



How EU Money has Contributed to the Dismantling of Democracy in Hungary¹

“The future financial framework must not only ensure the appropriate level of expenditure, but also its quality.”

*European Council Conclusions,
February 2013²*

“Fidesz is ‘Putinizing’ Hungary with EU funds.”

*Erik D’Amato,
former editor-in-chief of Budapest Business Journal,
September 2014³*

“Vladimir Putin has been named the 2014 Person of the Year by the Organized Crime and Corruption Reporting Project (OCCRP), an award given annually to the person who does the most to enable and promote organized criminal activity. ... Runners up to Putin this year were Hungarian Prime Minister Viktor Orbán and Montenegrin Prime Minister Milo Đukanović.”

*OCCRP website,
January 2015⁴*

¹ See also other publications of the Clean Air Action Group on the topic:

- **Comments of the Clean Air Action Group on the Operational Programmes of Hungary for 2014-2020 submitted to the European Commission.** 28 August 2014, <http://www.levego.hu/sites/default/files/op-comments-caag-2014aug28v.pdf>
- **Good Intentions Meet Reality: The Dire Consequences of Spending EU Taxpayers’ Money in Hungary.** April 2013, http://www.levego.hu/sites/default/files/eu_budget_hungary_130404_final.doc
- **2016 Country Specific Recommendations in Support of the European Semester Process** (Hungary—from p. 33). Green Budget Europe and CEE Bankwatch Network. http://green-budget.eu/wp-content/uploads/2015-12-18_2016-CSRs-and-Energy-Union_CA_FINAL.pdf

² **Conclusions of the European Council (7/8 February 2013) as regards the item Multiannual Financial Framework,** http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/en/ec/135344.pdf

³ **Erik D’Amato: Fidesz is ‘Putinizing’ Hungary with EU funds,** The Budapest Beacon, 01.09.2014, <http://budapestbeacon.com/news-in-brief/erik-damato-fidesz-is-putinizing-hungary-with-eu-funds/>

⁴ **Vladimir Putin Wins OCCRP’s Person of Year for 2014,** <https://www.occrp.org/personoftheyear/2014/>



Introduction

During the period 2014-2020, the EU is to fund Hungary with around 25.4 billion Euros.⁵ This means that each year Hungary would receive from the EU taxpayers on average a sum equal to nearly 4% of its 2013 GDP. The purpose of this money is in principle to contribute to the achievement of the economic, social and environmental goals of the country set forth in various EU and national documents. However, there is little or no evidence that the vast amount of EU money inundating Hungary during the previous period (2007-2013) improved the general situation of the country in any of these fields. On the contrary, the competitiveness of the economy has been reduced⁶, the educational system has greatly deteriorated⁷, the health care system is in ruins⁸, innovation has been stifled⁹, environmental problems have worsened

⁵ See: **Summary of the Partnership Agreement for Hungary, 2014-2020**. Brussels, 26 August 2014. €21.9 billion will come from the Cohesion Funds (ERDF, ESF, Cohesion Fund) and €3.45 billion from the European Agricultural Fund for Rural Development (EAFRD). http://ec.europa.eu/contracts_grants/pa/partnership-agreement-hungary-summary_en.pdf

⁶ See: **Economic Survey of Hungary 2014**, OECD, <http://www.oecd.org/hungary/economic-survey-hungary.htm>

According to the **The Global Competitiveness Report 2015-2016**, in terms of economic competitiveness, in 2011 Hungary ranked 49th, but in 2014 only 63rd. <http://reports.weforum.org/global-competitiveness-report-2015-2016/report-highlights/>

See also: **Growth Report 2015**, Hungarian National Bank, <https://www.mnb.hu/letoltes/eng-novekedesijel-boritoval.pdf> (pp. 86-93)

⁷ According to the **IMD World Talent Report 2014**, in 2009 Hungary ranked 16th, but by 2014 it fell to the 51st place among the 60 countries assessed. (The IMD World Talent Report ranks the ability of countries to develop, attract and retain talent to sustain the talent pool available for enterprises operating in those economies.) http://www.imd.org/uupload/imd.website/wcc/NewTalentReport/IMD_World_Talent_Report_2014bis.pdf

See also:

- **EUA Public Funding Observatory 2014**, http://www.eua.be/Libraries/Governance_Autonomy_Funding/PFO_analysis_2014_final.sflb.ashx
- **Society at a Glance 2014—OECD Social Indicators**, <http://www.oecd.org/els/societyataglance.htm> (A good short review of the study's main findings on Hungary: **OECD on post-crisis Hungary**, <http://budapestbeacon.com/public-policy/oecd-data-compares-post-crisis-hungary/5927>)
- **Education at a Glance 2015**, OECD Indicators, 24 Nov 2015, <http://www.oecd-ilibrary.org/docserver/download/9615031e.pdf?expires=1451730859&id=id&accname=guest&checksum=2F6D1F83B150E0533CDCB1CBAE8CB6DE>
- **Growth Report 2015**, Hungarian National Bank, <https://www.mnb.hu/letoltes/eng-novekedesijel-boritoval.pdf> (pp. 41-53)
- **The 11 most expensive countries for a university education**, The Independent, 29.12.2015, <http://www.independent.co.uk/student/the-11-most-expensive-countries-for-a-university-education-a6788436.html>
- **Butítás felsőfokon – a nemzeti együttműködés rendszeréből nem hiányzik senkinek a tudás** (*Obscurantism on high level – nobody needs knowledge in the system of national cooperation*), http://tenytar.blog.hu/2015/06/15/butitas_felsofokon_a_nemzeti_egyuttmukodes_rendszerebol_nem_hi_anyzik_senkinek_a_tudas
- **Így végzik ki Orbánék a felsőoktatást: apadó források, ötödével csökkent a hallgatók száma** (*Orbán is liquidating higher education in this way: dwindling sources, the number of students decreased by one-fifth*), http://tenytar.blog.hu/2015/12/17/igy_vegzik_ki_orbanek_a_felsooktatast_apado_forrasok_otodevel_csokkent_a_hallgatok_szama

⁸ **Health at a Glance 2015**, OECD Indicators, 4 Nov 2015, http://www.keepeek.com/Digital-Asset-Management/oecd/social-issues-migration-health/health-at-a-glance-2015_health_glance-2015-en#page1

Growth Report 2015, Hungarian National Bank, <https://www.mnb.hu/letoltes/eng-novekedesijel-boritoval.pdf> (pp. 53-58)

⁹ Just one example: In 2014, in Hungary (population: 9.8 million) 732 patent applications were submitted, in neighbouring Austria (population: 8.5 million) 4329. (Source: **Statistical Country Profiles**, World Intellectual Property Organisation, http://www.wipo.int/ipstats/en/statistics/country_profile/#H)



in many aspects¹⁰, social inequalities have substantially increased¹¹, and democracy has been undermined¹².

Naturally, it would not be fair to say that all of the above-mentioned problems are caused by EU funding. However, it is becoming quite clear, that EU funding has substantially aggravated existing ills, and even created new ones. It should be also born in mind that such negative effects of EU funds are characteristic not only for Hungary but for all countries receiving EU money—although the scale of these effects greatly differs from country to country.

We strongly believe that it is absolutely necessary to provide EU funds to the less developed Member States with the purpose of bringing up their economic and also political level of stability in order to strengthen the whole EU and make EU much more competitive globally. However, in order to achieve this, the system of distributing EU funds must be radically changed.

The reasons why EU funding has had an effect opposite to EU's intentions

EU funds have contributed in several ways to the negative phenomena described above.

1. Free money irresistibly attracts all those looking for getting rich (or much more rich) in a short time by illegal or semi-legal means. It was worth for these circles to establish close connections with the most powerful political parties.
2. The fact that EU money is to be spent on “development” (i.e. mostly investments for creating new physical assets like roads, buildings, machines) makes it relatively easy for certain groups to misuse EU money.
3. A large part of EU funds is given directly to individual companies. This means that it is not only the customer who pays for the product or service, but government officials also make the decisions about financing them. This method of allocation of EU money seriously distorts the market and makes the prospects of any business unpredictable. This has also lead to a situation, where practically no business circle or company steps up (at

¹⁰ See: **A Mid-term Assessment of the Environmental Policy Performance of the Hungarian Government** (2012), <http://www.levego.hu/en/related-documents/a-mid-term-assessment-of-the-environmental-policy-performance-of-the-hungarian> (The situation since then substantially deteriorated, see Annex.)

¹¹ See, for example: **Growing Inequality and its Impacts in Hungary**, GINI Country Report for Hungary, 2013, <http://gini-research.org/system/uploads/448/original/Hungary.pdf>

¹² See, for example:

- **Hungary Fact Sheet 1, September 2014** by Eötvös Károly Policy Institute, Transparency International Hungary, Hungarian Civil Liberties Union and Hungarian Helsinki Committee, http://helsinki.hu/wp-content/uploads/Hungary_fact_sheets_20140921.pdf
- **Gasping for Air - Soft Censorship in Hungarian Media 2014**, <http://mertek.eu/en/reports/gasping-for-air-soft-censorship-in-hungarian-media-2014>
- **The 2014 CSO Sustainability Index for Central and Eastern Europe and Eurasia**, https://www.usaid.gov/sites/default/files/documents/1863/EuropeEurasia_FY2014_CSOSI_Report.pdf#page=102
- **Hungary Country Report on Human Rights Practices for 2014**, U.S. State Department, <http://www.state.gov/j/drl/rls/hrrpt/humanrightsreport/index.htm?year=2014&dlid=236532#wrapper>
- **2016 Freedom House Report on Hungary**, <https://freedomhouse.org/report/nations-transit/2016/hungary>
- **End of mission statement by the United Nations Special Rapporteur on the Situation of Human Rights Defenders, concluding his visit to Hungary from 8 to 16 of February 2016**, <https://www.protecting-defenders.org/en/news/end-mission-visit-hungary>
- **2015 Human Rights Reports: Hungary**, U.S. Department of State, April 13, 2016, <http://www.state.gov/j/drl/rls/hrrpt/2015/eur/252855.htm>



least not openly) against government corruption and the dismantling of democracy. The reason is obvious: practically all companies already either received or hope to receive in the future some public money some time, either directly or indirectly (as subcontractors of other companies).

4. The EU did not make any enforceable requirement for improving the general situation of the sector which it gives aid to. (For example, the EU provides funding for the construction of new university buildings, but does nothing if the government reduces expenditures for higher education by 30 %—as it happened in Hungary.)
5. The EU has not required that there should be a robust legal and institutional system in countries that receive EU funding, and that there should be at least no steps backward in these respects.
6. The European Commission has very limited capacity and legal possibilities to disclose and, if necessary, sanction illegal (or legal but inefficient) use of EU funds.
7. The EU money spent on dubious or inefficient purposes coupled with the necessary financial contribution of Hungary drains away resources from education, health care, and social issues, and all this greatly contributes to the fact that each year tens of thousands of Hungarians leave the country to live in the West. Generally, these people are young, well-educated, and independently thinking, i.e. those who would be most willing and capable to step up against corruption and other malfeasances by the government.
8. The European Commission is doing very little so that its messages reach the Hungarian public.
9. The Commission has connived in the violation of the rules of European code of conduct on partnership in the framework of the European Structural and Investment Fund by the Hungarian government.
10. The Commission has been often failing to observe its own Code of Good Administrative Behaviour.

Below we deal with some of these factors in more detail.

