Executive summary

The Secretariat of Transparency International in Berlin has prepared the Corruption Perceptions Index (CPI), ranking the countries by the public sector’s exposure to corruption for the 26th time. **In 2020, Hungary received 44 points on a scale ranging from 0 (the most corrupt country) to 100 points (country least infected by corruption), placing it at 69th position, tied with Romania and Bulgaria, among the 180 countries examined.** Compared to the previous survey in 2019, Hungary’s resistance to corruption did not change according to the assessment of the businesspeople and experts interviewed in the surveys forming the basis of the Corruption Perceptions Index. Hungary’s position in the global ranking moved, however, one place forward.

While globally Hungary is considered moderately corrupt, within the European Union it is perceived as one of the most corrupt Member States. Hungary, Bulgaria, and Romania jointly share the last position of the ranking within the European Union. With this performance, Hungary lags significantly behind its regional peers. The three other members of the Visegrad 4 group scored much better than Hungary on the scale from 0 to 100, with Slovakia receiving 5 points more, Czechia 10 points more and Poland 12 points more than Hungary. On the other hand, the CPI score of the members of the Visegrad 4 group declined from 2019 to 2020, apart from Hungary, whose score stagnated, therefore the difference between these countries’ perceived anticorruption performance decreased.

Based on the latest CPI survey, one can conclude that Hungary has stabilised its position among the European Union’s poorest performers. Because of its constantly degrading results from 2012 onward, in 2020, Hungary finished the ranking in the last position, together with Bulgaria and Romania. In 2012 Hungary was the 19th most corrupt member of the EU-27; since then it has followed a steady downward course and by 2017 its position plummeted to 26th – 27th, that is, next to last, in the expanded EU of 28 Member States. In 2017, only Bulgaria followed Hungary within the European Union, and this was the case also in 2019, which means that in 2018, with a one-point improvement of the CPI score, Hungary only temporarily preceded Greece, which significantly dropped in that year. By 2020, even this modest surplus melted, as Bulgaria joined the club of 44-point tailenders.

Beyond the publication of the CPI results, the latest report by Transparency International Hungary (TI-Hungary) gives account on how the coronavirus pandemic impacted Hungary’s rule of law performance, and the distribution of state resources. In addition, the report discusses how the country’s anticorruption and economic performance interrelate, and it describes the latest trends of the public procurement landscape and the use of European Union funds.

As regards the state of play of rule of law in Hungary, the report concludes that the outbreak of the coronavirus pandemic and the government’s response to the challenges accelerated the deconstruction of the country’s democratic edifice. One of the examples to mention is the introduction of a rule by decree regime, which substantially broadened the government’s room for manoeuvre. Moreover, the government revoked some of the competences of municipalities and diverted a non-negligible share of their revenues by the designation of so-called special economic zones and by depriving some of the municipalities’ most important non-restricted financial resources, such as vehicle tax and local business tax.

The government used the need to combat the pandemic as a pretext to further curtail the accessibility of public interest information. Beside tripling the 15-day deadline set out in the law...
for servicing freedom of information requests, the government also amended the Fundamental Law, for the nineth time since its entry into force in 2012. The Nineth Amendment rewrites the constitutional definition of public funds, thus enabling the further transformation of public funds into private assets. TI-Hungary holds the changing of electoral rules equally worrisome, as it fails to put the ‘fake party system’ to an end, even though this phenomenon resulted in the misappropriation of some HUF 7 billion worth of public funds since 2014. In light of the above, TI-Hungary is of the opinion that rule of law still remains in a defunct state in Hungary.

Besides, the report draws attention to the fact that the coronavirus pandemic undisputedly necessitated changes to the country’s 2020 budget, but resources designed to mitigate the consequences of the global epidemic were often used inefficiently. These financial resources were used to promote oligarchs and the government’s clientele, whereas the society’s most indigent groups received much less direct aid than needed. One of the two trends lurking behind the unorthodox way of crisis management that contradicts the practice in developed countries must have been the determination to maintain the economy’s external balance, while the government’s other supposed endeavour was to further enrich business players belonging to its inner circle. This latter is exemplified by the distribution of non-refundable grants in the amount of HUF 83.5 billion by Hungary’s Tourism Agency, benefiting, among other recipients, the Hunguest Hotel company, which belongs to the interest group of Lőrinc Mészáros and financing the development of yacht harbours and luxury resorts around the Lake Balaton, while totally ignoring hotels operating in Budapest, even though this segment of the market was most severely hit by the crisis.

TI-Hungary also highlights that public investments in sports and funding of churches significantly exceeded the share of the healthcare system of additional budgetary resources, let alone that supplementary funds allocated to the healthcare system were partly spent to the overpriced procurement of medical equipment, probably benefiting government-near intermediary companies. The amount of public funds dedicated to the management of the crisis in itself was less than expected, and the efficiency of the use of these funds remains a question, as some of the projects subsidized by the government served much more the survival of the new ownership class than the economy’s long-term resilience.

The report’s chapter on the correlation between corruption and economic performance concludes that Hungary has locked itself in the EU’s lower house of countries with serious exposure to corruption and with humble national incomes, despite seven years of robust economic growth before the coronavirus pandemic. Hungary performs worst from an anticorruption perspective among the Visegrad countries and is next to last within this group in respect of per capita GDP by slightly exceeding Poland’s output. Hungarian economy’s serious structural problems prevail. These problems were not triggered by the crisis that follows from the pandemic, but rather by factors that go well before this crisis. The disruption of the checks and balances system going hand in hand with the massive centralisation and systemic corruption explain why Hungary, in spite of the unprecedentedly generous funding by the European Union, failed to set foot on a trajectory of an inclusive and sustainable economic growth. Hungary performs poorly in the global competitiveness rankings, for which the weaknesses of the democratic institutions, the declining output of the healthcare and the education systems, and the low level of innovation are to be blamed. However, the report pinpoints that the investment rate was outstanding in 2018 and in 2019, despite the steady decline in the rule of law indicators. The ambiguous trend of growing investments regardless of the decay in the country’s rule of law performance can be explained by
the negative real interest rate, the macroeconomic stability, and by the fact that most investors have already accommodated systemic corruption as part of doing business in Hungary.

TI-Hungary highlights that the coronavirus pandemic negatively impacted the public procurement market, too, which dropped compared to 2020 both in terms of the number of public procurement processes and their proportion to the country’s GDP. The report underlines that public procurement processes are adequately regulated, but practice does not reflect the principles enshrined in the law, and such principles are often questionably enforced. The proportion of single-bidder processes among public procurement processes above the EU threshold was 40 percent in 2019, which is one of the highest ratios in the European Union. Parallel to this, the concentration of the public procurement market continued: in 2019, in 51 percent of tenders allocated to government-near businesses there was only one bidder in the public procurement process, and this proportion worsened in 2020’s first trimester.

TI-Hungary warns that the efficiency of EU grants dedicated to economic development during the 2014–2020 multiannual financial framework remained humble, a particularly important experience in light of the fact that Hungary receives in the 2021-2027 period around 40.6 billion euro worth of EU funding, which is way more than the sum of 32.1 billion euro received in the previous funding cycle.