

**SGI** Sustainable Governance  
Indicators 2009

## Hungary report



## Executive summary

Hungary has been governed by a center-left government dominated by the post-communist Hungarian Socialist Party (MSzP) since 2002. For the first time since Hungary's transition to democracy, the 2006 elections confirmed a sitting government. Until the 2006 elections, the Ferenc Gyurcsány government was largely preoccupied with securing re-election, and thus postponed necessary reforms. However, it embarked on radical economic and social reforms after the elections. These reforms, along with Prime Minister Gyurcsány's confession that he had lied to the public before the elections and, like his predecessors, had concealed the real need for reforms, provoked mass demonstrations and riots and further increased the strong political polarization of Hungarian society.

Hungary is a consolidated democracy with fair and inclusive elections, a pluralist media, far-reaching access to government information and a strong independent judiciary. Despite largely appropriate legal regulations and institutional provisions, however, discrimination remains common. Moreover, corruption is still a major problem, and the high levels of political polarization have undermined media freedom and pluralism.

Until the implementation of the 2006 austerity program, Hungarian policymakers pursued a largely unsustainable fiscal policy. The need for fiscal adjustment led to substantial tax increases and a number of stopgap tax policy measures which have raised some concerns about a decline in Hungarian competitiveness. Labor market policy was reformed in late 2005, but has yet to prove its effectiveness. Enterprise policy has by and large succeeded in keeping Hungary an attractive location for foreign direct investment (FDI), but has been less successful in promoting the modernization of the domestic enterprise sector.

Hungary's fiscal problems are in part due to high and inefficient social spending. The health care system has suffered from problems of unequal access, inefficiency and rising costs; the public pillar of the pension system, which was overhauled in the mid-1990s, has proved to be unsustainable; and family policy has been generous, but has largely been focused on enabling women to stay at home with children. The Gyurcsány government has started to

address these problems.

Hungary's external security is ensured by NATO and EU membership. However, NATO has not been satisfied with Hungary's relatively low levels of defense spending. The country has dealt with new security risks largely within the framework of its European Union and NATO relationships, but has failed to develop a more comprehensive independent policy. The riots that shattered the country in 2006 revealed the weaknesses of the police and intelligence services. Integration policy is still in the making. While Hungary has an elaborate set of policies and institutions for the integration of ethnic Hungarians, it pays little attention to the integration of other migrants.

Government attention to issues of sustainability has been limited. The National Environment Programs have been well organized along the lines of the European Union's ongoing Sixth Environment Action Program (2001 – 2010), but have suffered from insufficient funding and a lack of legal harmonization with other fields. Hungary's fiscal problems have also hampered government research and innovation initiatives. In education policy, the government has done little to improve the quality of education, to stop the erosion of vocational training or to prepare universities and the labor market for the strong rise in tertiary enrollments.

Hungarian governments have always enjoyed a strong executive capacity. Reforms implemented under the Gyurcsány government have further strengthened the position of the Prime Minister's Office and broadened the extent of strategic planning. Through an expansion of resources in the Prime Minister's Office and the creation of two powerful cabinet committees, the Committee on State Reform and the Development Policy Steering Board, line ministries essentially lost their autonomy. They are now required to build upon the strategies formulated by these committees instead of developing their own strategies, as was previously the case. The Gyurcsány government has been less successful in improving the coherence of policy communication. Moreover, the quality of regulatory impact assessment has remained low.

Relations between the central and local governments have remained tense. The central government has formally respected the constitutional independence of the local and territorial administrative bodies. In practice, it has restricted local autonomy. The Act on Local Government clearly states that the financial resources for meeting many administrative functions should be provided by the central budget. Confronted with high budget deficits, the central government has nevertheless often delegated tasks to the local governments without providing proper financial support, or has failed to compensate local governments for the fiscal costs of decisions made at the national level. While

policy differences at the local level are limited, the ability to meet national standards has been complicated by the strong fragmentation of local government with its 3200, often very small municipalities.

Executive accountability has suffered from a lack of policy knowledge among the population. Because of the strong political polarization, even basic facts are contested and public attention is often drawn to politics rather than to policy issues. The National Assembly has the right and resources to oversee the government. In doing so, it can also rely on a relatively powerful audit office and a system of three ombudsmen with wide-ranging responsibilities. The capacities of interest associations have been limited, rendering them relatively weak.

Party programs in the 2006 electoral campaign were thin in substance and full of unrealistic promises, with each of the two major parties trying to outbid the offers of the other. Most interest associations focus narrowly on their own short-term interests. The tripartite National Council for Interest Reconciliation, designed to facilitate dialog between trade unions, employers' associations and the government, has lost its role, and trade unions are fragmented and weak except in the public sector. The government has consulted with interest associations in different ways, ranging from the normal legislative consultation process to formal tripartite negotiations and informal meetings at the ministerial level, but has not forged any agreements or pacts. Perceiving most interest associations as unprepared, indifferent or even hostile, it pushed through the unpopular 2006 austerity program against the opposition of major economic and social actors.

## Strategic Outlook

Following the 2006 elections, the Hungarian government launched substantial economic and social reforms. The main policy challenge is thus to consolidate these reforms in spite of popular dissatisfaction, the confrontational approach of the opposition and the approaching elections in 2010. Meeting fiscal targets will require continued cuts in public administration, the completion of health care reform and an acceleration of education reform. The stopgap measures in tax policy need to be replaced by a broadening of the tax base and a crackdown on tax evasion.