The New Oligarchisation

The distribution of free funds irresistibly has attracted all those looking for a quick buck by illegal or semi-legal means. According to the scientific advisor of the Sociological Institute of the Hungarian Academy of Sciences, Imre Kovách, a new phenomenon in the relations between the political and business elite of Hungary has developed. Introducing a new study of the Institute on the topic, he stated the following¹³: *“The main reason the business elite started to be involved in politics, and to side with political parties and persons, is the fact that Hungary joined the EU, from where thousands of billions of Forints started to flow to us. It was already worth influencing the allocation of this money, and it became possible to get substantial financial resources as winners of applications for grants.”*¹⁴ Further, he explains how this oligarchisation (i.e. the rise of influential business circles with a negative effect on political decisions) is extremely harmful for Hungarian society. He also refers to other studies, which have proved that countries with strong oligarchies drop behind in innovation, and this leads to the economic and political downfall of these nations.

In fact, as Kovách points out, in many countries all over the world, the availability of “free”

¹³ **Egyre többet mutatnak magukból a magyar milliárdosok** (*The Hungarian billioners show more and more about themselves*). Népszabadság, 2013. január 23., http://nol.hu/archivum/20130123-alig_ismerjuk_az_elitunket

¹⁴ The text in italics here and in the following are my translations. – A.L.



money is an enormous driving force for elite business groups to fight for that money, no matter what the cost is for society.¹⁵

“Present development policy is financed by non-transparent redistribution. It serves only to reward those who are close to the current political power, and it is a hotbed of corruption” — writes József Papp, Professor at the Budapest Corvinus University (university of economics) in his book¹⁶, which he finished in 2009 (i.e. before the present ruling party, Fidesz came to government).¹⁷ According to his diagnosis, “It is not the market competition, the efficiency which directs the allocation of capital, but the embeddedness in [political] power.”¹⁸

A clear example of the above is the company Közgép. One of the main owners of Közgép is Lajos Simicska, a former university room-mate of the present Prime Minister, Viktor Orbán, and former Treasurer of Fidesz. Since Fidesz came to power in 2010, a large proportion of the EU funds for investments landed at Közgép. In 2013, Közgép and its subsidiaries won at least HUF 432 billion in public tenders, which was about 30% of the total EU support in Hungary that year. For the year 2013, Közgép paid out to its owners HUF 22 billion in dividends, and for the year 2014, HUF 38 billion¹⁹ (in comparison: the total government allocation for higher education in 2013 was HUF 123 billion).

Since Fidesz came to power in 2010, a large number of persons who had been working at Közgép or had been related to it in some other way appeared in various leading positions in the state administration (including the Ministry for National Development, responsible for the allocation of EU funds) and in state-owned enterprises (e.g. Hungarian Railways, MÁV, and Hungarian Electricity Company, MVM).

In the beginning of 2015, serious conflicts arose between Viktor Orbán and Lajos Simicska, and as a result Simicska’s people in the government have been replaced by those of other oligarchs with close relations with Orbán, and EU funds started to flow to other oligarchs close to Orbán.²⁰

Another example is Lőrinc Mészáros, a plumber and mayor of the village Felcsút where Viktor Orbán grew up. After Orbán came to power in 2010, the minor company of Mészáros and his wife suddenly started to get enormous orders from the government, mostly funded by

¹⁵ For references on international literature on the topic, see: Váradi Balázs: **A nyolcezermilliárd átk** (*The curse of the eight thousand billion* [reference to the amount of EU money to be received by Hungary during the years 2007-2013]), <http://www.es.hu/index.php?view=doc;15495> (Full article: http://palyazatipenz.blog.hu/2007/01/12/title_1557035, http://palyazatipenz.blog.hu/2006/11/03/miert_folyik_a_csata_avagy_a_8000_milliard_atka).

¹⁶ Papp József: **A magyar gazdasági csoda** (*The Hungarian Economic Miracle*). Alexandra Kiadó, Budapest, 2010

¹⁷ See a short summary here: Papp József: **A magyar csoda**, Index.hu, 06.01.2009, <http://index.hu/velemenyejegyzet/mcs090106/>

¹⁸ Papp József: **Szemétkosárba az Új Széchenyi Tervvel!** (*Into the Garbage Can with the New Széchenyi Plan*), hvg.hu, 23.02.2011, http://hvg.hu/velemenyejegyzet/20110223_papp_szechenyi_terv [The New Széchenyi Plan is the programme of the Hungarian government for spending EU money]

¹⁹ **Lajos Simicska’s Közgép to distribute HUF 11 billion in dividends to owners**, The Budapest Beacon, 10.04.2015, <http://budapestbeacon.com/economics/lajos-simicskas-kozgep-to-distribute-huf-11-billion-in-dividends-to-owners/>

Osztalékosó hullott a “kegyvesztett” Simicskára (*Dividends rained on “out of favor” Simicska*), Népszabadság, 06.06.2015, <http://nol.hu/gazdasag/osztalekeso-hullott-simicskara-1538401>

²⁰ **It (still) pays to be friends with the government**, atlatszo.hu, 01.02.2016, <http://english.atlatszo.hu/2016/02/01/it-still-pays-to-be-friends-with-the-government/>



EU money.²¹ By now Mészáros is one of the richest persons in Hungary.²² It seems quite probable that he is just a stooge for Viktor Orbán.²³

A further example is István Tiborcz, Orbán's son-in-law. In 2009, Tiborcz's company had a revenue of HUF 9 million (around EUR 29,000). After Orbán came to power, its revenues surged, and already in 2011 they reached HUF 3 billion (nearly EUR 10 million). Since then Tiborcz's companies have been continuing receiving huge public orders, funded by EU money—in a large part for carrying out investments about which previously they had had no experience whatsoever.²⁴

²¹ Just a recent example of a project funded by EU money: **Mészáros Lőrinc cége beszállt a konzorciumba, a kormány milliárdokkal emelte meg a dél-balatoni vasútvonal felújításának költségét** (*The company of Lőrinc Mészáros joined the consortium, the government raised the costs of the renewal of the South-Balaton railway line by billions of Forints*), <http://blog.atlatszo.hu/2016/05/meszaros-lorinc-cege-beszallt-a-konzorciumba-a-kormany-milliardokkal-emelte-meg-a-del-balatoni-vasutvonal-felujitasanak-koltseget/>

²² See: **Lőrinc Mészáros, Friend of Viktor Orbán, is a Financial Genius**, Hungarian Spectrum, 14.12.2014, <https://hungarianspectrum.wordpress.com/2014/12/14/lorinc-meszaros-friend-of-viktor-orban-is-a-financial-genius/>

²³ **Is Felcsut Mayor Lorinc Meszaros Viktor Orban's straw man?** The Budapest Beacon, 17.11.2013, <http://budapestbeacon.com/featured-articles/is-felcsut-mayor-lorinc-meszaros-viktor-orbans-straw-man/1188>
Lőrinc Mészáros wins prestigious “Gold Wheelbarrow” award, The Budapest Beacon, 19.01.2016, <http://budapestbeacon.com/politics/lorinc-meszaros-wins-prestigious-golden-wheelbarrow-award/31243>

²⁴ See:

- **How do European Union Funds End Up in the Hands of the Orbán Family?** <https://hungarianspectrum.wordpress.com/2014/12/20/how-do-european-union-funds-end-up-in-the-hands-of-the-orban-family/>
- **The end of an Orbán family business?** <http://hungarianspectrum.org/2015/05/31/the-end-of-an-orban-family-business/>
- **The “well-oiled business machinery” of Viktor Orbán's son-in-law**, <http://hungarianspectrum.org/2015/06/25/the-well-oiled-business-machinery-of-viktor-orbans-son-in-law/>
 More in Hungarian:
 - **Így kaptak Tiborczék szabad utat a milliárdokhoz** (*This is the way Tiborcz got green light to get billions*), <http://444.hu/2015/03/11/igy-kaptak-tiborczek-szabad-utat-a-milliardokhoz/>
 - **Gyáltól Pécsig tarol Orbán vejének cége** (*The company of the son-in-law of Orbán wins all from Gyál to Pécs*), <http://www.origo.hu/itthon/20150305-gyaltol-pecsig-tarol-orban-vejenek-cege.html>
 - **Nyomoznak az Elios milliárdos győzelmei miatt** (*Investigation on the billion gains of Elios*), http://index.hu/belfold/2015/03/02/rendorseg_tiborcz_istvan_elios_vizsgalat/
 - **Miből telik Orbán Ráhelnek 15 millió forintos tandíjra?** (*How can Ráhel Orbán afford 15 million for school fees?*) <http://atlatszo.hu/2014/12/20/mibol-telik-orban-rahelnek-15-millio-forintos-tandijra-meg-fogsz-dobbenni/>
 - **Tiborcz István eladott cége 470 milliót osztalékot fizetett ki a tavalyi évre** (*The company sold by István Tiborcz paid 470 million in dividends*), <http://444.hu/2015/05/30/tiborcz-istvan-eladott-cege-470-millios-osztalekot-fizetett-ki-a-tavalyi-evre/>
 - **Csúcsra járatták a kormányközeli pénztermelést** (*All time high money production near the government*), <http://444.hu/2015/06/01/csucsra-jarattak-a-kormanykozeli-penztermelest/>
 - **Megmagyarázhatatlanul drága lámpákat hagyott maga után Tiborcz** (*Tiborcz sold inexplicably expensive lamps*), <http://444.hu/2015/06/25/megmagyarázhatatlanul-draga-lampakat-hagyott-maga-utan-tiborcz/>
 - **How Brussels took on the son-in-law of Hungary's Prime Minister**, Direkt36, 18.11.2015, <http://www.direkt36.hu/en/2015/11/18/huracuppant-brusszel-orban-vejenek-ugyeire/>
 - **Sötétség maradt Tiborcz egymilliárdos beruházása után** (*Darkness remained after the one-billion [HUF] investment of Tiborcz*), http://index.hu/belfold/2015/12/24/sotetseg_maradt_orban_vejenek_egymilliardos_beruhazasa_utan/
 (According to the article, the street lamps installed by Tiborcz's company in a Hungarian city with EU money proved to be practically useless.)



Prof. Dr. József Ángyán, Member of the Hungarian Parliament and former State Secretary for Rural Development, left Fidesz, declaring that he is not willing to support any more the unfair practices of the party. Ángyán, who is also a renowned and highly respected university professor, said the following²⁵: “*Out of the about 70 Members of the Government (Ministers, State Secretaries) 8 or 10 were appointed by the Prime Minister, all others were in fact appointed by organised crime groups.*” He underpinned his statement with concrete examples.²⁶

According to the Hungarian Meat Association, at least 40 to 50 percent of the meat sold in Hungary is from the black market, i.e. no taxes are paid after them. In order to remedy the situation the Association has been asking for a drastic reduction of VAT on meat. The government had promised that the VAT on meat will be reduced, however, this was missing from the new tax bill submitted to the Parliament in October 2013.²⁷ According to Tamás Éder, President of the Meat Association, “*the black marketeers mobilised their contacts to the government*” in order to impede any VAT reduction on meat.²⁸ Finally, the government decided to lower VAT on a certain type of meat products, however, leaving most of the meat still with the 27 % VAT.

As a result of the state capture described above the whole institutional and legal system has been transformed to serve certain well organised business groups—generally to the detriment of the whole society. (See some examples of such a transformation in the Annex.)

