

DEMOCRACY IN CENTRAL AND EASTERN EUROPE: RENEWING THE PROMISE OF DEMOCRATIC TRANSITIONS

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Key statement to be presented by András Lőke, Chairman of the Board of Transparency International, Hungary

Transparency International, Hungary (transparency.hu) is a non-governmental, non-profit anti-corruption organization.

Hungary: Assessment of democracy and future predictions

Tusnádfürdő (Romanian: Băile Tușnad) is a small resort in Transylvania, Romania, where Fidesz, the Hungarian governing party, organizes its “summer university” every year.

PM Viktor Orbán uses these occasions to introduce his political and ideological ideas. His vision about an „illiberal state” was presented here three years ago, bringing up not only Singapore, but also Erdogan’s Turkey and Putin’s Russia as examples.

Last week PM Orbán, as every year in the past two decades, took part in the „summer university”. Let me quote some of his most important messages.

"Hungary will use every legal possibility in the European Union to be in solidarity with the Poles."

Elections in Hungary are due next spring and Orbán has already set the tone and the direction of the „upcoming campaign”. „First of all, we have to confront external power. We have to stand our ground against the Soros mafia network and the Brussels bureaucrats. And, during the next nine months, we will have to fight against the media they operate." European Union leaders and George Soros are seeking a "new, mixed, Muslimized Europe."

„Hungary, since the Trianon Treaty, hasn’t been as close to being a strong and thriving country, as it is now. If a government comes, which, again, will serve global interests, then this historical chance will be wiped out for decades.”

Let me give you a few examples how international NGOs see the same country.

Freedom House - Freedom in the World Scores

Aggregate Score

76/100 – Hungary is a free country
(0=Least Free, 100=Most Free)

Political Rights 3/7

Civil Liberties 2/7
(1=Most Free, 7=Least Free)

The bad news is that all of the trends are on a downward trajectory.

World Press Freedom (Reporters Without Borders), 2016: Hungary ranks 67th on its 2016 Index which is a steep decline compared to 23rd position reached in 2010.

Transparency International Corruption Perception Index (TI CPI), 2016:

The good news is that Hungary is perceived to be only moderately corrupt in a worldwide comparison, reaching 48 points in 2016 on a scale from 0 ('very corrupt') to 100 ('clean and non-corrupt'). The bad news is that the trend, again, is downwards. In the region, Hungary is only followed by Bulgaria and Romania now.

Global Competitiveness Report (World Economic Forum), 2016-2017: Hungary coming 69th out of 138, worst position ever. Countries like Rwanda, Oman, Jordan, Romania, Botswana, Peru and Macedonia scored better. In 2001, Hungary was the 28th most competitive economy in the world! In the EU, Hungary takes the 25th place, which means that there are only three countries that are less competitive in the Union.

The survey is based on twelve pillars, Hungary scored the worst under the first pillar, i.e. institutions. Within that pillar, the following areas are the most problematic (with ranking):

- Transparency of government policymaking 136
- Ethical behavior of firms 136
- Favoritism in decisions of government officials 135
- Property rights 134
- Burden of government regulation 123
- Efficiency of legal framework in settling disputes 114
- Efficacy of corporate boards 111
- Strength of auditing and reporting standards 110
- Efficiency of legal framework 108
- Diversion of public funds 108
- Judicial independence 102

Key challenges for the country

Emigration, demography: About one million people have left the country since 2000. As mostly economically active people leave the country, an aging population dependent on pensions and social support remain.

Health care: Doctors and nurses continue to leave the country by the thousands. Health care is underfunded.

Education: Hungary has never scored extremely well in the international student assessment, but recent results are really disappointing: students scored much worse in 2015 than 2012. No CEE

country shows a similar deterioration and no CEE country's education budget is shrinking faster than Hungary's.

Press: Pro-government media dominates the media sector while critical voices experience difficulties in reaching audiences and securing financial resources.

Markets: The Orbán government significantly has undermined the functioning of the markets in many areas through crony capitalism, central decision making, unpredictable and erratic regulations. Shortly after coming to power, Orbán introduced the **System of National Cooperation** (SNC). SNC is an informal but very powerful means of creating and maintaining a parallel economy for cronies. The losers are, amongst others, companies in those sectors, in which the government introduced punitive taxes (telecommunications, retail, and banking) and practically all businesses, which have to face unfair competition from the cronies.

The economy at first glance

GDP growth is not impressive but acceptable, measuring 2% last year, 3, 6% and 3, 5% projected for this year and 2018.

The level of external debt is down from 81% of the GDP in 2011 to 74% last year.

The level of **investment** is quite low, not even 18% of the GDP, but the really bad news is that the level of government investments exceeds the level of private investments by at least three times.

FDI stock decreased in 2015 (-15bn USD) and 2016 (-5bn USD) but 2017 may see a comeback. The amplitude of FDI transfers is growing, perhaps meaning that investors either agree with the government or are intimidated by its policies.

Wider background

Lack of genuine experience with strong democratic governance, feudal culture. Each government spent a lot of energy on undoing what the previous government did. Polarization reached such a degree that compromise seems to be impossible on even the most basic values. This led to a general inclination to accept short term solutions, lies, and extreme ideologies.

- PM Ferenc Gyurcsány 11 years ago: "We lied in the morning, we lied in the evening and we lied at night."

- If the data of the London based Tax Justice Network are correct, in the three decades before 2010 more than 240bn USD found ways from Hungary to tax heavens.

Possible solutions:

There is probably no easy solution, no quick fix. Here are a few ideas of could be done:

- Reassert civil society's role in maintaining transparency and accountability in governance, as well as facilitating greater public consultation in decision making.

- Urge political parties, civil society and the business community to communicate and practice democratic values, so as to encourage more inclusive engagement in public affairs and present alternatives to extreme messages.
- Increase engagement with the business community, so as to mobilize resources and know-how in reconfirming society's commitment to pluralism and maintaining healthy space for civil society.