Hungary's economic outlook also depends on reforms in labor market, enterprise, research and development, and education policy. In order to remain

attractive for high-quality foreign direct investment (FDI), and to upgrade domestic production capacity, the country requires higher levels of and more efficient targeting of R&D spending, a better fit between the education system and the labor market, and a labor policy with greater emphasis on training and activation. If Hungary wants to attract new investment in the future, it will also need foreign workers. For that reason, a comprehensive migration policy is necessary, ideally implemented at the EU level. It should furthermore pay particular attention to the "quality" of immigrants.

Hungary also needs to play a more active role in the context of global and European cooperative policy frameworks. Within the European Union, a greater Hungarian role would be welcome in areas such as the Common Agricultural Policy (CAP), the restructuring of the EU budget after 2013, neighborhood policy, further enlargement towards the Western Balkans, and energy and migration policy. As a small country, Hungary is fundamentally interested in the deepening of European integration. However, a more active participation in EU affairs will require the identification of longer-term strategic interests. The preparation for the EU presidency in 2011 offers a unique opportunity both for formulating a government strategy and for shaping the mentality of the population.

Hungary's future international role is strongly related to the issue of Hungarian minorities outside the country. Currently, Hungary is not perceived as an honest broker by its neighboring countries. A major goal of foreign policy thus should be to come to terms with Romania, Slovakia, and Serbia, along the lines of the German-French model in the post-World War II era. Such a reconciliation, the success of which of course depends critically on the other countries as well, would enable Hungary to become a regional player.

In institutional terms, Hungary looks relatively well prepared to address these policy challenges. Recent reforms have strengthened the strategic capacity of the central government. The main political problem is thus the strong political polarization and the resulting culture of mistrust and confrontation. This environment makes it extremely difficult for Hungarian governments to adopt unpopular reforms. These problems are further aggravated by the increasing reliance on popular referenda, which have started to become a standard instrument of the parliamentary opposition.

One way of addressing these problems might be to reduce the means by which the opposition can veto or block government policies. In addition to limits on referenda, this would imply the abolition of the so-called "two-thirds laws," the relatively broad range of legislative issues which constitutionally require a two-thirds majority for passage. Alternatively, one might imagine expanding the

opportunities for opposition veto with an eye toward increasing the need for consensus, for instance by introducing a second legislative chamber or by creating regions with more political power. Both strategies would require an amendment of the constitution.

A second way of building consensus might be a stronger incorporation of interest associations into the policy-making process, and the forging of a social pact. This would presuppose a more inclusive approach and better communication on the part of the government, as well as a less narrow-minded approach by key interest associations. This kind of Spanish-Irish scenario appears probable, judging by the recent reforms' first visible positive effects. However, it will ultimately depend on a general awareness that the politics of confrontation are threatening to undermine Hungary's future economic and political development.

## Status Index

### I. Status of democracy

#### Electoral process

##### *Fair electoral process*

*Score: 10*

Electoral registration procedures are fair and transparent. The constitution does not forbid the existence of any parties. The 1989 Law on the Functioning and Management of Political Parties and the 1997 Law on the Electoral Process prohibit unfair discrimination against candidates or parties. Party registration is relatively straightforward. Only 10 founding members are required for registration, and a number of parties outside the mainstream are registered. Candidates for parliamentary elections can be nominated by voters or parties. They need to document the support of at least 750 voters. This provision has not prevented non-party candidates from running.

##### *Fair electoral campaign*

*Score: 7*

Electoral and media laws aim at ensuring equal access. Each nominating organization putting up a candidate for parliamentary elections receives central funding commensurate with the number of candidates nominated. Nominating organizations and candidates may produce posters without permission and place them, subject to certain basic restrictions, at any place. Broadcasters can accept political advertisements for nominating organizations and candidates during electoral campaigns, but must offer equal conditions to all sides. While these provisions have leveled the playing field, the fairness of electoral campaigns has suffered from the strong politicization of the media, which has favored the bigger parties.

##### *Inclusive electoral process*

*Score: 9*

The electoral process is largely inclusive. In principle, all adult citizens 18 years or older are allowed to participate in national elections, and there is no evidence of discrimination. While there is no postal vote, special provisions for allowing disabled and ill citizens to vote by means of a movable ballot box exist. However, the inclusiveness of the electoral process is restricted by a

blanket disenfranchisement of convicted prisoners, which conflicts with the provisions of the European Convention on Human Rights.

#### Access to information

##### *Media freedom*

*Score: 5*

The independence of the media from government is limited. The existing control mechanisms, most notably the National Radio and Television Board (ORTT), have not prevented the government from exercising control over the publicly funded electronic media. The prevailing political polarization has worked more broadly in favor of a politicization of the media. Government control of the media has been helped by the fact that public TV and radio stations do not have stable revenues, but are dependent upon annual budgetary allocations.

The government has also tried to influence media reporting by instrumentalizing the privatization of print media and the licensing of broadcasters, by removing chief news editors, by distributing state subsidies on the basis of political affiliation, and by favoring loyal media outlets when releasing public information. Government influence over the public media has partly been balanced by the more pluralist private media.

Annotation: The score given here is lower than the range given by the expert scores in part due to comparative considerations, but also because the qualitative assessments of the experts reveal a substantial degree of government intervention in the media.

##### *Media pluralism*

*Score: 7*

The ownership structure of the Hungarian media favors a pluralism of opinions. The influence of the main public TV station, Magyar Televízió, has substantially declined and is balanced by two main nationwide commercial stations, TV2 and RTL Klub. Both are foreign-owned, were awarded by public tenders and are obliged to meet certain standards. Moreover, two TV channels have close links to political parties: Hír TV with the Hungarian Civic Alliance (Fidesz), the major opposition party, and ATV with the Alliance of Free Democrats (SzDSz), the smaller party in government. The radio sector is likewise characterized by a plurality of providers. The national newspapers, most of them foreign-owned, usually show a political bias, with a rough balance of left- and right-wing papers. Local newspapers are largely owned by small Hungarian ventures. Media pluralism thus is not endangered by the lack of a diversified ownership structure, but by the strong political polarization.