EU funds have been also used in highly questionable way by the government to help its election victory in 2014. The government boasted that after years of stagnation, as a result of its reform, the economy started to grow. However, if we look at the figures, they show that in 2012, EU funds amounted to about 2% of the GDP, but in 2013 and 2014, they reached about 4%. This means that the economic growth in these years was largely due to the “proper” timing of the disbursement of EU money.²⁹ This is not only unethical, but such jerking of the economy is also detrimental for business in general. Now, Fidesz is planning to repeat the

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- **The Hungarian PM’s son-in-law stepped back from public money. But his long-time business partner moved closer to it**, Direkt36, 28.01.2016, <http://www.direkt36.hu/en/2016/01/28/tiborc-hatralepett-de-regi-uzlettarsa-felbukkant-tobb-nagy-allami-projektben/>

²⁵ See the video (in Hungarian): <http://www.nolty.hu/video/4972.html>

²⁶ More details on new laws accepted recently which aim to favour certain business groups close to the government can be accessed in English, e.g. here:

- **Cracks in the Monolith**, <http://theorangefiles.hu/category/demjan/>
- **Offshore companies make USD 185 million on sale of Hungarian residency bonds**, <http://budapestbeacon.com/public-policy/offshore-companies-make-usd-185-million-on-sale-of-hungarian-residency-bonds/>
- **Hungarians fume over revealing tobacco scandal**, <http://www.brecorder.com/world/europe/124623.html>
- **Corruption Risks of the Nuclear Power Plant Investments: What Can We Expect in the Case of Paks II?** <http://www.crcb.eu/?p=738>
- **Fighting a government-assisted land grab with #peoplepower in Hungary**, <http://www.greenpeace.org/international/en/news/features/Fighting-a-government-assisted-land-grab-with-peoplepower-in-Hungary/>

²⁷ **Gov’t tax bill excludes VAT cut on food**, Politics.hu, 22.10.2013,

<http://www.politics.hu/20131022/govt-tax-bill-excludes-vat-cut-on-food/>

²⁸ **Húsáfa: feketézók lobbiznak a kormánynál** (Meat VAT: Black Marketeers Lobbying the Government), 21.10.2013, http://www.agrarszektor.hu/elemiszterpiac/elemzesek/husafa_feketezok_lobbiznak_a_kormanyal.3301.html (in Hungarian)

²⁹ **Innen is jöhet a magyar csoda** (*The Hungarian miracle might stem from here*),

<http://blog.defacto.io/post/123964424510/innen-is-johet-a-magyar-csoda>

Uniós pénzek nélkül egy nagy nulla a magyar gazdaság (*Without EU money the Hungarian economy would be a big zero*), 22.03.2016,

http://tenytar.blog.hu/2016/03/22/unios_penzek_nelkul_egy_nagy_nulla_a_magyar_gazdasag



same trick, and distribute in 2017 most of the EU money available for the funding period 2014-2020³⁰ (the next national elections will take place in 2018).

Enormous market distortion

It is in itself a serious problem that EU grants land in highly disproportionate numbers at persons and companies with close relations to the ruling political party, but even if this phenomenon would not exist, the way EU funds are being distributed would still be making a mess of Hungary's economy, and would contribute to the dismantling to democracy.

A large part of EU funds is given directly to individual companies. Generally, this occurs according to a scheme in which companies submit applications in order to gain public funds, and public officials decide which companies will obtain grants from such public funds, and how much. This method of the allocation of EU money seriously distorts the market and makes the prospects of any business unpredictable. Just one example, to clarify the situation. A substantial amount of EU money has been spent to support the construction of new hotels. This can clearly be interpreted by all persons and companies which had invested into the hotel business earlier with their own money and their own risk, that they made a mistake: it is not worth competing on the market for the costumers by better products and services, but they should vie for public funds instead. Moreover, such funding often leads to unnecessary spending of the taxpayers' money. In the given case, even the Hungarian Hotel Association expressed strong criticism of state subsidies for hotel construction, emphasising that existing hotels are often struggling for survival. Such results of EU funding are characteristic not only for the hotel industry but practically all sectors of the Hungarian economy.

Quite a number of leading Hungarian economists have warned about the distorting effects of EU funds.³¹ For example, Attila Chikán, professor at the Budapest Corvinus University and former Minister of Economy (during the first Orbán government, in 1998-1999) recently stated in an interview: *"We use EU funds with very low efficiency ... EU money is not valued, and not only in the public sphere: entrepreneurs often buy machines for which they have no or little need, and when we ask why they purchased them, they answer that it was for free."*³² Another professor of the same university, Dániel Deák came to similar conclusion: *"All surveys show that the use of the [EU] cohesion and structural funds have been a complete failure..."*³³

It is very disturbing that the European Commission's Guidance Document on Monitoring and Evaluation for the European Cohesion Fund and European Regional Development Fund for the Programming Period 2014-2020³⁴ recommends as the main indicator of progress "the number of enterprises receiving support" from EU funds. This means that according to the

³⁰ **Lázár looks to call tenders by June 2017 for 2014-2020 EU funding cycle**, Budapest Business Journal, 14.08.2015, http://bbj.hu/economy/lazar-looks-to-call-tenders-by-june-2017-for-2014-2020-eu-funding-cycle_102527

Minister János Lázár confirmed again during his press conference on 28 April 2016 that all EU funds for the period 2014-2016 will be allocated until 2018 (**Felpörög az uniós pénzszivattyú** [The EU money pump is accelerated], Index.hu, 28.04.2016, http://index.hu/belfold/2016/04/28/lazar_kormanyinfo/) This means that the government elected to be elected in April 2018, will have no chance of disposing with EU funds.

³¹ See some examples here: **Good Intentions Meet Reality: The Dire Consequences of Spending EU Taxpayers' Money in Hungary**. April 2013, http://www.levego.hu/sites/default/files/eu_budget_hungary_130404_final.doc

³² **„Magyarországon folyamatos lecsúszás van”** ("Hungary is in a state of permanent decline"), Népszabadság, 05.12.2015, <http://nol.hu/gazdasag/okok-es-rokonok-1578683>

³³ **„Jószerevével nincs olyan, akinek van valamije, és törvényes úton érte el”** ("Practically there is nobody who is wealthy and gained his/her wealth by legal means"), hvg.hu, 27.04.2016, http://hvg.hu/gazdasag/20160427_versenykepesseg_deak_daniel_interju_tokeimport_panama_papers_offshore

³⁴ **The Programming Period 2014-2020 – Guidance Document on Monitoring and Evaluation – Concepts and Recommendations**. European Commission, 2015, http://ec.europa.eu/regional_policy/sources/docoffic/2014/working/wd_2014_en.pdf



Commission, that country performs best where the market is most distorted, the business environment is most unpredictable, and the economy is characterised by the biggest chaos. The Operational Programmes of Hungary for the Period 2014-2020 also designate the number of enterprises receiving EU money as the most important indicator of progress...³⁵

All this has led to a situation, where practically no business circle or company steps up (at least not openly) against the new oligarchisation and the dismantling of democracy. The reason is obvious: all companies already either received or hope to receive in the future some public money some time, either directly or indirectly (as subcontractors of other companies).³⁶

How to remedy the situation

The Clean Air Action Group has already made concrete proposals to the European Commission to help remedy the situation described above.³⁷ Five Brussels based NGOs (European Federation for Transport & Environment, Transparency International EU Office, Green Budget Europe, ILGA Europe, and Greenpeace European Union) in a letter³⁸ to Commission President Jean-Claude Juncker in January 2015 also asked for urgent steps, proposing concrete measures.

Several of our proposals could be implemented by the Commission under the present EU rules. Others need changes in the EU legislation which fall beyond the Commission's competency. In the latter case, it is the Commission's duty to make proposals to the European Parliament and the Council.

The Clean Air Action Group proposes that the European Commission implement the following measures without delay:

1. In our opinion, the most important step to be taken is to suspend EU funding to Hungary until the Hungarian government implements all possible best practice measures to reduce corruption and other malfeasances. This is a measure that would fully comply with EU legislation: as we described above and in the Annex, the Hungarian government has been taking a long series of measures which makes it impossible for Hungary to comply with Article 30 and Article 59 (2) of the Financial Regulation³⁹ and Article 4 (8) of the Regulation (EU) No 1303/2013 of the European Parliament and of the Council on European Structural and Investment Funds⁴⁰ when spending EU funds. The European

³⁵ See: **Comments of the Clean Air Action Group on the Operational Programmes of Hungary for 2014-2020 submitted to the European Commission**. 28 August 2014, <http://www.levego.hu/sites/default/files/op-comments-caag-2014aug28v.pdf>

³⁶ For more detailed description of this situation, see e.g.: Papp József: **Orbán reménytelen harca** (*Orbán's hopeless fight*), <http://www.komment.hu/tartalom/20111118-velemen-y-orban-imffel-szembeni-harca-a-fidesz-kepmutatasa-miatt-remenytelen.html>

³⁷ **Comments of the Clean Air Action Group on the Operational Programmes of Hungary for 2014-2020 submitted to the European Commission**. 28 August 2014, <http://www.levego.hu/sites/default/files/op-comments-caag-2014aug28v.pdf> (see especially pp.11-13)

³⁸

http://www.transportenvironment.org/sites/te/files/2015%201%20Hungary_action_letter_Juncker_Timmermans_Cretu.pdf

³⁹ **Regulation (EU, Euratom) No 966/2012** of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002

⁴⁰ **Regulation (EU) No 1303/2013** of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European



Parliament also calls “for Article 325 TFEU to be implemented right across the spectrum of EU policies, and for action not just in response to cases of fraud but also to prevent them”.⁴¹

In our discussions with persons in the European Commission as well as with diplomats of donor EU countries, several arguments have been raised against such a move. However, we believe that these arguments are not well founded.

- **“Suspension of EU funds will further increase Euroscepticism.”** The aim is not to stop funding to Hungary for ever, but to suspend it until the necessary measures are taken by the Hungarian government. We strongly believe that suspending funding with possible renewal of funding based on strict conditionalities would greatly improve the credibility of the European Commission and help reduce Euroscepticism. Namely, it is the corrupt and irresponsible use of taxpayers’ money which is one of the most important drivers of Euroscepticism. Even pro-EU persons are already viewing with growing discontent that EU money is helping to promote a corrupt and anti-democratic system. (For example, Sándor Révész, a leading columnist of the most read—left-wing—Hungarian daily political newspaper wrote in 2014 the following: *“It is possible to make the taxpayers of countries conducting good policies pay for the price of bad policies in other countries, for example by the redistribution in the EU... The present parasite government is kept alive precisely by this.”*⁴² On 23 December 2015, the Editorial of the same newspaper stated: *“The Orbán regime has been openly and consequently destroying the fundamental institutions of liberal democracy. The taxpayers of liberal democracies are financing the feudal chain for this, and they finance everything which the regime presents as its own success, and they substitute the capital chased away.”*⁴³) Continuation of the present inaction and complacency by the Commission and donor Member States can be rightly considered as an encouragement of the corrupt and undemocratic policies of the Hungarian government.
- **“Suspension of EU funds will increase popularity of the extreme right-wing party Jobbik.”** It is corruption in the government and wide dissatisfaction with the government’s policies what made it possible for Jobbik to become the second largest political party in Hungary. (Jobbik just announced its “new war against corruption” — despite the fact that according to some media reports, Jobbik’s leaders are also involved in dubious affairs⁴⁴.) Therefore, in our opinion, any move that helps positively change the government’s policies would reduce Jobbik’s influence. Furthermore, most people know about Jobbik’s strong Euroscepticism; on the other hand 80 percent of Hungarian foreign trade is with EU countries, and 500,000 Hungarians who left Hungary during the last 25 years live mostly in other EU

Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006, Article 23

⁴¹ **European Parliament resolution of 8 March 2016 on the Annual Report 2014 on the Protection of the EU’s Financial Interests – Fight against fraud (2015/2128(INI)),**

<http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+P8-TA-2016-0071+0+DOC+PDF+V0//EN>.

