by the so-called "double standards" in European minority protection.<sup>71</sup> This means that candidate countries were committed by the Copenhagen Criteria to enhance their minority standards but that no similar obligation existed for member states. This is due to the fact that only the first three Copenhagen political criteria (democracy, rule of law, and fundamental human rights) were anchored in the *acquis communautaire* by the Treaty of Amsterdam<sup>72</sup> as basic values of the European Union, but minority protection was not. Hungary's main fear was that the quality of minority protec-

tion might decrease in the new member states after the enlargement process, once this enlargement commitment no longer exists.

The first time Hungary proposed anchoring the “rights of persons belonging to minorities” among the fundamental values of the European Union was when European Constitutional Treaty was being prepared by the European Convention in 2002–03. The initiative was unsuccessful in the Convention but was put on the table again during the Intergovernmental Conference, and a breakthrough was realized during the Italian Council presidency in 2003, effectively securing minority protection among the EU’s fundamental values. After the failure of the Constitutional Treaty in 2005, it was possible to include minority protection in the Treaty of Lisbon, thus contributing to the current Article 2 TEU. From the current perspective, this has only been a partial success, because no secondary legislation followed the creation of this legal anchor in the treaties. And the rejection of the “Minority Safepack”, the European Citizens’ Initiative proposal in 2013, with mainly political arguments by the European Commission, shows that there is currently no political will among the European institutions to go further along this road. This is not just a disappointment for Budapest but has far broader consequences. Both the decrease of Hungary’s commitment to maintaining high minority protection standards for its own minorities and its unilateral steps to protect Hungarian minorities abroad (which resulted in some political tensions both in interstate relations and at European level) are partly due to the ineffectiveness of existing international and European minority protection standards. The disappointment that no real political will exists at the European level to change the situation in fact constitutes an excellent political resource for nationalist oriented and rightwing political parties, like Fidesz and Jobbik in Hungary, which can effectively use the issue for political mobilization purposes.

Two other macro-projects in Hungarian policy toward the EU are related to the country’s Council presidency during the first half of 2011. Both the “European Framework Strategy for Roma Inclusion” and the “EU Strategy for the Danube

Region” were adopted during this period and were greatly supported by the Hungarian presidency. Hungarian thinking on foreign policy often refers to these projects as its “own children” and tries to “expropriate” them with the aim of demonstrating the influence and success of Hungary’s EU policy. Nevertheless, Hungary did a lot for the preparation and adoption of these political projects, especially by gathering the appropriate political support in the Council, although substantial elaboration of the projects relied on the European Commission. Hungary was not in fact among the initiators of the Danube Strategy,<sup>73</sup> and even though the Hungarian MEP Lívía Járóka, as the parliamentary rapporteur of the issue, contributed a lot to the final form and content of the Roma Framework Strategy, the Commission still had an earlier policy targeting the social integration of Roma minority in Europe.<sup>74</sup> For these reasons, the Danube Strategy and the Roma Framework Strategy cannot be explicitly identified as examples of Hungarian “uploading” to the European political agenda. Despite this fact, Hungary performed a very active and motivated involvement in these fields, and certainly not inadvertently. Cross-border cooperation, transnational regionalism, and minority issues are and will remain both value- and interest-motivated priorities of Hungarian policy both at the international level and within the EU. And if there were more readiness on the part of European partners to allow progress toward a more efficient minority protection system in the EU, it could, on the one hand, prevent unilateral Hungarian steps in this field and, on the other hand, enable the further “uploading” of a very human and very European “lesson learned” through the history of the twentieth century. This could most certainly contribute to the architecture of the “common European house” in a positive way.

## 2.5. Economic and foreign policy partnership networks

Hungary has an extremely open, export-oriented economy and one that is highly integrated with the European market. From an economic and historical perspective, the source of this integration is not necessarily EU membership per se. The accession partnership can be identified as a more crucial

factor, as it resulted in a mutual market opening process until complete free trade liberalization was achieved between 1994 and 2004. According to this, the accession to the EU contributed mainly to the development of trade relations with the other former candidate countries – thereafter member states – and not with the EU15 itself.

