

Hungary is the most corrupt Member State of the European Union according to Transparency International's 2022 Corruption Perceptions Index

Executive Summary

For the 28th time, the Berlin-based Secretariat of Transparency International (TI) has compiled the Corruption Perception Index, which ranks the countries of the world based on their exposure to corruption in the public sector (Corruption Perceptions Index - CPI) as rated by business people and experts. In 2022, Hungary scored 42 points on a scale from 0 (most corrupt) to 100 (least corrupt), ranking 77th out of 180 countries, down 1 point and 4 places from a year earlier. This can be considered a medium performance globally, but within the European Union, Hungary has slipped to the last place.

Hungary's results are significantly lower than those of the countries that are considered our direct regional competitors. The Czechia and Slovenia, together with other European countries, reached 41st place with 56 points. Poland ranked 45th with 55 points, Slovakia 49th with 53 points, and Croatia 57th with 50 points in TI's corruption ranking. The two countries with which Hungary was tied for last place in the European Union in the 2020 CPI ranking have moved up somewhat: Romania is 63rd with 46 points and Bulgaria is 72nd with 43 points in the 2022 Corruption Perceptions Index.

Hungary's bottom position in the European Union is the culmination of a process that has been going on for more than a decade, involving the erosion of the rule of law, state capture and the development of systemic corruption. While in 2012 Hungary was ranked 19th in the then EU-27, its performance deteriorated in a trend-like fashion, and in 2019 and then in 2021, only Bulgaria ranked lower. (In 2020, there was a three-way tie for last place between Hungary, Romania and Bulgaria). By 2022, Hungary lost the minimal lead it had a year earlier, after Bulgaria improved its position somewhat and Hungary lost ground.

In parallel to the presentation of the Corruption Perception Index, Transparency International Hungary (TI Hungary) published its annual report on corruption, which comprehensively analyzes the state of the rule of law, public procurement and the use of EU funds, as well as the impact of corruption on economic performance.

One of the most significant developments in 2022 is that for the first time in the history of the EU, the European Commission has launched a rule of law procedure against Hungary after the parliamentary elections in April, tying the availability of EU funds to conditions - says the Rule of Law section of the Report. This indicates that, after a decade, a change of attitude has taken place in the European Union, and neither the EU institutions nor the key Member States are standing idly by as infringements and systemic corruption are occurring in some Member States - primarily in Hungary and Poland.

As of January 2023, under the rule of law mechanism, Hungary will not have access to 55 percent of the funds from the three operational programs for the 2021-2027 budget cycle, i.e., EUR 6.3 billion (about HUF 2,500 billion, almost 30 percent of the total cohesion funding), until it meets the 17 conditions ("milestones") set by the European Commission. The EU also tied the de-blocking of EUR 5.8 billion (approximately HUF 2,300 billion) in direct grant from the Recovery Fund (RRF) to 10 additional requirements, mainly related to the independence of the judiciary. Thus, Hungary has to meet a total of 27 so-called "super-conditions". The latest information suggests that the Commission is gradually raising the stakes: in addition to the requirements known so far, the enforcement of the values set out in the Charter of Fundamental Rights of the European Union is also a prerequisite for obtaining cohesion funds. Due to the long lead time of the survey, the impact of the government measures to free up EU funds is not yet reflected in the latest CPI results just published.

The Report details some of these anti-corruption measures. The analysis covers the Integrity Authority, changes in the freedom of information and the asset declaration system, the review of the functioning of public interest asset management foundations carrying out public duties (KEKVAs) and the provisions on private prosecution in corruption cases. The Report concludes

that the steps taken under EU pressure and designed to curb the misuse of EU funds can be considered the only serious anti-corruption measures of the NER (System of National Cooperation) period, although the government's real aim is to obtain funds, not to restore the rule of law. According to TI Hungary, the package is not even suitable for the latter, since corruption permeates the state structure and abuses have become part of the system. State capture was already complete by the middle of the previous decade. Nevertheless, if the Commission rigorously monitors the implementation of the new rules, misuse of EU funds can be expected to decrease in the future, but the institutional destruction of the last decade will not be undone and the rule of law will not be restored "in one fell swoop".

As for the Integrity Authority, the Report states that its powers are undersized. For example, it cannot launch investigations, it cannot be a party to legal proceedings, and in general, if it detects any kind of irregularity, it cannot act on its own, but is forced to refer them to the competent authority. It has somewhat stronger powers in relation to public procurement processes, as it can suspend a specific procurement procedure if it suspects an infringement. It can also investigate asset declarations, but it has no power to sanction the irregularities detected, nor can it force other authorities to do their job. The Integrity Authority is therefore likely to be (and will be) reliant on the willingness of other authorities to cooperate, and its effectiveness will primarily depend on the extent to which it is able or willing to engage in conflict with the captured institutions of the state and the government itself in order to break systemic corruption and curb corrupt practices. Much will therefore depend on the commitment of the Authority's leadership and apparatus, and whether they are ready to distance themselves from the government in their role - taking advantage of the Authority's reporting obligation to the EU -, or whether they operate as a de facto government body.