*Access to  
government  
information*  
*Score: 8*

Hungarian citizens enjoy far-reaching access to government information. Legal foundations for these rights were laid with the 1992 Act on the Protection of Personal Data and the Free Access to Data of Public Interest. The 2004 Act on the General Rules of Administrative Procedures and the 2005 Act on Information Freedom have further modernized the provisions.

Public bodies are obliged to maintain Web pages with statutorily defined content, and to publish information on their activities regularly. They also must provide appropriate access to information of public interest. Requests for such data must be addressed by administrators within 15 days of receipt, and any refusal to supply such information must be communicated to the applicant within eight days, together with an explanation. Whenever a request for information is denied, the applicant can file for a review by the commissioner for data protection or file a court case. In practice, public bodies do not always meet their legal obligations as they sometimes fail to address requests within the deadlines set by law.

### Civil rights

*Civil rights  
protection*  
*Score: 8*

Civil rights are protected by the constitution and other laws, and are widely respected by state institutions. Enforcement of civil rights through the courts has suffered from overly long proceedings. Moreover, many judges do not adequately consider the case law of the European Court of Human Rights. There are also major problems with regard to the protection of human dignity, because Hungarian law prohibits neither Holocaust denial nor hate speech.

*Non-  
discrimination*  
*Score: 6*

The Hungarian constitution forbids discrimination on the grounds of race, color, sex, language, religion, political and other opinions, national or social origin, financial position or any other status. These protections apply to everyone living in Hungary. The 2003 Act on Equal Treatment and the Promotion of Equal Opportunities was meant to ensure the effective application of these constitutional provisions. The institutions established to ensure equal treatment are functioning well. However, the subordination of the High Authority against Discrimination to the government is not in line with international recommendations.

Despite appropriate legal regulations and institutional provisions, considerable discrimination can be observed in practice. Women face career disadvantages, there is little done to make public buildings and public transport accessible to the disabled, and the Roma population continues to suffer from discrimination and social exclusion. A more recent phenomenon is right-wing intolerance against homosexuals.

### Rule of law

#### *Legal certainty*

*Score: 8*

The government and administration largely act in accordance with the law. In some cases, however, legal certainty suffers from a lack of legal cohesion and the effects of low-quality legislation. For instance, some of the reforms adopted after the 2006 parliamentary elections were poorly prepared and badly communicated. In addition, civil servants, some of whom act as they did in communist times, sometimes fail to provide all services and information envisaged by law.

#### *Judicial review*

*Score: 9*

Hungarian courts act independently of the influence of the government or administration. This particularly applies to the Constitutional Court, which has a broad jurisdictional range and enjoys a high professional reputation. Its position is strengthened by the fact that citizens and legal entities can lodge complaints even if they are not directly affected by the laws or decisions at issue. Moreover, the president can ask the Constitutional Court to examine the constitutionality of bills adopted by the National Assembly but not yet promulgated. While there are no separate administrative courts in Hungary, complaints about administrative behavior can be lodged in the ordinary courts. The effective functioning of these lower courts suffers from delays and lengthy proceedings.

#### *Corruption prevention*

*Score: 5*

The fight against corruption has been a major issue on the political agenda, heightened by a number of scandals and mutual accusations between the two contending political camps. In 2006, the Ferenc Gyurcsány government amended the existing legal framework by adopting new regulations on lobbying and on the means of monitoring the use of EU funds. It also established an Anti-Corruption Coordinating Board tasked with initiating, coordinating and evaluating anti-corruption activities. The effects of these measures have yet to be seen. In other spheres, party financing has remained nontransparent, and the monitoring of legislators has suffered from loopholes.

## II. Economic and policy-specific performance

<i>Basic socioeconomic parameters</i>	<i>score</i>	<i>value</i>	<i>year</i>
GDP p.c.	2.41	17483 \$	2005
Potential growth	4.57	3.7 %	2008
Unemployment rate	6.25	7.5 %	2006
Labor force growth	3.74	0.2 %	2007-2008
Gini coefficient	7.63	0.295	1999
Foreign trade	4.25	32.43	2005
Inflation rate	6.46	7.8 %	2007
Real interest rates	6.42	-1.1 %	2007

### A Economy and employment

#### Labor market policy

*Score: 6*

The Hungarian labor market has been characterized by a low employment rate and weak labor mobility. The slight increase in unemployment in 2005 and 2006 was caused largely by changes in registration rules. In late 2005, the Gyurcsány government tightened unemployment benefits and introduced new wage subsidies for workers who had not finished school, unemployed older workers and people returning to work from nursing or child care.

On the local level, workfare programs have mushroomed. Active labor market policies have had some positive impact on employment, but have not been sufficient to overcome structural barriers to employment, most notably the strong mismatch between workers' skills and employers' demands, and the inflexible housing market.

### Enterprise policy

*Score: 5*

The Hungarian economy is characterized by a narrowing, yet still substantial gap between the huge, dynamic multinational companies and domestic small and medium-sized enterprises (SMEs). This manifests itself in part in a lack of cooperation between the two types of firms. The Gyurcsány government has by and large succeeded in keeping Hungary an attractive location for foreign direct investment (FDI). It has been less successful in promoting the modernization of the domestic enterprise sector, which is still dominated by one-person enterprises and "quasi-entrepreneurs."