Article 325(1) of TFEU (Treaty on the Functioning of the European Union): „The Union and the Member States shall counter fraud and any other illegal activities affecting the financial interests of the Union through measures to be taken in accordance with this Article, which shall act as a deterrent and be such as to afford effective protection in the Member States, and in all the Union’s institutions, bodies, offices and agencies.”

⁴² **A mosómedve pénze?** Népszabadság, 21.11.2014, <http://nol.hu/velemeny/a-mosomedve-penze-1499737>

⁴³ **Ellenpénz,** Népszabadság, 23.12.2015, <http://nol.hu/velemeny/ellenpenz-1581309>

⁴⁴ See, for example: **How the relatives of Jobbik’s leaders got on the party payroll,** DIREKT36, 02.03.2016, <http://www.direkt36.hu/en/2016/03/02/igy-fizet-a-vezetok-rokonainak-a-jobbik/>



countries, and generally have relatives and friends in Hungary. Among others, for these reasons it is very unlikely that Jobbik would be able to substantially increase its number of supporters.

- **“There is a lot of corruption and mismanagement also in other EU Member States. Why should Hungary be singled out?”** It is true that malfeasances in the government are widespread also in several other EU countries. However, if the Hungarian government argues this way, this in itself would affirm that the European Commission would make the right step if it will suspend EU funding to Hungary until the necessary measures are taken to reduce corruption. Moreover, misdeeds and illegal activities by others can in no case be accepted as a justification for any misdoings. Furthermore, it is very important to consider the tendency, i.e. the direction and the speed of changes; and this is just the most alarming in the case of Hungary. Bulgaria and Romania are often cited as countries which are similar to Hungary as far as corruption and anti-democratic governance are concerned. However, as Professor Kim Lane Scheppele from Princeton University rightly points out, “...both Bulgaria and Romania were let into the EU with asterisks. Neither country fully complied with EU criteria upon entry and both are still under the supervision of the EU Cooperation and Verification Mechanism to ensure their continued progress toward EU standards, which they have not yet met. Hungary, which sailed through without question into the EU more than 10 years ago, should not be in the same league with Bulgaria and Romania because it started off much farther ahead in its democratic performance. The [U.S.] congressmen were right that Hungary is no longer clearly ahead of Bulgaria and Romania, but the comparison is misleading. It’s not, unfortunately, because Bulgaria and Romania have gotten so much better. Instead it is because Hungary has gotten dramatically worse.”

Hungary would not be the first Member State for which strict requirements are imposed as a pre-condition of providing EU money. On 19 August 2015, the European Commission signed a Memorandum of Understanding (MoU) with Greece which specifies very strict and very concrete measures (including, for example, measures to combat corruption and tax fraud) which Greece must implement as a condition for receiving financial assistance of up to 86 billion EUR.⁴⁵
- **“Suspending EU funding would hurt the Hungarian economy and Hungarian people, making things even worse.”** Quite a number of persons are convinced that EU funding to Hungary under the present condition causes more harm than good. Moreover, these damages might haunt Hungary (and the whole EU, too) for decades to come, while the positive effects of the present EU funding is to a great extent only temporary. The sooner efficient steps are taken to combat the negative phenomena described in this paper (and many other documents, some of which are referenced in this paper), the easier (but not at all easy!) it will be to rectify the problems. Furthermore, it is certain that the Hungarian government would not risk losing the EU money. There have been similar threats already, and in each case eventually the Hungarian government gave in. For example, in 2012, the Hungarian government acted very quickly to make corrections after the Commission suspended EU funding to Hungary because of its excessive deficit.⁴⁶ In 2015, the Hungarian government

⁴⁵ Memorandum of Understanding between the European Commission acting on behalf of the European Stability Mechanism and the Hellenic Republic and the Bank of Greece, http://ec.europa.eu/economy_finance/assistance_eu_ms/greek_loan_facility/pdf/01_mou_20150811_en.pdf

⁴⁶ See: Excessive Deficit Procedure—Commission recommends abrogation of EDP for Bulgaria and Germany, lifting of Cohesion Fund suspension for Hungary, 30.05.2012, http://ec.europa.eu/economy_finance/articles/sgp/2012-05-30-edp_en.htm



capitulated⁴⁷ to the demands of the Norwegian government which had suspended development funds to Hungary in 2014 because the Hungarian government started ruthless harassment of NGOs receiving Norwegian funds. Commenting the final agreement between Norway and Hungary, Norway's minister of European affairs, Vidar Helgesen said: "Hungary accepted all the conditions. It pays-off to stand up for fundamental values. We are under so much pressure externally that it's even more important to ensure internally that we hold each other to account in Europe. The EU should take learning from that."⁴⁸

2. As an alternative to the above, it might be expedient also that the Commission exercise its right to start the process defined in Article 23 of the Regulation (EU) No 1303/2013 of the European Parliament and of the Council⁴⁹ in order to ensure the best use of European Structural and Investment (ESI) Funds in Hungary. (Article 23(1) states: "The Commission may request a Member State to review and propose amendments to its Partnership Agreement and relevant programmes, where this is necessary to support the implementation of relevant Council Recommendations or to maximise the growth and competitiveness impact of the ESI Funds in Member States receiving financial assistance." Article 23(6) states: "Where the Member State fails to take effective action in response to a request made [by the Commission] ... the Commission may... propose to the Council that it suspend part or all of the payments for the programmes or priorities concerned.")
3. The Commission should require strict implementation of the European code of conduct on partnership in the framework of the European Structural and Investment Fund⁵⁰. (According to the Code, the governments of the member states must closely cooperate with "bodies representing civil society at national, regional and local levels throughout the whole programme cycle consisting of preparation, implementation, monitoring and evaluation." However, the Hungarian government has been doing just the opposite.⁵¹)
4. In the Treaty of Accession⁵², all EU Member States declared the following: "Our common wish is to make Europe a continent of democracy, freedom, peace and progress. The Union will remain determined to avoid new dividing lines in Europe and to promote stability and prosperity within and beyond the new borders of the Union. We are looking forward to working together in our joint endeavour to accomplish these goals." In our understanding, this means that all Member States will improve their legislative and institutional systems as much as possible in order to achieve these goals, but at least they will refrain from any

⁴⁷ **Norway ends boycott of funds to Hungary**, Reuters, 10.12.2015, <http://www.reuters.com/article/us-norway-hungary-funding-idUSKBN0TT1YR20151210>

Hungary quietly capitulates to Norway's demands, The Budapest Sentinel, 23.12.2015, <http://budapestsentinel.com/featured/hungary-quietly-capitulates-to-norways-demands/>

⁴⁸ **Orbán backs down in battle with NGOs—Hungarian prime minister agrees to end dispute with Norway over development aid**, Politico, 12.10.2015, <http://www.politico.eu/article/orban-backs-down-in-battle-with-norwegian-ngos/>

⁴⁹ **Regulation (EU) No 1303/2013** of the European Parliament and of the Council of 17 December 2013 laying down common provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund, the European Agricultural Fund for Rural Development and the European Maritime and Fisheries Fund and laying down general provisions on the European Regional Development Fund, the European Social Fund, the Cohesion Fund and the European Maritime and Fisheries Fund and repealing Council Regulation (EC) No 1083/2006, Article 23

⁵⁰ **Commission Delegated Regulation (EU) No 240/2014** of 7 January 2014

⁵¹ For more details see: **Comments of the Clean Air Action Group on the Operational Programmes of Hungary for 2014–2020 submitted to the European Commission**. 28 August 2014, <http://www.levego.hu/sites/default/files/op-comments-caag-2014aug28v.pdf> (pp. 9–10).

⁵² **The Treaty of Accession 2003 of the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Hungary, Malta, Poland, Slovenia and Slovakia Signed in Athens on 16 April, 2003**. Some years later, Bulgaria, Romania and Croatia also joined the EU with the same commitment.



backward measures. Therefore, it must be stipulated that Member States repeal all legislative and institutional measures that have been adopted by the given Member State since its accession to the EU which contradict the principle of non-retrogression as far as the “working together in our joint endeavour to accomplish these goals” are concerned.

5. Communication by the European Commission should be substantially improved. Among others, the Commission should require that the Hungarian government give unbiased information about the declarations and measures of the Commission.⁵³
6. The Commission should also take more seriously its own Code of Good Administrative Behaviour⁵⁴, especially the following: “A reply to a letter addressed to the Commission shall be sent within fifteen working days from the date of receipt of the letter by the responsible Commission department.”
7. It would be also very important to provide more support to organisations combating corruption, fraud and mismanagement. In this relation, probably the most efficient step would be to give substantial financial support to the Whistle-blower Fund⁵⁵ created recently by Transparency International Hungary and three other NGOs.
8. The Commission should not permit any EU funding for projects which could be financed by the user. No funding should be permitted in cases where there is a violation of the “polluter pays” principle.
9. The Commission should start revising the Guidance Document on Monitoring and Evaluation for the European Cohesion Fund and European Regional Development Fund for the Programming Period 2014-2020⁵⁶ in consultation with civil society representatives and other stakeholders.
10. The Commission should start consultation on the reform of the system of using ESI funds. In our opinion, such a reform should include, among others, the following:
 - a) The fulfilment of the National Reform Programme (NRP) and of the Country-Specific Recommendations should be the main criteria for the assessment of the efficiency of the use of ESI funds, and not the success or failure of individual projects or group of projects.
 - b) The indicators in the NRP should be substantially improved. Further well measurable indicators showing the progress should also be applied (for example, the Innovation Union Scoreboard, the results of PISA⁵⁷, the change in the GINI Index, and the change in healthy life years). It is absolutely necessary that these should be indicators on national level, and not only for projects financed by the EU. The indicators should be as SMART (specific, measurable, attainable, realistic and timely) as possible. These indicators should be priorities, and if they are not fulfilled the Commission must start the process described in p. 2 above (i.e. in accordance with Article 23 of the Regulation (EU) No 1303/2013 of the European Parliament and of the Council).

⁵³ The Hungarian government regularly misinforms the public about the intentions of the European Commission. Here we provide just one example. When the Commission refused to permit Hungary to introduce reverse VAT for meat products, the Hungarian government accused the Commission of hindering the fight against VAT fraud. At the same time, it did say a word about the legitimate concerns of the Commission.