The “organic Hungarian economic space” stretches, from the trade relations perspective, over Germany, Austria, northern Italy, and the other Visegrad countries. Together these made up approximately 48.39 percent of the total Hungarian trade volume in 2011.<sup>75</sup> Germany’s share alone was around 24.94 percent, underlining the country’s role as Hungary’s top economic partner in nearly all aspects. Hungary’s trade surplus with Germany was approximately 2.17 billion euros. For Austria and Italy, it was 5.8 percent and 4.7 percent, respectively.<sup>76</sup> The other three Visegrad countries together represented 12.95 percent of the Hungarian trade volume, bringing them second only to Germany as the most important partner when taken together.<sup>77</sup> China’s contribution was around 3.66 percent, approximately the same level as the Czech Republic. There is, however a huge trade deficit in relation to China: 3.1 billion euros for Hungary with an annual 6 percent decrease in Hungarian imports and increasing exports. Last but not least, the country’s trade balance reached 6.9 billion euros total surplus, performing a 10.3 billion euro surplus in the European region and a 4.58 billion euro deficit in the Asian region.

Concerning foreign direct investments (FDI) in Hungary, approximately 80 percent of the FDI comes from EU countries.<sup>78</sup> The top three investors on a multiannual basis are Germany, Austria, and the Netherlands, with a total share of 24.85 percent, 11.54 percent, and 12.13 percent, respectively, in 2012. These are followed by Luxembourg<sup>79</sup> (which in 2012 was even in second place, with 13.59 percent, but always among the first four ranking investors), France (4.3 percent), Switzerland (3.7 percent), and the United Kingdom (3.6 percent). Chinese FDI was only 65.4 million euros (0.0008 percent of the total), which lags far behind the financial flow from Poland and Romania. The values related to Russia were negative in both 2011

and 2012 (-70.2 and -96.4 million euros), meaning that Russian investors disinvested slightly more capital during these years from Hungary than they invested there. This was a surprising development when compared to the Russian investment values of 1,128 and 1,516 million euros in 2009 and 2010. The role of the USA’s FDI (1.913 billion euros in 2012) is important but moderate.

Switching from economic partnership networks to the political ones, and security issues in particular, Hungarian foreign policy strategy still identifies NATO and the US as the most important pillars of conventional regional security in East Central Europe. It has set itself the aim of counteracting Europe’s devaluation in American security and foreign politics and contributing to at least maintaining the level of US commitments in Europe.

As has been seen, Germany is the top economic and an important bilateral political partner for Hungary, not least because of the country’s influence on European integration. Without examining the V4 and those partnership networks that have partial importance in a concrete policy field (friends of cohesion, Russia concerning energy supply, France and Romania related to the CAP, etc.) too closely in the next paragraphs, I would like to concentrate on the current government’s “Global Opening” or “Eastern Opening” policy. Hungary’s goal of being more actively present on the global emerging markets was first adopted by the Foreign Relations Strategy in 2008 but was given a high political topicality by the Orbán government in recent years. The “Eastern Opening” became part of the political discourse of the “economic fight for independence,” mostly with the intention of finding alternative investment sources for the Hungarian economy to make up for western multinational companies leaving the country. The economic project was covered by a high-level symbolic political opening up to countries like China, Azerbaijan, and Russia. However, based on the analysis of the statistical background, it can be clearly seen that the “Eastern Opening” in the truest sense of the word has not taken place – or has at least not had a significant economic effect to date. In any case, according to the trade volume and FDI structure of Hungary, these countries constitute a comple-

mentary but not an alternative partnership network for the country compared to its above-mentioned traditional economic partners. Even though there is undoubtedly significant growth potential in these relations, this could not be realized in trade or investment relations. Hungary's trade volume increased far less intensively with regard to emerging markets than happened in the case of other European economies without a similar political project and symbolic backup. The only dimension of "Eastern Opening" that cannot be disclosed is what role these countries have been playing in financing Hungarian state debt through the buying of governmental bonds. If they are indeed backing up Hungarian state debt, is this for investment purposes or with political intentions in mind?