Although the government has supported SMEs within the framework of the Széchenyi Enterprise Development Program and has paid increasing attention to research and innovation policy, it has lacked a comprehensive strategy. The government's move toward fiscal reform after the 2006 elections reduced the money available for enterprise policy, and policymakers have done relatively little to reduce the administrative burden on enterprises.

### Tax policy

*Score: 5*

Tax policy under the Gyurcsány government has suffered from frequent changes. Substantial tax cuts in 2005 were followed by tax increases within the framework of the government's 2006 post-election austerity program. Changes have included the imposition of a 4 percent "solidarity tax" for companies and private entrepreneurs, as well as a broadening of the corporate income tax base, thus raising some concerns about a decline in Hungarian competitiveness. Unlike other countries in the region, Hungary has kept a progressive personal income tax. However, equity issues have been raised by the persistence of rampant tax evasion and the differential treatment of foreign and domestic enterprises.

### Budgetary policy

*Score: 4*

Hungary has been among the EU and OECD members with the highest fiscal deficit levels. In 2005, it was heavily criticized by the European Union and other international organizations for its excessive deficit, and the European Council rejected Hungary's proposed financial convergence program. After the 2006 parliamentary elections, the Hungarian government initiated a radical budgetary consolidation program, which aimed at reducing the deficit from nearly 10 percent of GDP in 2005 to 6.4 percent in 2007, and to around 3

percent by 2009. The program included measures addressing both the revenue and the expenditure sides of the budget. Despite fierce political opposition, the first steps of this program have been implemented successfully.

## **B Social affairs**

### **Health policy**

*Score: 5*

Hungary moved from a Soviet-style national health system to a health insurance system in the 1990s. The latter has suffered from inefficiencies, most notably in the hospital sector, and from rising costs. Fiscal restrictions and a strong reliance on informal payments have limited actual access to health care and have undermined its universal character. The Gyurcsány government launched a large-scale health care reform in December 2006 that aimed at reducing inefficiencies and at improving access to health care by replacing informal payments with a system of official co-payments. The initiation and consolidation of reforms has been complicated by rifts within the governing coalition and fierce resistance by the medical profession and the population.

### **Social cohesion**

*Score: 5*

Poverty and socioeconomic disparities have increased since 1989. Levels of poverty and social exclusion are highest among the unemployed and families with many children. While social policy has limited the rise in poverty rates, its effects on socioeconomic disparities have been less clear. In education and health care, one might even speak of a "perverse redistribution" in favor of the better-off.

Social exclusion has a very strong spatial dimension. Significant economic, social and infrastructural differences across and within Hungarian regions have given rise to social segregation.

The Gyurcsány government has undertaken some attempts at addressing the poverty issue by reforming labor market and family policy. The costs of the austerity program launched after the 2006 elections have been distributed relatively equally among the different strata of the population.

### **Family policy**

*Score: 5*

Until recently, Hungarian family policy was rather conservative, putting strong

emphasis on enabling women to stay at home during child rearing. The number of day care institutions fell drastically after the end of communism, and relatively generous parental leave provisions have further lured many women from the labor market. As a result, the employment rate among mothers has been rather low. The Gyurcsány government has tried to reverse this trend, largely by promoting part-time employment, which has been extremely rare in Hungary. One major measure has involved introducing a new employment subsidy supporting the part-time employment of parents with children under the age of 14. However, the government's family policy has focused primarily on reducing child poverty by targeting improvements to the existing system of family allowances. The effect these measures have on the employment of mothers remains unclear.

#### Pension policy

*Score: 5*

Hungary was one of the first European countries to introduce a three-pillar pension system in line with World Bank recommendations in the second half of the 1990s. However, subsequent measures were not sufficient to make the first pillar, the public-pension system, financially sustainable. Some new policies, like the introduction of a "13th month pension" in 2003 (in which pension disbursement levels were increased by the equivalent of an extra month) even worsened the situation.

In February 2007, the Gyurcsány government launched some first-pillar reforms aimed at increasing the fiscal sustainability of the scheme and intergenerational equity. These measures included an increase in retirement age, a tightening of eligibility criteria for early retirement and a change in the pension formula. While poverty rates have been relatively low among current pensioners, they are likely to increase in the future when the tightened contribution-benefit link begins to be felt. One major group affected will be the many tax dodgers who are officially paid only the minimum wage.

### C Security and integration policy

#### Security policy

*External security*

*Score: 8*

Given its geographical location and its membership in NATO and the European Union, Hungary's external security risks are low. The country intends to modernize its defense forces in order to achieve full integration with NATO. It is also involved in the implementation of the European Security and Defense

Policy and in the establishment of an Italian-Slovenian-Hungarian joint military unit slated to be set up by the end of 2007.

Hungary's largest challenge regarding external security may be the problem of fulfilling NATO and EU requirements for the modernization of the Hungarian army without putting the nation's fiscal consolidation at risk. NATO has not been satisfied with the level of Hungary's defense spending, which has fallen drastically over the last year.

*Internal security*

*Score: 7*

Internal security policy has only partly been effective. While the preparations for accession to the Schengen border control agreement and the related institutional integration of the police and the border guard have been largely successful, the riots that shattered the country in 2006 revealed a number of deficiencies in the provision of public security. The police did not succeed in dealing with public demonstrations, and the intelligence services, which have been reorganized several times in the past (but the operations of which are still rather nontransparent), failed to provide enough information about the extreme-right movements that were threatening the public order.

