Executive Summary

Results of the Corruption Perceptions Index

The Secretariat of Transparency International in Berlin has prepared for the 29th time its Corruption Perceptions Index (CPI), which ranks countries by the public sector's resilience to corruption. In 2023, Hungary scored 42 points on a scale ranging from 0 (the most corrupt country) to 100 (the least corrupt country). Thus, while maintaining its score from 2022, it ranked 76th on the list of 180 countries, moving up one place.

In 2012, Hungary was ranked 46th in the world with 55 points, which means that in the last eleven years, Hungary has slipped down by a total of 30 places and 13 points, indicating a significant deterioration by international standards as well.

In terms of anti-corruption performance, Hungary has maintained its bottom ranking among the Member States of the European Union for the second year in a row. The downturn is continuous: while in 2012 Hungary ranked 19th in the European Union in terms of CPI score, five years ago only Greece and Bulgaria had a weaker anti-corruption performance. After that, Hungary achieved its bottom ranking among the European Union countries in multiple formations: in 2020, it finished in the last place in a three-way tie with Bulgaria and Romania, then first Romania, and later Bulgaria improved their rankings.

The Visegrád countries are well ahead of Hungary. The Czech Republic ranks 16th in the European Union with 57 points, while Poland and Slovakia tie for 19th place with 54 points each. Poland's anti-corruption performance—in parallel with the deterioration of the rule of law—has shown a downward trend since 2016 with its score falling from 58 to 54 between 2012 and 2023. In contrast, the CPI scores of the Czech Republic and Slovakia reflect an improving trend from 2020 onward.

The corruption situation in Hungary's neighboring countries shows a mixed picture. Austria—Prime Minister Viktor Orbán's "laboratory", which Hungary is expected to catch up with in all respects by 2030 —, was significantly ahead of Hungary by 29 points last year, with the gap between the two countries increasing from 14 points in 2012 to more than the double of that by 2023. Among the countries bordering Hungary, Serbia and Ukraine tied for last place (36 points each) in 2023. The "historical friendship" between Serbia and Hungary is reflected in their CPI scores as well: the two countries were only 6 points apart last year. Meanwhile, Hungary is increasingly lagging behind three other neighboring countries: Slovenia with a score of 56 is ahead by 14 points, Slovakia with a score of 54 is ahead by 12 points, while Croatia with a score of 50 is 8 points ahead of Hungary in 2023. These countries have been ahead of Hungary in terms of resistance to corruption since the mid-2010s.

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In parallel with the presentation of the Corruption Perceptions Index, Transparency International Hungary published its Annual Report on corruption, which comprehensively analyzes the state of the rule of law, public procurement, and the access to EU funds, as well as the impact of corruption on economic performance.

Rule of Law and Corruption – The Impact of Super Milestones

The chapter on the rule of law seeks to answer whether Hungary's the rule of law performance has improved in the last two years as a result of mechanisms protecting the financial interests of the European Union, such as measures against corruption enforced by the conditionality procedure and the reform of the judiciary.

TI Hungary points out that the Integrity Authority, which is intended by the government and the EU to be the flagship of anti-corruption measures, though formally independent of the government, but relies on various state authorities during its operations. While it is supposed to combat abuses against EU funds, it has only very limited powers concerning specific infringements. The Anti-Corruption Task Force (of which TI Hungary is a member), set up alongside the Integrity Authority, also suffers from a lack of powers: it cannot investigate individual allegations of corruption and cannot ask whether the authorities responsible for fighting abuses are doing their job properly. The Task Force would be effective if it were taken seriously not only by its civil society members but also by the public authorities.

The report also points out that the government's approach to accessibility of public interest information has not changed significantly since the government, under pressure from the EU, removed some of the most blatant barriers to availability of public data, such as the imposition of an unlimited amount of up-front fees by authorities for fulfilling data requests. However, the protection of trade secrets has been strengthened, giving another tool for secrecy, and the most serious restrictions remain in place. In addition, in December 2023, nearly half a dozen new restrictions were introduced, such as the increase in the time limit for the confidentiality of certain government decisions from ten to twenty years.