## Conclusion

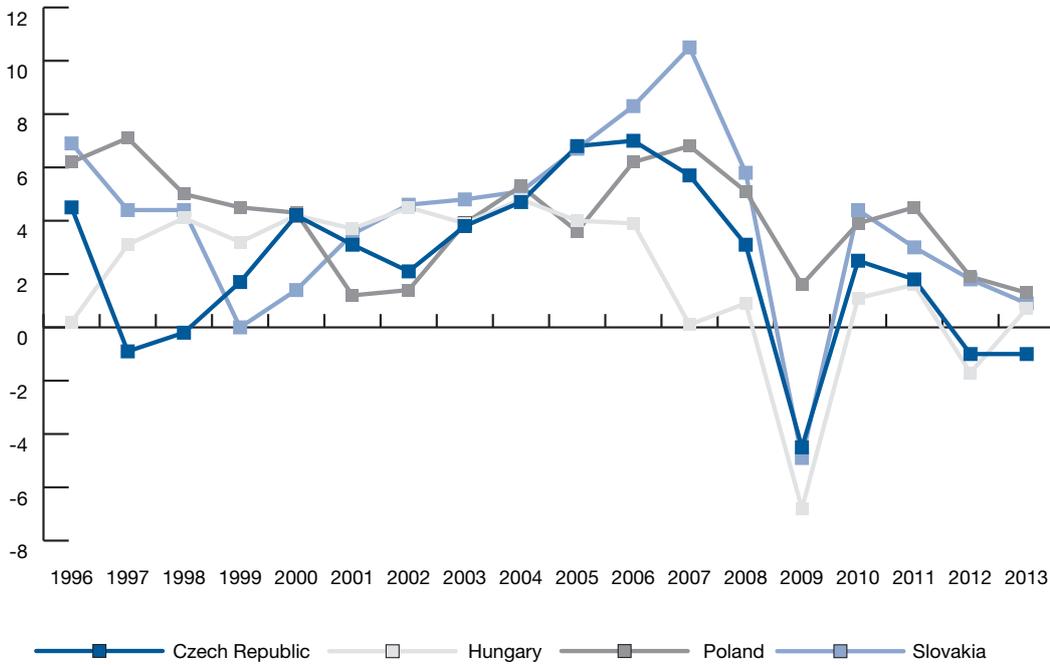
Even though Hungary clearly lost its economic position against regional competitors over the last twelve years, and even though its current political development is more than questionable, it is still not a simple matter to draw the balance of these dynamics. Reflecting on the title of this paper: will Hungary again become a front-runner in the European development process or will it remain a partially isolated back-marker? The answer hinges mainly on the direction taken in broader European development. As far as the question "Quo vadis,

Hungary?" is concerned, the country is currently establishing an alternative political model within European integration. Whether this development conforms with basic European standards and represents a renaissance of the "Europe of Nations" concept, or whether it steps over these common rules and goes in the direction of a political and economic "third way" model, is still not clear and can only be answered in the future. If one focuses on Hungarian foreign policy, the option of a "Europe of Nations" is more likely; if one focuses on internal developments, then the "third way" model seems more likely. If more member states were to follow this path and Hungary became a European front-runner, then this future European development can only be interpreted as an antithesis of the current one. If both Europe and Hungary keep to their current lines, it can only mean increased isolation for Hungary. However, it is a fact that the country's European policy and the attitudes of the Hungarian elites regarding the European Union have since 2010 definitely turned in a very pragmatic direction, compared to the "Euphoric" phase of former years. Hungary seems to accept the fact of a "multi-speed integration" and takes different pragmatic positions on very different policy issues (like the deepening of the integration, the EMU, energy and climate policy, etc.), taking into consideration first and foremost an ad hoc interpretation of national interest rather than a comprehensive integration strategy.

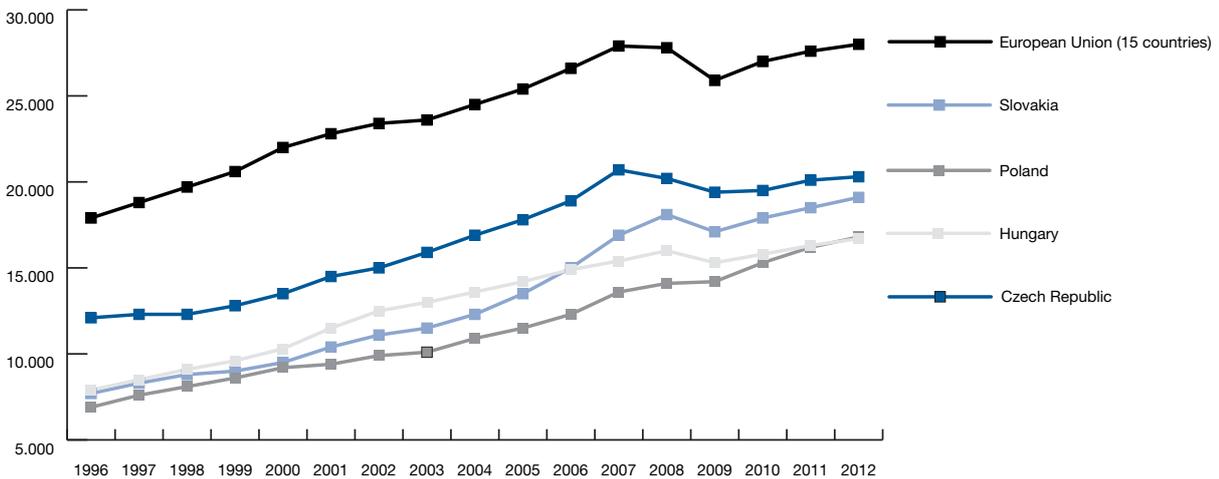
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## Appendix: Statistical Charts