⁵⁴ **Code of Good Administrative Behaviour, Relations with the public.** European Commission, http://ec.europa.eu/transparency/code/docs/code_en.pdf

⁵⁵ See: <http://beved.hu/english/>

⁵⁶ **The Programming Period 2014-2020 – Guidance Document on Monitoring and Evaluation – Concepts and Recommendations.** European Commission, 2015
2015 http://ec.europa.eu/regional_policy/sources/docoffic/2014/working/wd_2014_en.pdf

⁵⁷ The OECD’s Programme for International Student Assessment



- c) In cases where no concrete indicators can be worked out, it should be required that the Member State apply the best practice possible (e.g. concerning legislative and institutional measures to combat corruption and tax fraud).
- d) The indicators (priorities) must be worked out in a transparent process, involving all stakeholders, and providing for these stakeholders the necessary means for meaningful participation, in accordance with the Code of Conduct.
- e) The Commission must also have the capacity to control whether Member States meet the indicators in all policy areas. Capacity could be freed up by eliminating EU control of individual projects and programmes (see below).
- f) The Commission should have the right to decide only about funding of those individual projects which have international dimensions (international research programs, cooperation of NGOs, etc.).
- g) The EU should give all EU funds, destined for national purposes, directly to the national governments, without any requirements for the concrete use of these funds, i.e. each national government should decide that for itself. The European Commission should not deal with controlling individual projects or groups of projects; at the same time, it should control much more strictly the overall performance of the country. (This would be all the more reasonable also because the Commission staff does not have the capacity to look at individual projects in detail, and properly discuss them with the national authorities, so tasking the Commission with controlling projects is asking the impossible.)

We strongly believe that it is absolutely necessary to provide EU funds to the less developed Member States with the purpose of bringing up their economic and also political level of stability in order to strengthen the whole EU and make EU much more competitive globally. However, in order to achieve this, EU taxpayers' money must be used for this purpose, and not to the contrary.

András Lukács
President of Clean Air Action Group

Budapest, 15 April 2015
 Latest update: 1 May 2016

Clean Air Action Group, founded in 1988, is a national association of Hungarian environmental NGOs. It is a member organisation of the Climate Action Network Europe, European Environmental Bureau (EEB), European Federation for Transport and Environment (T&E), and Green Budget Europe.



ANNEX**Some Examples of State Capture in Hungary**

In 2012, Transparency International (TI) Hungary stated: “Powerful Hungarian interest groups are able to extract public money from the system through intentionally designed and professionally managed corrupt networks.”⁵⁸ In January 2014, TI Hungary published a report⁵⁹ which confirmed that *“it can be considered a fact that there is a corrupt interaction between certain business groups and the political sphere.”* Another report of TI Hungary, published in October 2014, came to the following conclusion: “In the current Hungarian situation state capture is combined with cronyism. In this special type of state capture, the extensive and expansive state has been in symbiosis with some powerful business groups and oligarchs. ... Corruption, similar to the overall structures of the public sector, has an extremely centralized character in today’s Hungary. It comprises the elimination of independent state institutions, the almost total abolishment of checks and balances, some violation of private ownership rights and also the rise of rent-seeking behavior and actions.”⁶⁰

An excellent and very detailed description of the whole mechanism of state capture in Hungary is provided in the book “Post-Communist Mafia State: The Case of Hungary”⁶¹ by sociologist Bálint Magyar. (He served as minister of education between 2002 and 2006, and was a member of the Hungarian Parliament from 1990 until 2010.)

Reports of the European Court of Auditors state that there is a high risk of fraud in Hungary.⁶²

According to a study commissioned by the Hungarian Public Procurement Authority, corruption is linked to 65-75% of all public procurement cases in Hungary.⁶³ A substantial proportion of EU funds are allocated through public procurement.

A report⁶⁴ by the Corruption Research Center Budapest, published in February 2016, comes to the following conclusion: “According to the results of the period 2009-2015, HPP [Hungarian public procurements] are characterised by weakening competition, the increasing number of procurements without competition, weakening transparency and rising tendency of

⁵⁸ **Post-Communist Institutions Failing to Stop Corruption in Visegrad Countries – New Study on Corruption Risks in the Czech Republic, Hungary, Poland and Slovakia**, http://www.transparency.org/news/pressrelease/20120726_post_communist_institutions_failing_to_stop_corruption

⁵⁹ **Mit választunk? Az intézményrendszer és a költségvetés átláthatósága Magyarországon** (*What will we choose? The transparency of the institutional system and the budget in Hungary*), http://mitvalasztunk.hu/images/MitValasztunk_Az_intezmenyrendszer_es_a_koltsegvetes_atlathatosaga_Magyarorszag.pdf

⁶⁰ **Lifting the Lid on Lobbying: National Report of Hungary – Lobbying in an Uncertain Business and Regulatory Environment**, http://www.transparency.hu/uploads/docs/lobbi2014_web_eng.pdf

⁶¹ The book is available in English, published by Central European University Press.

⁶² See for example: http://www.eca.europa.eu/Lists/ECADocuments/PL14_AR13/PL14_AR13_EN.pdf, p. 31

⁶³ **A korrupció és a közbeszerzési korrupció Magyarországon**, GKI Gazdaságkutató Zrt., http://kozbeszerzes.hu/static/uploaded/document/Korrupci%C3%B3s_k%C3%B6zbeszerz%C3%A9si_kutat%C3%A1s_Magyarorsz%C3%A1gon_I._k%C3%B6tet.pdf

⁶⁴ **Strength of competition and corruption risks. Statistical analysis of Hungarian public procurement – 2009-2015. Data and descriptive statistics**. Corruption Research Center Budapest, February 2016, <http://www.crcb.eu/?p=943>

See also: **Corruption Research Center’s analysis of Hungarian public procurement practices**, Hungarian Spectrum, 10.04.2016, <http://hungarianspectrum.org/2016/04/10/corruption-research-centers-analysis-of-hungarian-public-procurement-practices/>



price distortion and corruption risks. The EU funded procurements have worse results in case of corruption risks, strength of competition, transparency, than the Hungarian funded ones. The former ones are characterised by weaker competition, lower transparency, higher level of price distortion and higher corruption risks.”

According to “Open Budget Survey 2015”⁶⁵ the level of fiscal transparency and participation in Hungary is worse even than in such countries as Kazakhstan, Azerbaijan and Bangladesh.

According to the “The Global Competitiveness Report 2013–2014”⁶⁶ as far as transparency of government policymaking is concerned, Hungary ranks 132nd among the 148 countries surveyed.

Dávid Jancsics, co-author of the study “The Role of Power in Organizational Corruption: An Empirical Study” (Winner of the 2014 Best Article Award from the Public and Nonprofit Division of Academy of Management in the United States) stated in an interview⁶⁷ in 2014 that “there was a qualitative leap with the government change of 2010 when Fidesz became the governing power. In theory, corruption is a secret agreement that circumvents the existing rules, but now—by contrast—the rules and the structure of the state are tailored to fit the corrupt transactions. In the previous era the networks of strong economic and political actors were tied in into police organizations, the prosecution or the National Tax and Customs Authority, by which the controls could be switched off in some cases. Now that Fidesz has set the large controlling organizations and the ‘independent’ branches of power to manual control, they also switched this control completely off. There is no need for such ‘arranging persons’ or middlemen anymore, because the system itself is in an almost continuous switched-off state, and this fact imposes a huge risk of corruption.”

One of the cases which underpin the above statements and which received wide attention even from the pro-government media was the scam disclosed by a former employee of the National Tax and Customs Authority (NAV), András Horváth, who pointed out to the relation between the enormous VAT fraud (amounting to 3 to 4 % of the GDP) and corruption at the highest governmental level.⁶⁸ Later, his statements were confirmed by István Vancsura, former head of department at NAV⁶⁹, and Zsolt Hegedűs-Deme, former director of NAV’s Special Affairs Directorate⁷⁰. It is to be underlined that the President of NAV, Ildikó Vida has been a close associate of Lajos Simicska, the oligarch mentioned above. It is also to be noted what a former director of NAV, Zsolt Hegedűs-Deme said, among others, during his 90-minute testimony as a witness for the defense in a lawsuit filed by NAV’s chief investigator, Marianna Dávida against two opposition newspapers (Népszabadság and Népszava). He told the court that he was dismissed from his high position when he disagreed with his superiors who ordered him to drop a case in which NAV auditors established a tax liability of HUF 40 billion (more than EUR 130 million) at a certain company. Despite his extremely high qualifications, since that time he has been working as tax inspector at the lowest level (controlling whether invoices are given to customers in small shops). According to his

⁶⁵ **Open Budget Survey 2015**. International Budget Partnership,

⁶⁶ **The Global Competitiveness Report 2013–2014**. World Economic Forum, http://www3.weforum.org/docs/WEF_GlobalCompetitivenessReport_2013-14.pdf

⁶⁷ “Fidesz has set the large controlling organizations and the independent branches of power to manual control”, <http://english.atlatszo.hu/2014/09/20/fidesz-has-set-the-large-controlling-organizations-and-the-independent-branches-of-power-to-manual-control/>

⁶⁸ For details in English see: <http://www.levego.hu/en/campaigns/vat-fraud-and-corruption-scandal>

⁶⁹ **Whistleblower accuses government of emasculating Hungary’s tax authority (NAV)**, The Budapest Beacon, 28.03.2014, <http://budapestbeacon.com/public-policy/whistleblower-accuses-government-of-emasculating-hungarys-tax-authority-nav/6046>

⁷⁰ **Former tax inspector says Hungary’s tax authority is lying**, The Budapest Beacon, 03.04.2015, <http://budapestbeacon.com/public-policy/former-tax-auditor-says-hungarys-tax-authority-is-lying/21403>



testimony, when he tried to ask to be given a higher level job at NAV, he was told informally that Zsolt Nyerges (the closest business partner of Lajos Simicska, who, together with Lajos Simicska, has built a veritable media empire during recent years) declared: “*Zsolt Hegedűs-Deme will never be employed in any leading position at NAV*”. (Zsolt Hegedűs-Deme has never met Zsolt Nyerges personally.)

One of the main areas prone to corruption are EU funds. According to the 2015 study by Transparency International Hungary, “Corruption risk of EU funds in Hungary”⁷¹, EU projects are regularly overpriced in a centralised manner.