*New security  
policy*

*Score: 8*

Hungary has dealt with new security risks largely within the framework of NATO and the European Union. Cooperation with international organizations and neighboring country authorities has functioned reasonably well, and the country has participated in various international military and peacekeeping actions (from Afghanistan to Iraq and Kosovo). Since the country's exposure to terrorism, international organized crime and trafficking has been relatively limited, and governments have been preoccupied with other challenges, a comprehensive new security policy has not yet taken shape. Such a policy might build on Hungary's tradition of an active neighborhood policy.

**Integration policy**

*Score: 5*

Hungarian integration policy is still in the making. Although Hungary has an elaborate set of policies and institutions for the integration of ethnic Hungarians who migrate to Hungary from neighboring countries, it lacks systematic and well-established support mechanisms and does not provide sufficient resources for the integration of other migrants. National cultural, education and social policies do not effectively focus on the social integration of immigrants, and the Immigration Office has not proved to be proactive enough to address an issue of this complexity. Finally, the government has to date failed to launch a general societal dialog on the increasing role of immigration and immigrants in national life.

## D Sustainability

### Environmental policy

*Score: 6*

Hungary's energy intensity and levels of environmental pollution are among the lowest of the new EU members. In the last years, partly in cooperation with the European Union (and with the help of pre-accession funds) some large-scale environmental projects were launched, mainly in the areas of garbage handling, canalization and sewage systems. In several parts of the country, the environment-friendly mentality of the population has become manifest. The new phenomena of waste delivery from EU countries to Hungary and environment-damaging activities by Austria in border areas have further increased public attention to environmental problems.

The National Environment Programs have been well organized along the lines of the European Union's current Sixth Environment Action Program (2001 – 2010), but they have suffered from a lack of funds and a lack of legal harmonization with other fields. In fact, industrial lobbies are much stronger than the environmental NGOs and the latter are sometimes narrow-minded and dogmatically doctrinaire.

### Research and innovation policy

*Score: 5*

Hungary has not paid sufficient attention to research and innovation policy in recent years. The nation's scientific capacity is still remarkable but underutilized and declining, because of the low attention paid to it and to the poor transfer of scientific achievements. Research and development spending has remained below 1 percent of GDP for a long time. While some multinationals have established research centers in Hungary, R&D spending has largely come from the government. The institutional system of research and innovation, which includes the Hungarian Academy of Sciences, is itself badly in need of innovation and renovation.

The Gyurcsány government has adopted a number of measures aimed at addressing these problems. Alongside a number of minor measures, it established the National Office for Research and Technology (NKTH), a new agency in charge of implementing the government's innovation and technology policy; it created the Research and Technology Innovation Fund, a new funding source financed by a levy on enterprises; and it presented an ambitious new midterm science, technology and innovation policy modeled on the EU's

Lisbon Strategy. The results of these measures have yet to be seen. There are some concerns that they have further complicated the already complex R&D system.

### **Education policy**

*Score: 5*

Hungary has relatively high levels of education spending. Access to primary and secondary education is free, but the quality of education has declined in recent years. Since schools are financed by local governments, primary and secondary education has been characterized by marked local and social disparities. The erosion of vocational training, which has suffered from a lack of resources and insufficient political interest, has contributed to skill shortages. Tertiary enrollment has risen despite the growth in tuition fees, but the strong expansion of tertiary education has not been matched by corresponding changes in labor demand. The Gyurcsány government has so far done little to address these problems.

## Management Index

### I. Executive Capacity

<i>Cabinet composition</i>	<i>Prime minister</i>	<i>Parties in government</i>	<i>Type</i>	<i>Mode of termination *</i>	<i>Duration</i>
	Ferenc Gyurcsány	Hungarian Socialist Party (MSZP), Alliance of Free Democrats (SZDSZ)	minimal winning coalition	1	10/04-06/06
	Ferenc Gyurcsány	Hungarian Socialist Party (MSZP), Alliance of Free Democrats (SZDSZ)	minimal winning coalition	-	06/06-

\* The following modes of termination should be distinguished: elections = 1; voluntary resignation of the prime minister = 2; resignation of prime minister due to health reasons = 3; dissension within cabinet (coalition breaks up) = 4; lack of parliamentary support = 5; intervention by head of state = 6; broadening of the coalition = 7.

#### A Steering capability: preparing and formulating policies

##### Strategic capacity

*Strategic planning*  
Score: 9

Strategic planning increased in the wake of the 2006 elections, after which the second Gyurcsány government created strategic planning units in all ministries and established two cabinet committees in charge of developing medium- and long-term strategies – the Committee on State Reform (ÁRB), which handles social policy, education and public administration issues, and the Development Policy Steering Board (FIT), which focuses on national economic development and the efficient utilization of EU transfers. Line ministries have been required to build upon the strategies formulated by these committees instead of developing their own strategies, as was previously the case.

*Scientific advice*

Nongovernmental academic experts have a considerable influence on

*Score: 6*

government decision-making, and a number of permanent or temporary advisory councils exist. Since 2003, the government has cooperated with the Hungarian Academy of Sciences (MTA). In addition, ministries and ministers often rely on individual experts. Cooperation with MTA intensified in 2006 when the government commissioned a number of reports on strategic policy issues which were then presented and discussed at regular meetings with public officials and academics. However, academic experts have to date played a limited role in the actual drafting of government measures.

#### Inter-ministerial coordination

*GO expertise*

*Score: 8*

The Hungarian PMO has always been rather strong and constitutes one important element of a model of government labelled "chancellor democracy," similar to the German example. The PMO has been strengthened further under Prime Minister Gyurcsány, who has expanded the office's sectoral policy expertise and has allowed it to evaluate ministerial draft bills more fully.