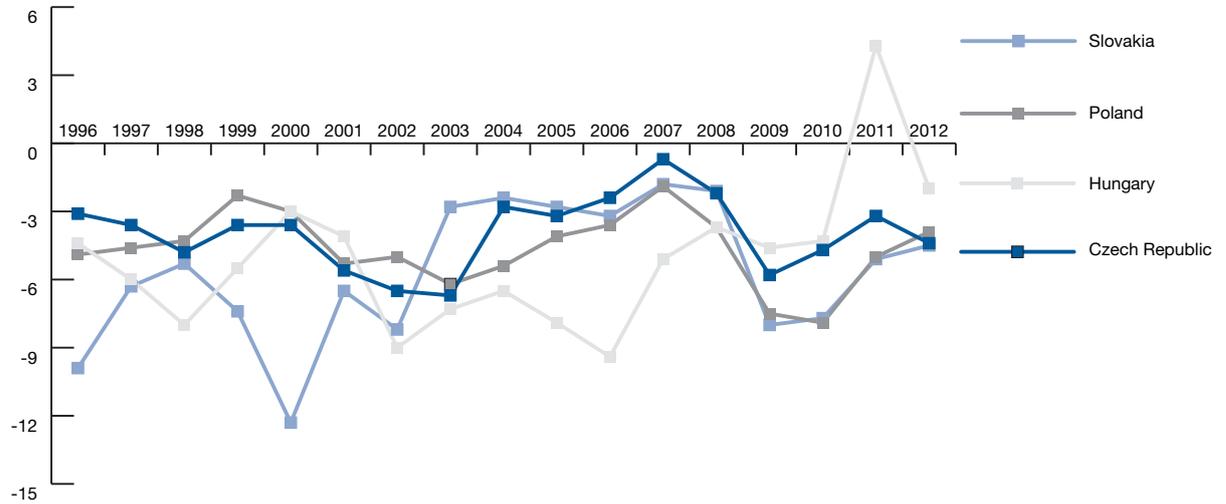
Real GDP growth rate of the Visegrad countries 1996–2013



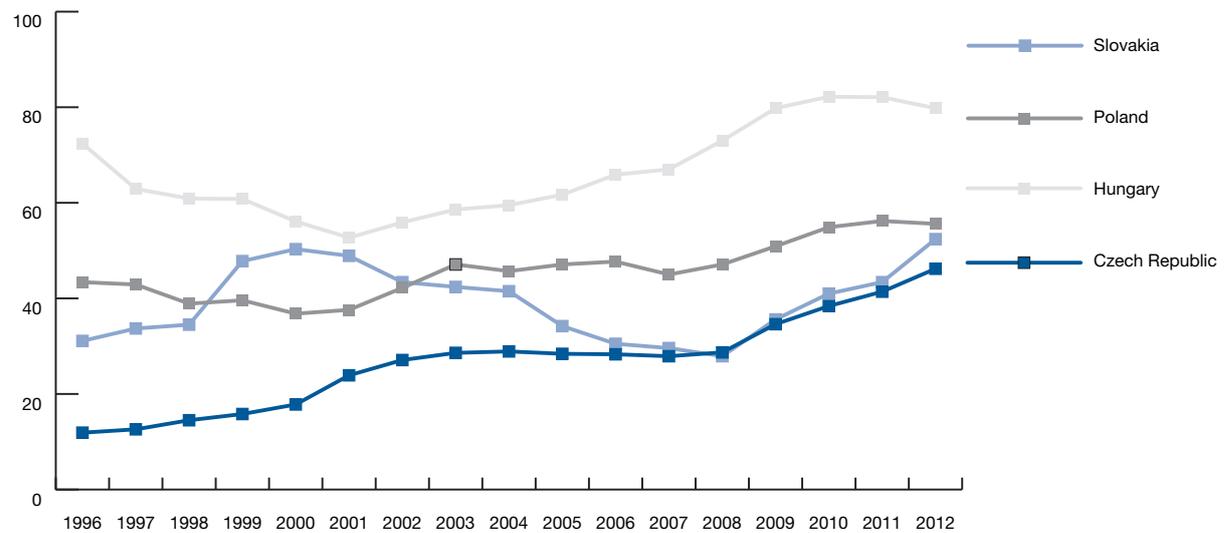
GDP pro capita in current prices (PPS/in euros)