In yet another act in the absurd drama of asset declarations that has been going on for decades, the report finds that the 2022 reforms have produced an even worse result than the initial situation: declarants do not have to declare their residential property, and incomes only have to be declared by the broad ranges instead of exact sums.

To meet EU requirements, the government adopted a judicial reform package, which repealed several provisions that blatantly undermined the independence of the judiciary. Because of this, the European Commission released EUR 10.2 billion from the Cohesion Fund in December 2023. The reforms mean that government agencies can no longer challenge unfavorable court rulings before the Constitutional Court, which acts as an extended arm of the government. Moreover, members of the Constitutional Court are no longer able to apply for automatic appointment to the Curia. The government has also withdrawn a provision that prohibited Hungarian judges from initiating so-called preliminary reference procedures at the Court of Justice of the European Union. The most influential measure of the judicial reform is the major strengthening of the powers and organization of the National Judicial Council (NJC), which is elected by the judges from among themselves.

Yet the judicial reform imposed by the Commission is inadequate to restore the autonomy of the judiciary, which would require the rebuilding of the rule of law. Many risk areas, such as the allocation of cases or the anomalies surrounding the promotion and remuneration of judges are neglected. The main problem, however, is that the reform is overdue. In the 14th year of the Mr. Orban’s System of National Cooperation (NER), it is increasingly difficult for the courts to extricate themselves from the influence of the government. Taking into account that the NER-system typically promotes professionals who are not critical of the government to leading positions, the fact that most of the court leaders took office after 2010 makes autonomy aspirations even more difficult.

The report considers the Sovereignty Protection Act and the Sovereignty Protection Authority, starting off just two days from now, to be an unnecessary government initiative that will consume a lot of taxpayers' money and is contrary to the Fundamental Law.

TI Hungary believes that the fact that the anti-corruption laws passed under EU pressure have been half-hearted at best is not a coincidence. The Orbán government's goal is not to restore the rule of law and curb corruption, but to gain the fullest possible access to EU funds, and will therefore always be balancing between compliance with EU law and the pursuit of its regime's interests. It doesn't take much foresight to predict that if there is a conflict between the two, then the latter aspect will prevail.

Anomalies in the public procurement system

The report's chapter on public procurement states that neither the measures aimed at reducing systemic corruption nor the stagnant investments due to dwindling EU funds have so far brought about a turnaround in the domestic public procurement market, which has become a major instrument for politically motivated distribution of public funds in recent years. While a significant part of the commitments adopted under the EU Recovery Plan and the conditionality mechanism aim to improve the integrity of public procurement, the implementation of corrective measures has fallen short of expectations on several points. Although the share of single bid tenders is decreasing, this alone is not sufficient to restore market conditions. The government's action plan to increase competition in the market is not delivering significant results either, and there are still numerous shortcomings in the publication of public procurement data.

Even full compliance with the (super)milestones would not solve all systemic problems. In the highly concentrated domestic public procurement market, some pro-government players have cemented themselves in an immovable leadership position, far above their competitors. In some sectors, such as communications, IT, and other service-related procurement, framework agreements lacking preparation and transparency have helped government-affiliated companies to become market leaders.

The emergence of investment structures that conceal beneficial ownership among the winning bidders for public procurement contracts undermines transparency and makes it difficult to investigate corruption risks. The number of private equity funds in Hungary has grown exponentially in recent years. TI Hungary's Tender Champions database (https://tenderbajnok.transparency.hu), which was launched last year and combines public procurement data with company records, shows that almost 5% of the total value of all procedures examined were won by private equity funds.