*GO gatekeeping*

*Score: 9*

The Prime Minister's Office (PMO) has strong gatekeeping powers at all stages of the legislative process. During the first stage, a proposal's originator meets with representatives of the PMO, the minister of finance, the minister of justice and a state secretary representing the minor government coalition partner in order to check the compatibility of the idea with the government's overall program. All ministries take part in the second stage, during which legal and technical issues are settled. Finally, the state secretaries of all ministries concerned meet in order to prepare the cabinet meeting. The PMO plays a key role at every stage by chairing and coordinating the negotiations. It has the right to send items back to square one at every stage.

*Line ministries*

*Score: 9*

The Prime Minister's Office is strongly involved preparing the line ministries' policy proposals. It monitors all stages of the policy-making process. Following the 2006 post-election reforms, line ministries largely lost their agenda-setting power. They are now obliged to develop initiatives along the lines suggested by the Committee for State Reform and the Development Policy Steering Board.

*Cabinet committees*

*Score: 9*

Cabinet committees have always played a major role in Hungarian policy-making, typically settling issues before they are taken up in a full cabinet meeting. After the 2006 elections, the system changed, however. The traditional cabinet committees on national security, European integration, economic policy and other specific subjects have been relegated to the

sidelines by the Committee for State Reform and the Development Policy Steering Board, the two new cabinet committees.

*Senior ministry officials*

*Score: 9*

Senior ministry officials play a major role in preparing cabinet meetings. The state secretaries concerned meet in advance of the meetings and discuss most of the issues that have not been previously settled. Thus, there are normally only a very few issues that have not been filtered out and require long discussion in the cabinet. In some cases, such as the reform of health care, the preparatory documents have presented alternatives reflecting the different priorities of the coalition partners rather than a single complete plan.

*Line ministry civil servants*

*Score: 6*

Line ministry civil servants play a significant role in the coordination of policy proposals. Civil servants in ministries concerned with overlapping issues coordinate efforts in regular and institutionalized work groups. In some cases, differences in political affiliation, hierarchical structures within the line ministries or ministries' attempts to protect their domains hinder this coordination.

### Regulatory impact assessments

*RIA application*

*Score: 3*

Hungarian policymakers had already established a general obligation to examine the impact of draft laws by 1987. Nevertheless, the scope of regulatory impact assessment (RIA) has long been limited. Most bills have included some budgetary data, but have not been based on a comprehensive analysis of the need for or the socioeconomic effects of a measure. In 2006, a new attempt at improving the assessment of draft laws was undertaken when the Ministry of Justice published new RIA guidelines, modeled after EU approaches. The implementation of these guidelines has remained unsatisfactory so far.

*Needs analysis*

*Score: 3*

In general, draft bills say a few words on the purpose of and the need for a regulation. However, they rarely outline the full analytical case for a regulation because both ministries and stakeholders outside government lack the capacity to prepare in-depth analyses.

Annotation: The score lies outside the range of the expert scores. The qualitative assessments by the experts, as well as comparative considerations, suggest a lower score.

*Alternative options*

*Score: 3*

Until recently, consideration of alternative options has been limited. However, the 2006 RIA guidelines published by the Ministry of Justice do call for a comprehensive analysis of alternative options.

### Societal consultation

*Mobilizing  
public support*  
Score: 5

The Hungarian government has only inconsistently sought support from interest associations. It has consulted with these groups in different ways, ranging from the normal legislative consultation process to formal tripartite negotiations and informal meetings at the ministerial level, but has not forged any official agreements or pacts. Perceiving most interest associations to be unprepared, indifferent or even hostile, the government pushed through its unpopular 2006 austerity program without the assistance, and in some cases against the opposition of major economic and social actors.

### Policy communication

*Coherent  
communication*  
Score: 6

The Gyurcsány government has tried hard to achieve a coherent communication policy. It created a government communication center in the Prime Minister's Office, with a state secretary in charge of coordinating the communication of all ministries and agencies. This center takes part in the governmental decision-making process and proposes coordinated communication strategies for all laws under preparation. In practice, however, the different opinions and policy preferences of the two coalition partners and of individual ministers result in occasionally contradictory statements. The problems with implementing a coherent communication policy are also evidenced by the high turnover of staff in the communication center.

## B Resource efficiency: implementing policies

*Legislative  
efficiency*

*Veto players*

	<i>Total</i>	<i>Share</i>
Bills envisaged in the government's work program	319	
Government-sponsored bills adopted	288	90.28 %
Second chamber vetos	-	- %
Head of state vetos	11	3.82 %
Court vetos	41	11.61 %

## Effective implementation

### *Government efficiency*

*Score: 7*

After a period of relative inactivity, the second Gyurcsány government launched far-reaching reforms in the second half of 2006. Touching upon some of the "holy cows" of Hungarian political culture, it set itself very ambitious goals. The reform agenda was further complicated by the simultaneous implementation of three, partly contradictory programs: short-term austerity measures, the creation of a sustainable convergence plan to help Hungary meet Maastricht budgetary criteria, and the development of the National Development Plan for the use of EU financial resources. The government has succeeded in adopting a convergence program and in executing the Second National Development Plan, both of which were among its top-priority objectives. However, it has failed to end the fragmentation of the local government sector or to overhaul the tax system. The fate of health care and education reform will be played out over future months and years.