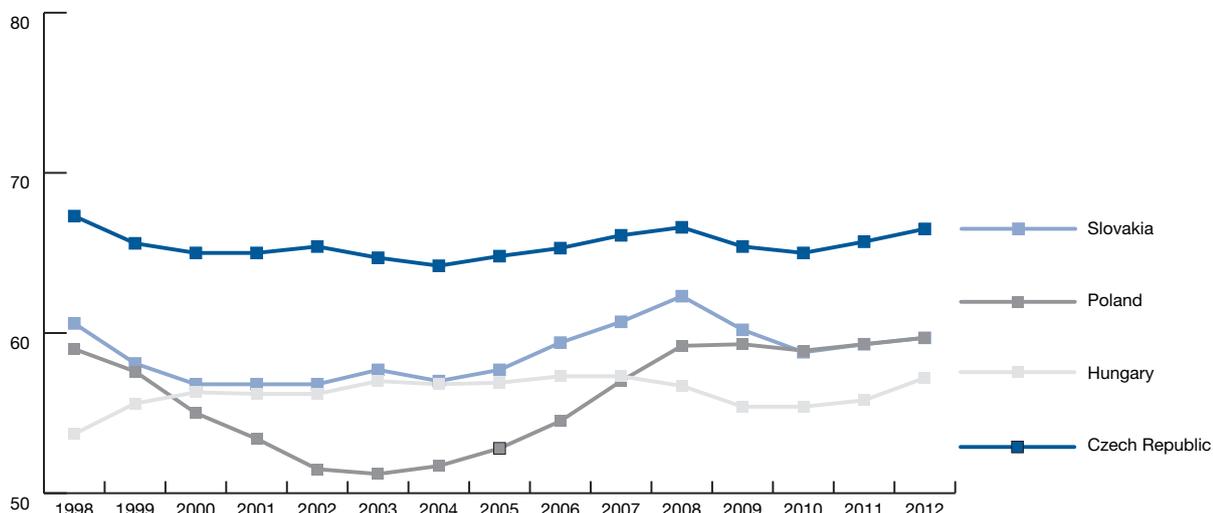
### Government deficit under the excessive deficit procedure (EDP) in GDP percentage



### Government gross debt in GDP percentage



## Employment rate (ages 15 to 64)



## Notes

- Georgi Gotev, "EU Parliament Places Hungary under Scrutiny", EurActiv, February 17, 2012, <<http://www.euractiv.com/central-europe/eu-parliament-places-hungary-scr-news-510938>> and Speech by Guy Verhofstadt, Intervention in Plenary, Spring European Council, 13 March, 2013, <<http://www.alde.eu/nc/press/speeches-speech-guy-verhofstadt/single-news/article/speech-by-guy-verhofstadt-intervention-in-plenary-spring-european-council-40916/>> (accessed May 7, 2014).
- Speech by Viktor Orbán in Dísz Square on May 7, 2002.
- The so-called "Száz napos program" (Hundred Days Program).
- See the appendix comprehensive V4 charts, detailing GDP growth rate, GDP pro capita, government deficit, government gross debt, and employment.
- Speech by Ferenc Gyurcsány in Balatonöszöd on May 26, 2006. In this leaked speech given to an inner circle of the Hungarian Socialist Party, the prime minister confessed that he had repeatedly lied in the party's election campaign, something which led to a deep moral and political crisis in the country and mass protests demanding the prime minister's resignation.
- Dieter Nohlen and Philip Stöver, eds, *Elections in Europe: A Data Handbook* (Baden-Baden, 2010), p. 899.
- Frank Schimmelfennig and Ulrich Sedelmeier, "Governance by Conditionality: EU Rule Transfer to the Candidate Countries of Central and Eastern Europe," *Journal of European Public Policy* 11:4 (August 2004).
- The original source of the three priority pillars of Hungarian foreign policy is unknown, but it is popularly attributed to József Antall, the first democratically elected prime minister of Hungary, who held office from 1990 until his death in 1993. The three pillars were: (1) Euro-Atlantic Integration; (2) good neighborhood relations; and (3) the protection of Hungarians living abroad.
- For more on this question, see section 2.1.
- Source: Eurostat and Eurobarometer.
- Eurobarometer Survey, <[http://ec.europa.eu/public\\_opinion/cf/showchart\\_line.cfm?keyID=5&nationID=22,&startdate=2004.10&enddate=2011.05#fcExportDiv](http://ec.europa.eu/public_opinion/cf/showchart_line.cfm?keyID=5&nationID=22,&startdate=2004.10&enddate=2011.05#fcExportDiv)> (accessed May 7, 2014).
- Government of Hungary, *External Relations Strategy*, 2008.
- See the comparison of real GDP growth rates in the appendix.
- See the appendix for comprehensive V4 charts of nominal GDP, GDP pro capita, government deficit, government gross debt, and employment.
- These steps were later recognized as positive contributions to the crisis management by György Matolcsy, the first economic minister of the second Orbán government.
- This redistribution of debt to taxpayers is highly questionable in terms of social justice, as the accrual of debt in foreign currency was an attractive and logical financial alternative during the first decade of the millennium as a consequence of the Hungarian Central Bank's high interest rate policy.
- Source: Hungarian Central Statistical Office.
- Speech by Prime Minister Viktor Orbán on the occasion of the opening of the new Mercedes-Benz plant in Kecskemét, Hungary on March 29, 2012.