A former Fidesz representative in the city council of Szekszárd, Ákos Hadrázy, who had left Fidesz when he realized the enormous and systematic corruption managed by Fidesz, and became anti-corruption spokesman of the Green Party LMP stated in a recent interview: “A well constructed criminal syndicate is stealing EU funds in Hungary. The rules were systematically changed by the Fidesz government over the past few years. They dismantled the system of checks and balances and created a state system for their corrupt matters. ... The Fidesz government knows perfectly well that it can do this boldly, because there is no state apparatus that could control the expenditure of billions. (When the next tranche of EU funds runs out) there will be little point to controlling the government, as there will hardly be anything with which to finance the country.”⁷²

The 2013, 2014 and 2015 Country-Specific Recommendations for Hungary urged the Hungarian government to take serious steps against corruption practices. However, this did not prevent the government from going along its path: the Parliament and the Government continued to adopt laws and decrees that greatly enhance the risk of corruption. Examples of such law-making are the following:

1. The new Civil Code adopted by the Parliament in February 2013 (and which entered into force in March 2014), repealed the previous regulation which banned users of state budgets and public funds to declare their expenses and details of their financial management a business secret.⁷³ True, this regulation was in principle later offset by the amendment to the law on freedom of information which re-adopted the ban on declaring the use of state budgets and public funds a business secret; however, it still remains to see how these contradicting laws will function in the practice.
2. An amendment to the law on freedom of information (Act CXII of 2011) adopted by the Hungarian Parliament in April 2013 all but ensures that the Government operates in complete darkness. According to the amendment, citizens are forbidden to come up with requests that demand “overarching, invoice-based,” or “itemized” audit of the

⁷¹ **It is Now Integral to the System: EU Projects are Overpriced.** TI Hungary, 09.11.2015, http://transparency.hu/It_is_now_integral_to_the_system_EU_projects_are_overpriced?bind_info=index&bind_id=0

A good article on the topic with wider outlook: **Transparency International: Systemic government corruption in Hungary**, <http://hungarianspectrum.org/2015/11/10/transparency-international-systemic-government-corruption-in-hungary/>

⁷² **The Fidesz crime syndicate**, The Budapest Sentinel, 11.02.2016, <http://budapestsentinel.com/interviews/the-fidesz-crime-syndicate/>

See also:

Guide book to embezzlement of European Union subsidies. Hungarian Spectrum, 29.01 and 30.01.2016, <http://hungarianspectrum.org/2016/01/29/guide-book-to-embezzlement-of-european-union-subsidies-part-i/> <http://hungarianspectrum.org/2016/01/30/guide-book-to-embezzlement-of-european-union-subsidies-part-ii/>

⁷³ See: **New Civil Code: public fund contracts are to become inaccessible**, Transparency International Hungary, 16.08.2012, http://www.transparency.hu/New_Civil_Code_public_fund_contracts_are_to_become_inaccessible



“management of a public authority.”⁷⁴ The amendment was rammed through Parliament at breakneck speed in two days and at a conspicuous time when major NGOs and news portals were about to ask for the bids in a tender for tobacco retail licenses, which reportedly went to stakeholders, affiliated to Fidesz. According to atlatso.hu, portal of a foundation of investigative journalists, “with this law, corruption turns into business as usual and discussions will be silenced”.⁷⁵ Transparency watchdog NGOs vocally criticized the amendment, claiming that it allows state institutions with data management responsibilities excessive latitude to reject requests for public information. On April 30, 2013, five NGOs (including Transparency International Hungary, K-Monitor, and Hungarian Civil Liberties Union) announced the termination of their membership on the government’s anticorruption working group, arguing that all governmental anticorruption measures now lack credibility.

3. Act LXXIV of 2010 amending the general law on Public Budget, accepted in July 2010, no longer regards the contracts of companies with majority state-ownership as being information of public interest.⁷⁶
4. Act CXV of 2013 adopted by the Parliament on 21 June 2013 sets down rules for the so-called Stability Savings Account (SSA). In practice, it provides for tax amnesty in a way that it makes it practically possible for many rich criminals to get away with their crimes without any consequences for them. Namely, if anyone buys state bonds for HUF 5 million (this equates to an average net wage of about three years) or more, no authority has the right to investigate where he/she got that money from.⁷⁷ Furthermore, the Parliament also decided that this law can be changed only with at least two-thirds majority, which means that it will be nearly impossible to repeal it even if a new government came to power.

Act LXXII of 2015 relating to the 2016 Public Budget, adopted by the Hungarian Parliament in June 2015, makes the selling of the state bonds bought under the SSA rules much easier than before, and greatly reduces the tax on them.⁷⁸

The whole arrangement can hardly be explained any more by the reasoning used by the government: bringing home money kept abroad. Namely, according to István Karagich, Managing Director of BloChamps Capital Ltd, the SSA is generally not used to bring money to Hungary, but just the opposite: it is used for whitewashing money in Hungary, and afterwards this money is transferred abroad.⁷⁹

⁷⁴ **Transparency International Turns to Higher Authorities** 03.07.2013,

http://transparency.hu/Transparency_International_turns_to_higher_authorities

⁷⁵ See: **The coming dark age of democratic governance in Hungary**, *Átlátszó*, 08.05.2013,

<http://atlatso.hu/2013/05/08/the-coming-dark-age-of-democratic-governance-in-hungary/>

⁷⁶ **A kormány törvényjavaslata az állami vállalatok gazdálkodásának nyilvánosságát veszélyezteti** (*The bill submitted by the government puts into danger the public access to data on the management of state-owned companies*),

http://transparency.hu/A_Kormany_torvenyjavaslata_az_allami_vallalatok_gazdalkodasanak_nyilvanossagat_ve_szelyezteti?bind_info=index&bind_id=0

⁷⁷ See: **White Collar Crime – Hungary. The stability savings account: a boon for money launderers?**

International Law Office, 19.08.2013,

<http://www.internationallawoffice.com/newsletters/detail.aspx?g=a5b1f892-734f-45d0-890a-21502b9fc4d1>

⁷⁸ See: **Az adócsalók kedvében jár a kormány** (*The government is pleasing tax fraudsters*),

http://hvg.hu/gazdasag/20150601_Olcsobb_lesz_az_adocsalas

⁷⁹ **Ennyi pénzt menekítettek külföldre a gazdag magyarok - ez lehet a vagyonok sorsa** (*This much money was refuged abroad by rich Hungarians – this might be the fate of fortunes*),

http://www.napi.hu/magyar_vallalatok/ennyi_penz_t menekitettek_kulfoldre_a_gazdag_magyarok_ez_lehet_a_vagyonok_sorsa.600310.html

720 take advantage of Hungary tax amnesty in 2015, *The Budapest Beacon*, 04.02.2016,

<http://budapestbeacon.com/public-policy/720-take-advantage-of-hungary-tax-amnesty-in-2015/31741>



5. The same Act LXXII of 2015 also makes the public budget less transparent: it declares that data “of strategic importance” relating to the financing of the public budget and its debt management will not be public for 2 years.⁸⁰
6. According to Act XXXIII of 2014 accepted by the Parliament on 4 July 2014 affiliated companies do not have to sell their products or services at market prices any more if they are affiliated to the state or the local government. This means that a private company affiliated to a company partly owned by the state or a local government could receive payments for its assets from the latter without any restrictions. This way bribery becomes very easy and practically legal.⁸¹
7. In December 2014, the Hungarian Parliament adopted Act XCIX of 2014 on the financial foundation of Hungary’s 2015 state budget. This Act significantly restricts the level of publicity regarding the use of domestic public funds and repeals certain rules on the conflict of interests. The government submitted the respective proposals to the Parliament hidden in a 194-pages long bill without explaining a single word about the contents. Previously an association, a union or a religious group was not eligible for state funds if it had concluded (or maintained) a co-operation agreement with a political party in the preceding five year period, or one that has delegated a candidate at the parliamentary elections, the local governmental elections or the European Parliamentary elections jointly with a party. According to the new law these organizations are now eligible for applying for tenders and benefiting from state support—a fair Christmas present for those non-governmental organizations that have delegated candidates jointly with the ruling party, Fidesz, as well as for those organizations which co-operate with Fidesz in the framework of a formal co-operational agreement. Previously, public officials who were not excluded from tenders (among others, MPs, Members of the European Parliament, mayors and local government representatives, as well as leaders of the central state administration bodies), the staff members of the state aid body who do not take part in decision-making, furthermore their relatives and their companies had to declare their involvement, which was made public on the respective websites. The new statutory provision abolished this rule, and thus makes it impossible to learn if the successful candidate is a person related to the MP of the region or if it is the MP’s company, or even himself/herself. Parallel to this, the sanctions are also terminated.⁸²
8. In December 2014, the Hungarian Parliament also adopted Act XCII of 2014 on certain public funding related rules, which says that “*in connection with the management of professional sports associations the requirements of dissemination of data of public interest as defined in Act CXII of 2011 on Freedom of Information may be complied with by a summarized data content dissemination in the case of non-state and non-local governmental subsidies*”. As the legal regulations provide the possibility for companies

Bűnöző vagy, és nehezen férsz hozzá a pénzedhez? Az állam segít! (*Are you a criminal and you have difficulties in accessing your money? The state will help you!*), <http://444.hu/2016/02/08/bunozo-vagy-es-nehezen-fersz-hozza-a-penzedhez-az-allam-segit>

⁸⁰ **Újabb határozott lépéseket tesz a kormány az átláthatatlanság irányába** (*New decisive steps by the government towards intranparency*), <http://444.hu/2015/05/20/ujabb-hatarozott-lepeseket-tesz-a-kormany-az-atlathatlansag-iranyaba/>

⁸¹ A detailed description of the detrimental effects of the new law (in Hungarian): **Törvényesített korrupció – Az állami tulajdonú cégek egyszerű kifizetőhelyek lehetnek.** (Corruption legalised – State owned companies might become simple pay-offices). Népszabadság, 14 June 2014, <http://nol.hu/gazdasag/torvenybe-irna-a-korrupciot-a-kormany-1467809>

⁸² See: **New Hungarian laws further restrict the media**, <http://english.atlatszo.hu/2015/01/12/new-hungarian-laws-further-restrict-the-media/>



to make tax deductions from their company tax by the amount that they donate to sport associations, this law creates new obstacles for those who would like to know exactly how much donation the sport associations favoured by Prime Minister Viktor Orbán receive. Transparency International Hungary and other civil society organisations harshly criticized this law right from the beginning, with no impact.⁸³

9. At the end of 2012 the Hungarian Parliament adopted an amendment of Act II of 2007 on the Admission and Right of Residence of Third-Country Nationals. According to the amendment, proposed by Fidesz caucus leader, Antal Rogán, non-European Union businessmen wishing to obtain a permit to settle in Hungary (and thus move freely about the EU) can do so by buying at least EUR 300,000 of so-called residency bonds from the Hungarian State Debt Management Center (ÁKK). However, investors may not purchase the bonds directly from the Hungarian treasury but from a “broker” approved by the Economics Committee of the Parliament, at that time chaired by none other than Rogán (since October 2015, Rogán is Minister of the newly-formed Prime Minister’s Cabinet Office). Even according to modest calculations, the “brokers” concerned have made an estimated HUF 51 billion (about EUR 163 million) during the first 18 months—all at the expense of the Hungarian taxpayers.⁸⁴ According to a research paper of the Corruption Research Center Budapest, “the residence bond legislation is an example of the violation of the rule of law, of its connection with rent-seeking, and of possible appearance of political corruption. This case is a clear manifestation of what form, what special means, and what consequences political favoritism and political corruption can have and can operate within a given country.”⁸⁵
10. A 2014 evaluation report⁸⁶ on the Hungarian Scientific Research Fund (OTKA) made by the European Science Foundation (ESF) stated the following: “The ESF Evaluation Committee observed the commitment and enthusiasm of OTKA staff to developing the country’s research and scientific infrastructure. The Committee was very impressed by the high quality of its programme design and leadership as well as the engagement and support of the research community.” However, Act LXXVI of 2014, announced in December 2014, which had been proposed to the Parliament without any consultation whatsoever with the stakeholders, and adopted by the Parliament within an extremely short time, abolished OTKA. Instead, as of January 2015 a large new agency, headed by József Pálinkás, a former Fidesz MP, makes decisions about research grants, and these decisions will have to be approved by Pálinkás himself. This change has been widely

⁸³ See: **Gratulálunk a kormánynak** (*Congratulations to the government*),

http://korrupcio.blog.hu/2014/12/16/gratulalunk_a_kormanynak

TI: Corporate donations to sports clubs in Hungary pose high corruption risk, The Budapest Beacon, 22.10.2015, <http://budapestbeacon.com/public-policy/ti-corporate-donations-to-sports-clubs-in-hungary-pose-high-corruption-risk/28571>

⁸⁴ **Offshore companies make USD 185 million on sale of Hungarian residency bonds**,

<http://budapestbeacon.com/public-policy/offshore-companies-make-usd-185-million-on-sale-of-hungarian-residency-bonds/18802>

The Hungarian state gave them a good business. Now they own luxury apartments in Budapest, Direkt 36, 21.01.2016, <http://www.direkt36.hu/en/2016/01/21/az-allamtol-kaptak-egy-jo-uzleti-lehetoseget-most-luxuslakasai-k-vannak-az-andrassy-uton/>

Offshore brokers pocket HUF 74 billion from sale of Hungarian settlement bonds, The Budapest Beacon, 14.01.2016, <http://budapestbeacon.com/public-policy/offshore-brokers-pocket-huf-74-billion/31054>

⁸⁵ **Rent Extraction and the Rule of Law – The Case of Hungarian Residence Bonds’ Law**, Corruption Research Center Budapest, 25.06.2015, http://www.crcb.eu/wp-content/uploads/2015/06/research_note_2015_residence_bonds_law_150625.pdf

⁸⁶ **Organisational Evaluation of the Hungarian Scientific Research Fund (OTKA) – Evaluation Report**. European Science Foundation, November 2014, http://www.esf.org/fileadmin/Public_documents/Publications/otka_evaluation_01.pdf



criticised by scientists, but to no avail.⁸⁷ It is feared that much of the HUF 750 billion (about EUR 2.5 billion) of EU funds to be allocated for R&D during the period 2014-2020 will land in the hands of persons close to Fidesz without much attention to the scientific value of the projects funded.