### *Ministerial compliance*

*Score: 8*

The Hungarian system has provided for different ways of ensuring ministerial compliance. First, the prime minister has been in a strong position vis-à-vis the line ministries. In the Hungarian "chancellor democracy," the prime minister has the right to sack and to select ministers. Second, Hungarian prime ministers have normally enjoyed a strong position in the governing party. Third, governments have tried to bind line ministries by formulating detailed coalition treaties, backed by regular meetings. These mechanisms have largely succeeded in ensuring ministerial compliance, yet have not fully prevented different coalition partners from taking positions that differ from official government policy.

### *Monitoring line ministries*

*Score: 8*

The Prime Minister's Office has monitored line ministries' activities quite effectively. The prime minister meets regularly with all ministers, and the PMO is heavily involved in all stages of the legislative process. Ministers have clear work plans to be accomplished, which are formulated in cooperation with the PMO. In practice, however, this close monitoring has not ruled out substantial delays.

### *Monitoring agencies*

*Score: 7*

The Hungarian government has tried to improve the monitoring of executive agencies, the number of which grew chaotically in the previous decade. A 2006 act helped clarify the monitoring mechanisms applied to different types of agencies. The Hungarian government has relied on a combination of direct and indirect oversight, as well as financial and non-financial control mechanisms exercised by special departments in the parent ministries. To date, the monitoring of agencies has been complicated by a lack of

transparency and a lack of experience with indirect forms of control.

*Task funding*

*Score: 4*

Local governments fulfill a substantial number of tasks on behalf of the central government, with little control over their own revenues. The Act on Local Government clearly states that the financial resources for meeting these functions should be provided by the central budget. However, confronted with high budget deficits, the central government has often delegated tasks to local governments without full financial support, or has failed to compensate local governments for the fiscal costs of decisions taken at the national level, such as increases in civil servants' pay.

*Constitutional discretion*

*Score: 4*

The central government formally respects the constitutional independence of local and territorial governing bodies. However, all governments have in practice restricted local independence using both political and budgetary means. Accustomed to centralized control, the extensive national-level bureaucracies and the national party headquarters each have only reluctantly loosened their grip. The outcome of the 2006 local elections, which resulted in a sweeping victory by the parliamentary opposition, further reduced the central government's willingness to strengthen local governments.

*National standards*

*Score: 5*

The ability to meet national standards has been complicated by the significant fragmentation of local government, with its 3200 municipalities, many of which are very small. Along with regional socioeconomic disparities, differences in size have resulted in substantial differences in the quantity and quality of services provided by these local governments. The central government has tried to limit differences by encouraging the cooperation of municipalities and by defining certain national minimum standards, in particular for schools, medical services and the local capacity to fulfill investment grant applications. There are also a number of training programs for local administrative staff.

## **C International cooperation: incorporating reform impulses**

### **Domestic adaptability**

*Domestic adaptability*

*Score: 7*

The Hungarian government has tried to adapt domestic government structures to international developments. It has reformed executive branch coordination mechanisms with an eye toward meeting the requirements of EU membership, and has put strong emphasis on improving the policy implementation capacity of the subnational governments. However, the implementation of EU programs has remained problematic, in part due to the

government's failure to reduce the substantial administrative fragmentation at the local level, but also due in part to a lack of experience at the different levels of government.

### External adaptability

#### *International coordination activities*

*Score: 8*

Hungary is an active member of various international organizations, most notably the United Nations, NATO, the European Union and the Visegrad group, and has shown a clear commitment to multilateralism. Since becoming a member of the European Union, it has participated relatively smoothly in EU-level coordinated activities. It has also taken part in peacekeeping and police missions in conflict areas, including the International Security Assistance Force (ISAF) mission in Afghanistan.

#### *Exporting reforms*

*Score: 5*

Due to weak international representation, and to the domestic lack of a clear-cut, consensual definition of strategic interests, Hungary has acted mostly as a policy-taker and late follower with regard to reform. In some cases, however, exporting reform has been tried. An attempt to export the Hungarian system of minority rights to neighboring countries failed after the nearby nations proved unwilling to adopt the policies. In cooperation with Austria and Croatia, Hungary has also tried to bring its reform experience to bear in the West Balkans.

## D Institutional learning: structures of self-monitoring and -reform

### Organizational reform capacity

#### *Self-monitoring*

*Score: 6*

The government has tried to monitor the institutional arrangements of governing in various ways. The influential State Audit Office has performed a large number of analyses, and the new State Reform Committee has dealt with the reform of institutional arrangements. However, monitoring has not been done on a regular basis and has not been separated from the decision-making process.

#### *Institutional reform*

*Score: 8*

The Hungarian government adopted large-scale institutional reforms of the executive branch after the 2006 elections. Reforms have been strongly patterned on the British model and have touched almost all institutional arrangements of governing. The implementation of these changes has been complicated by a number of other simultaneously ongoing reform challenges, by the reform fatigue of the population and by the fierce resistance of the parliamentary opposition. Reforms have suffered from a certain tension

between centralizing and decentralizing measures.

## II. Executive accountability

### E Citizens: evaluative and participatory competencies

#### Knowledge of government policy and political attitudes

*Policy  
knowledge  
Score: 4*

Most citizens have only a rudimentary knowledge of government policy. This partly reflects a traditional attitude of political apathy with roots stretching back to the communist-era János Kádár regime, as well as widespread dissatisfaction with the results of economic transformation. More importantly, the increasing levels of political polarization also undermine widespread policy knowledge. In the clashes between parties, even basic facts are contested, and public attention is drawn to politics rather than policies. The lack of independent think tanks able to bridge the gap between experts and the public, or between the two political camps further aggravates these problems.