- 19 Source: DG Regio.
- 20 If the symbolic conservative turn of the education policy is not taken into consideration.
- 21 Creating exactly the opposite of the mobility scheme of Poland and Romania.
- 22 Source: Tárki.
- 23 Source: Hungarian Central Statistical Office.
- 24 All sources: Eurostat.
- 25 For high quality and deep analysis, see for example the work of legal scholar Kim Lane Scheppele.
- 26 Act Nr. 2010/CLXXXV on media services and mass communication.
- 27 For the position of Dunja Mijatovic, OSCE Representative on Freedom of the Media about the Hungarian Media Law, see: “Hungarian media law further endangers media freedom, says OSCE media freedom representative”, OSCE Newsroom, December 21, 2010, <<http://www.osce.org/fom/74687>> (accessed May 7, 2014).
- 28 Jonethan Marcus, “Hungary: Media law row overshadows EU presidency”, BBC News Europe, January 7, 2011, <<http://www.bbc.co.uk/news/world-europe-12140395>> (accessed May 7, 2014).
- 29 These were the question of “balanced information,” the rules of media authorization and registration, the provisions concerning “media content causing offence,” and finally the breaching of the EU media legislation principle “country of origin.” See: “Commission Vice-President Kroes welcomes amendments to Hungarian media law”, European Commission – MEMO/11/89, February 16, 2011, <[http://europa.eu/rapid/press-release\\_MEMO-11-89\\_en.htm](http://europa.eu/rapid/press-release_MEMO-11-89_en.htm)> (accessed May 7, 2014).
- 30 Revised Hungarian media legislation continuous to severely limit media pluralism, says OSCE media freedom representative”, OSCE Newsroom, May 25, 2012, <<http://www.osce.org/fom/90823>> (accessed May 7, 2014).
- 31 For the resolution of the European Parliament after the amendment of the Hungarian media law, see “P7\_TA(2011)0094 – European Parliament resolution of 10 March 2011 on media law in Hungary”, <<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P7-TA-2011-0094+0+DOC+XML+V0//EN>> (accessed May 7, 2014).
- 32 “CDL-AD(2012)03-e – Opinion on Act CXII of 2011 on informational Self-determination and Freedom of information of Hungary” (Venice, October 12-13, 2012), <<http://www.venice.coe.int/webforms/documents/?pdf=CDL-AD%282012%29023-e>> (accessed May 7, 2014).
- 33 See note 1.
- 34 The European Commission stated that “it has doubts on the rules of dismissal for the Governor and the members of the Monetary Council which are prone to political interference (even the Parliament can propose to dismiss a member of the Monetary Council) and possible misuse. Also the frequent changes of the institutional framework of the MNB raise doubts, for instance via the increase in the number of Monetary Council members together with the possibility of increasing the number of deputy governors without due consideration of the MNB’s needs. Moreover, a constitutional provision regulates the possible merger of the MNB with the financial supervisory authority. While the merger is not a problem as such, the MNB Governor would become a simple deputy chairman of the new structure, which would structurally encroach on his independence.”
- 35 The European Commission stated that the creation of “a new National Agency for Data Protection, replacing the current Data Protection Commissioner’s Office as of January 1, 2012. As a result, the six-year term of the Data Protection Commissioner currently in office, who was appointed in 2008, will be prematurely put to an end. There are no interim measures until the term of the current Commissioner’s term ends in 2014. The new rules also create the possibility that the prime minister and president could dismiss the new supervisor on arbitrary grounds.”
- 36 “Court of Justices rules forced early retirement of judges incompatible with EU law”, European Commission – MEMO/12/832, November 6, 2012, <[http://europa.eu/rapid/press-release\\_MEMO-12-832\\_en.htm](http://europa.eu/rapid/press-release_MEMO-12-832_en.htm)> (accessed May 7, 2014).
- 37 “P7\_TA(2013)0315 – European Parliament report on the Situation of Fundamental Rights: Standards and Practices in Hungary”, June 15, 2013, <<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+REPORT+A7-2013-0229+0+DOC+XML+V0//EN>> (accessed May 7, 2014).
- 38 Ministry of Foreign Affairs of Hungary, Hungary’s Foreign Policy after the Hungarian Presidency of the Council of the European Union (2011).
- 39 Ibid., p. 4
- 40 The quotations are drawn from an Orbán speech delivered in Madrid on November 17, 2012.
- 41 The Hungarian External Relations Strategy of 2008 emphasized the importance of (1) universal values commonly shared by EU and NATO partners; (2) the international and global solidarity mainly in the frame of international development programs; and (3) competitiveness and sustainable growth.
- 42 The main priorities of the External Relations Strategy 2008 were the following points, in the following order: (1) a competitive Hungary in the European Union; (2) successful Hungarians in the region; and (3) a responsible Hungary in the world.
- 43 Orbán stated, among other things: “The political and intellectual program of 1848 proclaimed: we will not be a colony! The program and the desire of Hungarians in 2012 is: we will not be a colony! Hungary could not have