11. Hungary concluded an agreement with Russia according to which Rosatom will build new nuclear power blocks in Paks, Hungary, and Russia provides for this purpose a loan of 10 billion Euros. This was incorporated in Act II of 2014 and Act XXIV of 2014, which also classified as secret practically all important information about the investment for 15 years. In March 2015, the Parliament approved a new law according to which this period was raised to 30 years. According to a study⁸⁸ by Corruption Research Center Budapest this classification substantially raises corruption risks related by the investment, and might increase the investment cost by up to 2 billion Euros. (By now, due to interventions by the European Commission the whole planned investment might have to be halted.)⁸⁹
12. Act CVII of 2011 on Public Procurement, which entered into force on 1 January 2012 does not apply to procurement that concerns classified data, and the fundamental security and national security interests of the country. Since that time, the government has declared quite a number of public investments “national security investments”. A conspicuous example was the implementation of the distance-based road toll for trucks: the government nullified the results of the open public procurement, and afterwards it declared that the investment falls under national security provisions, and a certain company was commissioned in secret to carry out the task worth several tens of billions of Forints.
13. An often used tactic of the government is qualifying any investment as “priority investment” which means that (according to the laws on priority investments) much of the general legislation which might decrease the risk of corruption does not apply to these investments. Quite a number of projects (including projects financed by the EU) have been qualified by the government and the Parliament as “priority project of national economic interest”. The “procedure of the priority projects lack strict and transparent regulation and conditions for their application. It leads to an overwhelming presence of priority projects, unfair preference of certain organizations, non-transparent allocation of resources, and misuse of Funds ... The application procedure of priority projects differs profoundly from that of the grant schemes. Not only does it lack open competition among different applicants, but its single eligible applicant shall in fact take part in the preparation of the call for application. Contrarily to the grant schemes, calls for priority projects are not subject to public consultations.”⁹⁰ The individual laws on various “priority projects” set out the details of the project concerned, which means that practically no room is left for local governments, NGOs and citizens to have any influence on these projects. Many of the priority projects are highly controversial from

⁸⁷ See, for example: **Kertesz, Colleague Raise Concerns About Hungarian Research Grant Agency’s Loss of Autonomy**, <http://www.ceu.edu/article/2014-12-19/kertesz-colleague-raise-concerns-about-hungarian-research-grant-agencys-loss>

⁸⁸ **Az atomerőmű-beruházások korrupciós kockázatai: mire számíthatunk Paks II esetében?** / *The Corruption Risks of the Nuclear Power Plants: What Can We Expect in Case of Paks II?* A tanulmányt a Korrupciókutató Központ Budapest (CRCB) kutatócsoportja készítette az Energiaklub Szakpolitikai Intézet és Módszertani Központ megbízásából, 2014. október,

http://energiaklub.hu/sites/default/files/korrupcios_kockazatok_paks.pdf

Summary in English: http://www.energiaklub.hu/sites/default/files/executive_summary_corruption.pdf

⁸⁹ See: <http://www.pakskontroll.hu/en>

⁹⁰ **EU Funds Watch Project**, Hungary, 2013 June. Transparency International Hungary, http://transparency.hu/uploads/docs/final_report_hungary.543.pdf



economic, social and/or environmental aspects. An example of such projects is the relocation of national museums from the Castle District to the City Park (Városliget) in order to make room for the Prime Minister's Office in the Castle District; according to a representative opinion poll, the overwhelming majority of Budapest residents oppose the project⁹¹. Another example is the construction of a "nostalgia railway line" to Viktor Orbán's home town. Even a tire recycling factory to be built by a private company in Százhalombatta was qualified as a priority investment—evidently because it was feared that the local residents would take legal steps against the investment (even so, the investment did not materialize due to strong public protests⁹²).

14. It is very difficult to prove corruption. This is mainly because witnesses are not easy to come by. It happens extremely rarely, for example, that a contractor who gives a public officer a kickback is going to come forward and confess that he did that. Furthermore, in Hungary (just as in most countries) there is no efficient whistle-blower protection. At the same time, it can be often observed that activities behind which one can justly suspect corruption, violate also other rules (e.g. environmental or building regulations). Therefore—besides good environmental and other regulation and vigilant civil society—efficient environmental, public health and other authorities are indispensable for combatting corruption. These authorities in Hungary have never been strong, but since 2003 they have been gradually weakened further. This process greatly accelerated since 2010, and recent measures eroded their capabilities to a catastrophic extent:
- a) In 2015, the already malfunctioning environmental and nature conservation authorities lost even their relative independence by integrating them into regional government offices. All heads of the regional environmental directorates were dismissed as well as a number of other experienced, highly qualified employees; some of them decided by themselves to leave the authorities. At the same time the rules regarding environmental permit processes were substantially weakened.⁹³
 - b) Act C of 2015 on the 2016 on public budget, adopted by the Parliament in June 2015, prevised a nearly 50 % cut in expenditures for environment and nature protection, including a substantial reduction of the expenditures for environmental and nature protection authorities.⁹⁴
 - c) Act LXXIX of 2015 adopted by the Parliament in June 2015 makes practically meaningless the participation of environmental authorities as well as environmental NGOs in the permission process for road construction.⁹⁵
15. The Hungarian government is continuing its practice of tailoring laws in a way that benefits persons and companies with close ties to Fidesz. Here we provide three recent

⁹¹ **A budapestiek elutasítják a Városliget beépítését** (*The residents of Budapest disagree with the planned constructions in the City Park*), 23.02.2016, <https://www.levego.hu/hirek/2016/02/a-budapestiek-elutasitjak-a-varosliget-beepiteset>

⁹² **Nem lesz gumifeldolgozó Százhalombattán** (*There will be no tire recycling plant in Százhalombatta*), Greenfo.hu, 31.01.2016, <http://greenfo.hu/hirek/2016/01/31/nem-lesz-gumifeldolgozo-szazhalombattan>

⁹³ See:

- **2015. április 1. - a környezetvédelem halála** (*1st April 2015: The death of environmental protection*), <http://www.greenfo.hu/hirek/2015/04/01/2015-aprilis-1-a-kornyezetvedelem-halala>
- **Béke poraidra, környezetvédelem?** (*Peace to your ashes, environmental protection!*) <http://www.greenfo.hu/hirek/2015/04/08/beke-poraidra-kornyezetvedelem>

⁹⁴ See, for example here: **Kivéreztetik a környezet- és természetvédelmet** (*Environment and nature protection is being exsanguinated*), <http://www.greenfo.hu/hirek/2015/05/14/kivereztetik-a-kornyezet-es-termeszetvedelmet>

⁹⁵ See: **Közmunkások régészek helyett?** (*Public workers instead of archeologists?*) <http://www.levego.hu/hirek/2015/05/kozmunkasok-regeszek-helyett>



examples.

- a) Act LXXXVII of 2015 adopted by the Parliament in June 2015, permits placing advertisements on lampposts. The company which holds exclusive rights to do that is owned by István Garancsi, a close friend of the Prime Minister. It was in 2012, that the Parliament forbade placing advertisements on lampposts. At that time, the company which had the right to do that was owned by István Bleuer, who is said to be close to the Socialist Party. As a result of the new rule, his company went bankrupt.⁹⁶
- b) Shortly after the election in 2010 Orbán promised cheaper energy to consumers. In order to lower prices, the state-owned Hungarian Electricity Company, MVM was allowed to fill its gas reserves with cheaper gas from the open market, through a pipeline from Austria. MVM claimed, however, that its own retailer, MVMP (MVM Partners) didn't have enough experience, so they would have to use a Swiss subsidiary of MET Holding, METI (MET International), for the transactions. As a result, MET itself reaped about 80% of the gain that the cheaper gas coming from the West offered to MVM. That is, the savings from the cheaper gas went to the shareholders of MET Holding instead of Hungarian consumers. In order to make that business deal legal, the Orbán government simply changed the regulation governing trading via the pipeline. The arrangement, which was originally intended to remedy a one-time shortage in gas reserves, was extended year after year. One of the main owners of MET is István Garancsi, a close friend of Viktor Orbán.⁹⁷
- c) Act XCV of 2014 adopted by the Parliament in December 2014, ordained the creation of a state-owned distributor of tobacco products that will function as a kind of middle-man between tobacco wholesalers and national tobacco stores. The Parliament also voted to elevate the law regulating the distribution and sale of tobacco products in Hungary to a cardinal law requiring a two-thirds parliamentary majority to modify. The law stipulates that all tobacco retailers purchase tobacco products exclusively from the state-owned distributor (an individual or company designated by the state), and that wholesalers only sell to the distributor. As it became evident somewhat later, the real purpose of the law was to divert some HUF 10-12 billion (USD 25-30 million) in gross profits annually from tobacco retailers and wholesalers to the company Continental Dohányipari Zrt., whose owners are reportedly close friends with János Lázár, Minister of Prime Minister's Office.⁹⁸

⁹⁶ See: **The anatomy of state sponsored corruption: a concrete case**, <http://www.narratorblog.com/?p=941>
Nagyon megesett a Fidesz szíve Orbán barátján, <http://nol.hu/gazdasag/garancsi-orulhet-maris-feloldjak-a-reklamtabla-tilalmat-1537777>

Megjelent a lex Garancsi és a lex Hunguard (*Lex Garancsi and Lex Hunguard adopted*),
<http://nol.hu/gazdasag/megjelent-a-lex-garancsi-es-a-lex-hunguard-1548859>

⁹⁷ See:

- **“The great Fidesz gas theft”**, <http://hungarianspectrum.org/2015/06/22/the-great-fidesz-gas-theft/>
- **Hungarian oligarchs found behind profitable offshore gas agreement**,
<http://atlatszo.hu/2014/02/11/hungarian-oligarchs-found-behind-profitable-offshore-gas-agreement/>
- **Swiss paper: Network of companies close to Hungary PM Orbán present in a Swiss canton**,
<http://www.freehungary.hu/index.php/component/content/article/56-hirek/3331-swiss-paper-network-of-companies-close-to-orban-present-in-a-swiss-canton>