The impact of corruption on economic performance

The report's economic chapter concludes points out that in 2023, as in previous years, the correlation between economic performance measured by Gross Domestic Product (GDP) per capita and scores on Transparency International's Corruption Perceptions Index remained strong. In other words, the relationship between corruption and the level of economic output is strong, although the regression coefficient of 0.77, indicating the strength of this association, has shown a slight downward trend in recent years.

According to the Corruption Perceptions Index, Hungary is the most corrupt Member State in the European Union, while its economic performance is modest. According to the International Monetary Fund (IMF), in terms of GDP per capita, Hungary outperforms only Bulgaria, Romania, and—to a minimal extent—Croatia. Hungary's modest performance is reflected in the fact that all three other Visegrád countries are now outperforming it. The situation is even worse in terms of actual household consumption, where the latest data for 2022 show Hungary ranking second to last in the EU, in 26th place with 72 percent of the EU average, ahead of only Bulgaria (67 percent).

Hungary is stuck in the EU's lower house despite the fact that, according to the International Monetary Fund (IMF), GDP per capita grew by no less than 54 percent in a decade, from USD 13,666 in 2013 to USD 21,076 in 2023. But despite relatively high cumulative growth over the past decade, most EU countries have performed better than Hungary after 2010. The reasons for this can be found in long-standing structural weaknesses in the economy, which have deepened in recent years, and in the systemic corruption associated with the disruption of the rule of law. Growth since 2016 has been fueled by forced increases in consumption and investments, rather than productivity improvements and exports.

The rate of productivity growth over the thirteen years of the NER was only 16 percent, which was only good enough for last place among the Central and Eastern European Member States, in a tie with Slovenia, which has a much stronger economy. However, the productivity growth of the post-2010 Orbán governments is only half of the productivity change measured in Hungary between 2000 and 2010.

For many years (until 2023), the Hungarian economy has been characterized by a very high investment rate, including private investments as a percentage of GDP. This is not as great a result as it appears on the surface. The high level of investments relative to GDP has been coupled with modest economic performance and poor productivity compared to countries in the region. This combination indicates that investments are extensive, inefficient , and not sufficiently supportive of economic growth. Moreover, in 2023, both public and private investment fell, due to the freezing of EU funds and the recession. Foreign direct investment inflows are also in decline, with Asian capital steadily gaining ground in the Hungarian economy since 2020.

Access to EU funds

Finally, the report gives an overview of Hungary's access to EU funds. The most important development last year was that in December 2023, the European Commission unblocked EUR 10.2 billion, almost half of the cohesion funding payable to Hungary between 2021 and 2027, which had been blocked due to rule of law problems, mainly corruption linked to EU funds since 2022. However, the Commission indicated that the measures taken by Hungary only address the restoration of the independence of the judiciary among the outstanding concerns. Some EUR 11.7 billion of the EUR 21.9 billion Cohesion Fund payable to Hungary remains blocked.

The conditionality procedure, launched in 2022, links the release of funds to 17 anti-corruption measures, known as milestones. Until these are met, the EU will withhold 55 percent of the budget for three operational programs, totaling EUR 6.3 billion.

Due to rule of law concerns, Hungary has also no access to EUR 10.4 billion payable from the EU’s economic recovery fund (EUR 6.5 billion in direct grants and EUR 3.9 billion in soft loans), except for an advance of EUR 920 million, which the Hungarian government recently received the green light to draw down. Known as the Recovery and Resilience Instrument (RRF), the fund was set up after the COVID-19 outbreak.

The Charter of Fundamental Rights of the European Union is one of the so-called horizontal enabling conditions that define the principles governing the use of the EU’s cohesion policy budget. In December 2022, the Commission found Hungary in breach of the Charter in four areas, including the judiciary, asylum rights, the rights of sexual minorities, and academic freedom. In December 2023, Hungary's judicial reform was adopted by the Commission, but no substantial progress has been noted in the other three areas, resulting in the withholding of around EUR 5 billion.