- stood against the pressure and dictats from abroad in the winter of 2011-2012 if it were not for those hundreds of thousands of people who stood up to show everyone that Hungarians will not live as foreigners dictate, will not give up their independence or their freedom, therefore they will not give up their constitution either, which they finally managed to draft after twenty years. Thank you all!” Orbán also declared: “We are more than familiar with the character of unsolicited comradely assistance, even if it comes wearing a finely tailored suit and not a uniform with shoulder patches.” For the entire speech see: “Viktor Orbán’s Speech, Budapest, 15.03.2012” available at: <<http://orbanspeech.pen.io/>> (accessed May 7, 2014).
- 44 Hungary’s Foreign Policy after the Hungarian Presidency of the Council of the European Union.
- 45 Róbert Kiss Szemán, “Homo Visegradicus,” in *The Visegrad Group: A Central European Constellation*, ed. A. Jagodziński (Bratislava: International Visegrad Fund, 2006).
- 46 The Beneš decrees, issued between 1940 and 1945 by the Czechoslovakian government-in-exile during German occupation, provided a legal basis for the ethnic German and Hungarian minorities’ postwar deprivation of rights and for their eviction from Czechoslovakian territory. For more, read Thum, Gregor, »Ethnic Cleansing in Eastern Europe after 1945« in *Contemporary European History* 19 (1) (2006–2007), pp. 75–81.
- 47 Poland (27), Czech Republic (12), Hungary (12), and Slovakia (7) vs. Germany (29) and France (29).
- 48 Source: Eurostat.
- 49 Source: Hungarian Central Statistical Office.
- 50 The average of Sweden, Ireland, and Slovenia.
- 51 Convergence Report 2012. Price stability criteria is formulated that the twelve-month HCIP average of the country cannot be more than 1.5 percentage points above the rate of the three best performing member states.
- 52 Source: Convergence Report 2012, Eurostat.
- 53 In recent years Greece and Portugal have frequently been cited as benchmark countries, often having had low inflation figures as a consequence of their economic recession.
- 54 Basic Law of Hungary, Article K.
- 55 Kristián Takác et al., “Once in a Lifetime: Opportunities for Visegrad in EU Energy Infrastructure Plans,” Central European Policy Institute (2013).
- 56 Annual reports of the Hungarian Energy and Public Utility Regulatory Authority are available on the following link: <<http://www.mekh.hu/adatok-statisztikak-2/kiadvanyok/tajekoztato-kiadvany.html>>. See also the European Commission report: *Energy Markets in the European Union in 2011* (Publications Office of the European Union, Luxembourg, 2012). Available at: <[http://ec.europa.eu/energy/gas\\_electricity/doc/20121217\\_energy\\_market\\_2011\\_lr\\_en.pdf](http://ec.europa.eu/energy/gas_electricity/doc/20121217_energy_market_2011_lr_en.pdf)> (accessed May 7, 2014).
- 57 The source of this and following figures is: *Energy Policies of IEA Countries: Hungary 2011 Review*.
- 58 For concrete projects and PCI clusters, see <[http://ec.europa.eu/energy/infrastructure/pci/pci\\_en.htm](http://ec.europa.eu/energy/infrastructure/pci/pci_en.htm)> (accessed May 7, 2014).
- 59 National Energy Security 2030, p. 24.
- 60 For the actual list of PCIs visit <[http://ec.europa.eu/energy/infrastructure/pci/pci\\_en.htm](http://ec.europa.eu/energy/infrastructure/pci/pci_en.htm)> (accessed May 7, 2014).