⁹⁸ See:

- **Parliament approves annual theft of HUF 10-12 billion from tobacco industry, consumers**,
<http://budapestbeacon.com/economics/parliament-approves-annual-theft-of-huf-10-12-billion-from-tobacco-industry-consumers/16746>
- **State Monopoly on the Retail Sale of Tobacco**, <http://theorangefiles.hu/state-monopoly-on-the-retail-sale-of-tobacco-2/>



16. Act CXXIX of 2015 adopted by the Parliament in July 2015 contains a series of amendments to the Freedom of Information Act and other laws. The amendments allow data owners to request payment for the work performed by providing the data, and the decision on the size of the payment is left to the data owner. Anonymous data requests are prohibited. In case of copyrighted material, no copies can be provided; the requestor has the option to view the documents on the spot only. The data owner has the right to refuse disclosure of data concerning any decision even after the decision has been taken, if the data serves as basis for future decisions; this practically means that any request for data can be refused.⁹⁹ The first drawback of the amendments soon came to light: Róbert Benedek Sallai, a politician from the Green Party LMP, requested information from the National Land Fund about farmland tenders by the Hungarian government; he was told that, due to amendments in the Freedom of Information Act, he would have to pay a fee of HUF 7.77 million (about EUR 25,000) for the information.¹⁰⁰ (The farmland tenders in Hungary have been criticized by many as a method of passing farmlands over to persons close to Fidesz by illegal or semi-legal means. Agriculture is an excellent business proposition thanks to the European subsidies of about 200 Euros per hectare and to a tax holiday of at least five years on the profits of the exploitations. The clever ones can pull up to 75 million forints [nearly 264,000 Euros] per year from 1,000 hectares.¹⁰¹)
17. Act CXCI of 2015 on the restructuring of the National Tax and Customs Authority (NAV) was adopted by the Parliament on 1st December 2015. The members of the Parliament had only one day to read this very important, 58-page document, which was only one of the about 20 pieces of legislation adopted that day. The new law contains several provisions which further undermines transparency and boosts corruption:
- a) The new law abolished NAV as a formally independent body, and made it a part of

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- **The Orbán Government in Action: Graft and Fraud**, <http://hungarianspectrum.org/tag/continental-tobacco-group/>

⁹⁹ See:

- **Government would like to charge for answering Freedom of Information requests**, <http://www.narratorblog.com/?p=1097#more-1097>
- **Hungary: government closing down freedom of information**, http://www.transparency.org/news/pressrelease/20130508_hungary_government_closing_down_freedom_of_information
- **Draft amendments to Freedom of Information Act in Hungary should be discussed with all stakeholders, OSCE Representative says**, <http://www.osce.org/fom/170231>
- **Further Restrictions on Freedom of Information in Illiberal Hungary**, <http://hungarianspectrum.org/2015/07/05/further-restrictions-on-freedom-of-information-in-illiberal-hungary/>
- **Igényelj közérdekű adatot, amíg lehet!** (*Ask for data of public interest, while you still can do it!*) – Hungarian Civil Liberties Union (TASZ), <http://tasz.hu/informacioszabadsag/igenyelj-kozerdeku-adatot-amig-lehet>
- **Fizetős lesz a közérdekű adatigénylés?** (Open letter of Transparency International Hungary and 3 other organisations to the Minister of Justice), http://transparency.hu/Tiltakozunk_az_ellen_hogy_a_kormany_fizetosse_tenne_a_kozerdeku_adatigenyleseket
- **Mától hatályos az Infótörvény módosítása: összeszedtük, hogy mi változott** (*The amendments to the Freedom of Information Act are valid as from today: we collected the changes*), <http://atlatszo.hu/2015/07/16/matol-hatalyos-az-infotorveny-modositasa-osszeszedtuk-hogy-mi-valtozott/>

¹⁰⁰ **Dübörög az új infótörvény: 7,7 milliót kell fizetni a földpályázatok közérdekű adataiért**, http://index.hu/belfold/2015/07/19/duborog_az_uj_infotorveny_7_7_milliot_kell_fizetni_a_foldpalyazatok_kozerdeku_adataiert/

¹⁰¹ **Hungary: Orbán's land war with EU**, <http://farmlandgrab.org/post/view/21548-hungary-orbans-land-war-with-eu>



the Ministry of National Economy.¹⁰² This change enables direct intervention of the government (and thus that of Fidesz) into individual tax affairs.

- b) The new law allows close relatives of members of the government, the president of the Supreme Court, the president of the Hungarian State Audit Office, the chief prosecutor, the chairman of the National Bank, and several other dignitaries to participate in bidding for state tenders as long as they live apart from the officeholder. A further suspicious aspect of this provision of the law is that it became effective retroactively, from 1st November 2015.¹⁰³
 - c) Another, very frightening part of the new law concerns the wealth gain inspections (follow-up investigations by the tax authority on whether the annual tax declarations of an individual are correct). According to three independent tax experts asked by the economic news portal 24.hu/fn, the new legislation widely opens the door for investigations (or halting investigations) by NAV upon informal orders from influential politicians. Zsolt Ruszin, Vice-President of the Hungarian National Association of Accountants, stated the following about this provision of the new law: *“During the past years I have learned that the tax authority can do two things very well: make mistakes and fulfil orders. Here it is about the latter, which will now be enhanced.”*¹⁰⁴
 - d) At the same time the new law prohibits NAV from starting wealth gain inspection based on information from individuals. Until now individuals have been using this possibility to report to NAV when they experienced that certain politicians, civil servants or other persons got rich in a way that could not be explained by their normal income, and then NAV could decide whether it will start an investigation or not. With the new law in place NAV does not even have the right to consider such an investigation upon reports from individuals. This is an enormous present to tax evaders and other criminals.¹⁰⁵
18. In February 2016, the Parliament amended legislation to curb public access to information on the spending practices of the affiliates of the Hungarian Central Bank (MNB). The amendment stipulates that money the bank allocates to its various educational foundations “loses its nature as public funds,” thus public access to information about its use can be limited. It also allows for limits on public access to information about companies fully or majority-owned by the central bank “to protect financial and exchange-rate-policy-related interests” and because of “competition concerns,” according to the text of the bill. MNB has established several foundations in recent years with the “aim of improving the quality of higher education in the field of economics”. (This has been strongly criticised by leading economists of the Hungarian Academy of Sciences who said that these foundation were set up promulgate one

¹⁰² **Hungary’s Tax Authority Becomes Part Of Economy Ministry,**

http://www.xpatloop.com/news/hungarys_tax_authority_becomes_part_of_economy_ministry

¹⁰³ **Highway robbery made lawful,** <http://hungarianspectrum.org/2015/12/02/highway-robbery-made-lawful/>

¹⁰⁴ **Keményebb vagyonosodási vizsgálat jön: akit akarnak, úgyis meghurcolnak** (*Stricter wealth gain inspections are coming: they will drag through the mire anyone they want to*),

<http://24.hu/fn/penzugy/2015/12/03/kemenyebb-vagyonosodasi-vizsgalat-jon-akit-akarnak-ugyis-meghurcolnak/>

¹⁰⁵ **Fellélegezhetnek az adócsalók, kiütik a NAV kezéből a nehézfegyvert** (*Tax fraudsters can respire, NAV’s heavy weapon will be taken away*), Népszabadság, 30.11.2015, <http://nol.hu/gazdasag/fellelegezhetnek-az-adocsalok-elveszik-az-adorevizorok-fegyveret-1577793>

Ködbe burkolózó vagyonok (*Riches enshrouded in mist*), Magyar Nemzet, 02.12.2015,

<http://mno.hu/gazdasagpolitika/kodbe-burkolozo-vagyonok-1316880>



specific economic dogma, and this violates the principle of academic freedom.¹⁰⁶) MNB provided some 265 billion Hungarian forints (nearly EUR 900 million) to these foundations—equalling about 0.8% of gross domestic product and twice as much as the annual state spending on higher education as a whole. This law on MNB was subsequently nullified by the Constitutional Court (it would have been close to impossible for the judges, even if most of them are in the Fidesz camp, to give their blessing to this outrageous bill)¹⁰⁷.

Following the decision of the Constitutional Court, the Supreme Court of Hungary decided that the foundations created by MNB must reveal what they spent their money on. Thus it became public that the main beneficiaries of these foundations have been relatives and close friends of the MNB's President György Matolcsy and Prime Minister Viktor Orbán.¹⁰⁸ In spite of the clearly unlawful action by MNB's President, the Chief Prosecutor is not expected to take any steps against him.¹⁰⁹

19. On the same day when the amendment to the law on MNB was passed, the Parliament adopted another law which makes it possible for the Hungarian Postal Service to classify information about its operation and expenditures. Commenting on both new laws, Miklós Ligeti, Director of Legal Affairs at Transparency International Hungary stated that the Hungarian Parliament “just adopted laws at breakneck speeds that will serve to totally eclipse the use of public funds.”¹¹⁰ The Constitutional Court decided that the new law on the Hungarian Postal Service is not unconstitutional...

There are many more examples of the misuse of political power by the government to change the legislative and institutional system in order to favour certain individuals or companies at the detriment of public good. Practically each day one can read about such cases also in English on the websites of the foundations of Hungarian investigative journalists (atlatszohu, direkt36.hu), Transparency International Hungary (transparency.hu), Hungarian Civil Liberties Union (tasz.hu), K-Monitor Watchdog for Public Funds (k-monitor.hu), Hungarian Spectrum (hungarianspectrum.org) and others.

¹⁰⁶ **Economists of the Hungarian Academy of Sciences speak out against the Central Bank's “foundations”**, Hungarian Spectrum, 24.01.2016, <http://hungarianspectrum.org/2016/01/24/economists-of-the-hungarian-academy-of-sciences-speak-out-against-the-central-banks-foundations/>

¹⁰⁷ **The Hungarian Constitutional Court delivers a blow to the central bank**, Hungarian Spectrum, 03.04.2016., <http://hungarianspectrum.org/2016/04/03/the-hungarian-constitutional-court-delivers-a-blow-to-the-central-bank/>

¹⁰⁸ **The Hungarian National Bank's foundations and their beneficiaries**, <http://hungarianspectrum.org/2016/04/23/the-hungarian-national-banks-foundations-and-their-beneficiaries/>

¹⁰⁹ **Letting the fox guard the henhouse: Hungarian prosecutors undermine justice**, <http://hungarianspectrum.org/2016/04/29/letting-the-fox-guard-the-henhouse-hungarian-prosecutors-undermine-justice/>

¹¹⁰ **Hungary Curbs Access to Information on Central Bank Money**, The Wall Street Journal, 01.03.2016, <http://www.wsj.com/articles/hungary-curbs-access-to-information-on-central-bank-money-1456849795>

Hungarian Post Office and Central Bank secrecy bills pass with ease, Budapest Beacon, 01.03.2016, <http://budapestbeacon.com/public-policy/hungarian-post-office-and-central-bank-secrecy-bills-pass-with-ease/32765>

Parliament amends National Bank Act, BudaPost, 04.03.2016, <http://www.budapost.eu/2016/03/parliament-amends-information-act/>

A perfect money laundering device: The Hungarian National Bank's foundations, Hungarian Spectrum, 06.03.2016, <http://hungarianspectrum.org/2016/03/06/a-perfect-money-laundering-device-the-hungarian-national-banks-foundations/>