### F Parliament: information and control resources

#### Structures and resources of parliament, committees, parliamentary parties and deputies

Number of deputies	386
Number of parliamentary committees	18
Average number of committee members	21
Average number of subcommittee members	-
Pro-government committee chairs appointed	10
Deputy expert staff size	1
Total parliamentary group expert support staff	44
Total parliamentary expert support staff	266

*Obtaining documents**Score: 9*

The Hungarian National Assembly has the power to ask the government for unclassified documents and/or oral information on all subject matters, including documents containing matters of national security. A special regime, based on a 2004 law, applies to the distribution of information on EU affairs. In practice, there are delays, with documents arriving too late to be studied properly. Moreover, a relatively high number of documents are declared confidential.

*Summoning ministers**Score: 10*

According to Article 39 of the constitution, the government is accountable to the National Assembly. The Standing Order of the Parliament allows the summoning of ministers. At least once a year, ministers must appear at a hearing, and are obliged to answer questions. In practice, ministers are frequently summoned, and tend to take the questioning seriously.

*Summoning experts**Score: 10*

The Standing Order of the Parliament allows parliamentary committees to invite representatives of interest groups and other experts to hearings. Party groups can also bring their own experts to committee sessions. In practice, experts are regularly invited.

*Task area coincidence**Score: 9*

There are more committees than ministries. However, the task areas of the committees largely follow the structure of government, in that most committees oversee just one ministry. However, some ministries are covered by two or three committees. The only committee that has to deal with various ministries is the committee on EU affairs. The difference between the number of committees and ministries does not hamper committees' ability to monitor government activity.

Annotation: The score lies outside the range of the expert scores. The experts have taken the question literally and have given a maximum score of eight because the task areas of parliamentary committees and ministries do not fully coincide. However, since the experts agree that the existing discrepancies do not hamper committees' ability to monitor ministries, a higher score is justified.

*Audit office**Score: 9*

The State Audit Office of Hungary (ÁSZ), the supreme organ of state auditing, is accountable only to the National Assembly. Its president is elected by parliament, with a two-thirds majority vote required, and the office reports to the National Assembly and its audit committee. The ÁSZ enjoys a broad range of responsibility, able to perform audits wherever public funds are utilized or managed. It has served as an important instrument of control and issued several early warnings over the increasingly dangerous budget deficit. Owing to a lack of institutional capabilities,

*Ombuds office*  
Score: 9

however, oversight and audit activities are less frequent than needed.

Hungary has three separate ombuds offices, including the Parliamentary Commissioner for Civil Rights, the Parliamentary Commissioner for Data Protection and Freedom of Information, and the Parliamentary Commissioner for the Rights of National and Ethnic Minorities. All three commissioners are accountable exclusively to the National Assembly.

The main task of the Parliamentary Commissioner for Civil Rights is to examine potentially improper actions by authorities. It can carry out a wide range of investigations into the activities of public organizations. The commissioner's office has received and processed a large number of complaints, but suffers from a lack of institutional capabilities. Moreover, large parts of the population remain unaware of its existence.

## G Intermediary organizations: professional and advisory capacities

### Media, parties and interest associations

*Media reporting*  
Score: 7

Coverage of government decisions by the media is limited. The two leading commercial television stations, which dominate the market, broadcast only a small number of politics-themed programs. The public TV stations have also been infected by the broader media's tendency toward infotainment programming, and have suffered from political bias. The sharp polarization of political life has led to a replacement of in-depth analysis by confrontation between the positions of the two main political camps and a preoccupation with scandals, be they real or alleged.

*Fragmentation*

### Parliamentary election results as of 4/23/2006

<i>Name of party</i>	<i>Acronym</i>	<i>% of votes</i>	<i>% of mandates</i>
Hungarian Socialist Party	MSZP	43.21	49.22
Hungarian Civic Alliance	FIDESZ-KDNP	42.03	42.49
Alliance of Free Democrats	SZDSZ	6.50	5.18
Hungarian Democratic Forum	MDF	5.04	2.85
Independent (1)		0.43	0.26
Others		2.79	0

*Party  
competence  
Score: 5*

The programmatic capacity of the Hungarian parties remains limited. The programs propagated during 2006 electoral campaign were weak in substance and full of unrealistic promises, with each of the major parties trying to outbid the offers of the other. The socialist MSzP's program focused on EU structural funds as a major source of new income and as a source of support for government programs fostering innovation and growth, but did not address Hungary's unfolding fiscal problems.

The program of Fidesz, the main conservative party, was heavily infused with anti-communist (and even anti-capitalist) rhetoric, and contained social and economic promises that were even more unrealistic than those of its rival. The programs of the liberal SzDSz and the Christian Democratic MDF were more coherent, yet catered to small and more homogeneous constituencies.

*Association  
competence  
Score: 5*

Association competence is limited. Most interest associations have remained rather narrow-minded. Trade unions have rejected any austerity measures. Most business associations have focused on their own short-term interests. Local initiatives have usually taken a NIMBY ("not in my back yard") approach in their particular policy domains (e.g., highway planning or waste disposal). Religious communities have focused on reprivatization legislation, seeking greater influence and power in public life despite Hungarian society's basically secular nature.

*Association  
relevance  
Score: 5*

Traditional interest associations in Hungary have had little political relevance. The tripartite National Council for Interest Reconciliation, a body designed to facilitate dialog between the government, trade unions and employers' organizations, has lost its role. Save in the public sector, trade unions are fragmented and weak. The government has been more open to advice from those parts of the business sector owned by foreign capital. However, a new and influential set of interest groups has emerged, focused on the use of EU structural funds.

This country report is part of the Sustainable Governance Indicators 2009 project, which assesses and compares the reform capacities of the OECD member states.

More on the SGI 2009 at [www.sgi-network.org](http://www.sgi-network.org)

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