- 61 Article 37 (3) of the Hungarian Basic Law.
- 62 The source of this and following figures is HEA Report on renewable electricity production. <<http://www.mekh.hu/en/publications/presentations-studies.html>> (accessed May 7, 2014).
- 63 The Europe 2020 target indicator.
- 64 In the current situation, when allowance prices are low, the “investment for free allowance” strategy can have a much more negative financial balance than if it is paid for by the allowances.
- 65 Tanja A. Börzel and Thomas Risse, “When Europe Hits Home: Europeanization and Domestic Change” in *European Integration Online Papers (EIoP)* 4:15 (2000). Available at: <<http://eiop.or.at/eiop/pdf/2000-015.pdf>> (accessed May 7, 2014).
- 66 Report on the implementation of the national development plan, State Audit Office of Hungary (2011). Available at: <<http://www.asz.hu/jelentes/1110/jelentes-a-nemzeti-fejlesztési-terv-vegrehajtasanak-ellenorzeserol/1110j000.pdf>> (accessed May 7, 2014).
- 67 Source: DG Regio.
- 68 6 § (3) of the former Hungarian Constitution (Act Nr. 1949/XX.) and Article D) of the Basic Law.
- 69 Regarding this question, see Patrick Thornberry and Maria Amor Estebanez, *Minority Rights in Europe* (Strasbourg: Council of Europe Publishing, 2004).
- 70 Slovakia, for example, still does not have a comprehensive minority law, a legal obligation for the country resulting from its accession to the Council of Europe in 1993.
- 71 To the phenomenon, and generally to the development of minority protection at EU level, see Gabriel Toggenburg, “A Rough Orientation Through a Delicate Relationship: The European Union’s Endeavours for its Minorities,” *EIoP* 4:16 (2000); Gabriel N. Toggenburg, ed., *Minority Protection and the Enlarged European Union: The Way Forward* (Budapest: Open Society Institute, 2004).
- 72 That time Art. 6 TEU.
- 73 The strategy was originally initiated in 2008 by the joint letter of the Austrian Chancellor Gusenbauer and the Romanian Prime Minister Tariceanu to the president of the European Commission. See: “EU Strategy for the Danube Region - Factsheet”. Available at: <<http://ec.europa.eu/>

regional\_policy/cooperate/danube/pdf/at\_eusdr\_country\_fiche\_en.pdf> (accessed May 7, 2014).

- 74 See European Roma Policy Coalition, *Towards a European Policy on Roma Inclusion: EU Roma Policy Coalition* (2010); Márton Rövid, “‘One-Size-Fits-All-Roma?’ On the Normative Dilemmas of the Emerging European Roma Policy,” HIIA Papers T-2009/9 (Hungarian Institute of International Affairs).
- 75 Source: Hungarian Central Statistical Office, with the author’s own calculations.
- 76 With 196.8 million euro deficit in relation to Austria and 877.5 million euro surplus in relation to Italy.
- 77 From this merge, Slovakia was responsible for 5.1 percent, together with 722-million euro trade surplus for Hungary; Poland for 4.3 percent and 365 million-euro deficit, and last but not least, the Czech Republic, for 3.4 percent and a 626 million-euro surplus.
- 78 Source: Hungarian Central Bank Statistics.
- 79 FDI inflows from the Netherlands and Luxembourg represent mainly multinational companies having the European headquarters in these countries as consequence of their national tax regulations.