TI Hungary – along with several other independent organizations fighting corruption, such as K-Monitor and Atlatszo.hu – applied for and was selected as a member of the Anti-Corruption Task Force, consisting of 10 government representatives and 10 civil society members and working alongside the Integrity Authority (but not part of it). TI Hungary reiterates that its participation is subject to predetermined conditions, and it will remain a member of the Task Force only as long as there is a chance for meaningful work.

Regarding public procurement and the use of EU funds, the Report notes that the mitigation of risks related to public procurement is a central element of the negotiations between the European Union and the Hungarian government to obtain EU funds. In Hungary, the economic weight of public procurement remains significant, while the public procurement market is highly exposed to corruption. The total value of public procurement procedures in 2022 amounted to HUF 4,590 billion, an increase of 9 percent compared to the previous year, and well above the values of the years before the coronavirus epidemic.

According to data from the Public Procurement Authority, while in the first three quarters of 2022 there was a 48 percent increase in prices compared to the same period of the previous year, by the end of the year purchases were cut back so much that only a 6 percent price increase could be detected for the full year in terms of the average price of individual purchases. At the same time, compared to the period before the epidemic (2019), the average amount of public procurement procedures increased by 67 percent, reflecting the severe overpricing of public procurement in addition to inflation.

The European Commission has made a number of findings on the irregularities in public procurement in Hungary. The Commission has repeatedly drawn attention to the high rate of single-bid public procurement, which reduces the intensity of competition in the public procurement market and therefore poses a significant risk of corruption. Although the rate of single-bid public procurement is decreasing, at 35 percent (for procurements above the EU threshold) it remains well above the EU target of 15 percent. (Hungary promised to reduce the proportion of single-bid procedures as part of the anti-corruption package.) The competitive conditions for obtaining public contracts are further worsened by the fact that the most important procurements are regularly exempted by the government from traditional public procurement procedures, for example on the pretext of the coronavirus epidemic, or for reasons of national security. Last year was no exception: concessions launched in previous years that went against EU

legislation were closed, usually with winners close to the government (for example, two concessions for waste management and for the operation of freeways, both for 35 years).

In the new funding period that started in 2021, not a single euro has been received so far due to the suspension of the funding. Nevertheless, the distribution of funds has already started in 2021. According to data from the government's tender portal, 193 tenders received non-reimbursable grants in the amount of about HUF 528 billion by the end of 2022 - approximately 20 percent of total funding – from the Recovery Fund launched in the meantime. Most of the money has already been paid out to the applicants. However, for the time being, all of this is financed by the Hungarian budget, i.e., the taxpayers, and it is questionable whether the Commission will ever accept these invoices.

Looking at the longer-term trends in the utilization of EU funds, it appears that although Hungary has been one of the largest beneficiaries of the EU budget, the inflow of money has not contributed to increased efficiency or economic prosperity measured by the growing number of businesses, and inequalities have not decreased, while corruption has increased.

The economic chapter of the Report concludes that in 2022, as in previous years, the correlation between economic performance as measured by Gross Domestic Product (GDP) per capita and the anti-corruption performance as measured by the Corruption Perception Index score remains strong in the European Union. It is true that the regression coefficient of 0.81, which indicates the strength of the relationship, is slightly lower than in 2020 and 2021 (0.83 in the previous two years). Hungary is stuck in the EU's lower house of corruption-ridden Member States with low national income by EU standards, even though it experienced strong economic growth in the seven years preceding the coronavirus epidemic (averaging more than 4 percent per year). According to data from the International Monetary Fund (IMF), GDP per capita increased from USD 13,666 in 2013 to USD 18,983 in 2022, an overall increase of no less than 39 percent. As mentioned above, the CPI for 2022 shows Hungary as the most corrupt country in the EU, while in terms of GDP per capita, Hungary has outperformed only three EU countries (Bulgaria, Romania, Croatia) and it is essentially on par with Poland.

The Report also draws attention to the fact that, despite the destruction of the rule of law and systemic corruption, the Hungarian economy has seen intense investment activity since 2016, not only in public but also in private investments as well (the investment paradox). This is explained by several interrelated factors. First of all, the concentrated public procurement market, as well as the generous state support for crony companies and oligarchs trickle down later as private investments through the various reinvestments by these government-loyal actors. Second, inflation has consistently exceeded the base rate of the central bank after 2016, so the abundance of resources caused by the negative real interest rate has helped investments. Third, the systemic overpricing of public procurement and EU resource allocation improves investment and growth statistics. Fourth, since the second half of the last decade, a significant number of economic actors have accommodated the disruption of the rule of law and systemic corruption, accepting it as a kind of "new normal".