Chapter 5. Hungary: A political power play undermining resilience building

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5.1 Introduction

Like its regional peers, Hungary weathered the pandemic's first wave quite well, whereas it has been exceptionally hard hit by the second and the third waves. Unlike in most of its peers, however, the policy reactions have been quite hesitant, untransparent, and overshadowed by PM Viktor Orbán's political power games. While in the first wave, the government introduced a strict lockdown, it failed to take quick action in both the second and the third waves even though the daily confirmed cases and the number of hospitalised patients were skyrocketing. New lockdown measures in the second wave were introduced on November 11 2020, weeks later than similar operations in the other Visegrád states. They were further tightened on March 8 2021 because the third wave was sweeping across the country. Although the government gave a strong political response by pushing through a harsh emergency law and the militarisation of hospitals and strategic businesses, the containment measures, health policies, and the socioeconomic response involved last-minute decisions, favouritism and untransparent policy-making.

The government has issued two packages to mitigate the social and economic fallout from the crisis, announced on March 18, and April 7 2020. The first package mainly aimed at supporting ailing sectors, while the second package — the Economy Protection Action Plan (*Gazdaságvédelmi Akcióterv*) - foresaw broader support for the economy, labour market and employment. It took until December 2020 for the government to supplement the protection plan with a few additional measures. The crisis measures have been compromised because a substantial part of the support funded controversial projects or landed at recipients that nurture close ties with the government. At the same time, the government's social policy interventions remained limited both in scope and coverage. An outstanding feature of the Hungarian response has been the active role of its Central Bank, which has increasingly taken on a mandate of a development bank (Podvršič et al 2020). According to official sources, all mitigation matters — including those of the Central Bank — have amounted to about 8 per cent of GDP in 2020.[1] Given the politically often selective crisis support and the limited attempts to build resilience against a future crisis, Hungary's response can be characterised as particularistic, protecting the status quo.

5.2 Background

Hungary's currently ruling Fidesz-KDNP coalition was propelled to power after the fallout from the global financial crisis (GFC) of 2008 forced the country to turn to the IMF and EU for a bailout in November 2008. Political scandals of the then governing socialist party and unpopular austerity paved the way for a landslide victory of the nationalist-conservative coalition in May 2010. In the — free but unfair — parliamentary elections of April 2018, the coalition secured its third consecutive two-thirds majority. As well known, since 2010 the government under PM Orbán has systematically dismantled democratic checks and balances. In its "Nations in Transit" report of 2019, Freedom House ranked Hungary as a semi-consolidated democracy, and in 2020 as a hybrid regime. V-Dem data from 2020 classify Hungary as an electoral authoritarian regime.[2] At the same time, however, since 2019 the opposi-

1 https://index.hu/gazdasag/2021/01/04/varga_mihaly_interju/

2 https://freedomhouse.org/country/hungary/nations-transit/2020, http://v-dem.net/weekly_graph/liberal-democracy-index-in-east-central-europ, https://freedomhouse.org/report/nations-transit/2020/dropping-democratic-facade

tion benefited from increasing dissatisfaction with the government. In the municipal elections held in October 2019, the opposition reclaimed several larger cities, including the capital city of Budapest. While Fidesz has remained by far the strongest party, these cracks in its dominance are important for the political context in which the response to COVID-19 plays out.

Fidesz' overall popularity rests on (at least) three pillars: an almost entirely state-controlled media system that gives the government the upper hand in delivering its political messages, a constant mobilisation of the population on nationalist, socially conservative and xenophobic grounds, and a fast-growing economy. Although the rapid growth of the Hungarian economy before the COVID-19 crisis is largely a result of favourable external circumstances, including a vast inflow of EU funds, the government claims credit for its "unconventional" economic strategy with which it reacted to the GFC. This strategy combines orthodox fiscal and labour market policies, conservative social and family policies, and selective economic nationalism intended to build a loyal domestic bourgeoisie and create financial room for manoeuvre (Bartha, Boda, and Szikra 2020; Scheiring 2021, Fodor 2022).

The COVID-19 crisis poses therefore a significant challenge for the Orbán government. It undermines an essential source of popular support — economic growth — and puts the neglected healthcare sector and social questions on the government's table at the very moment when it starts to feel challenged by some — albeit limited — opposition victory.

5.3 Labour market and social policies

The first corona relief package from March 18 2020 had little implications for social and labour market policies. The only limited relief stemmed from reducing social security contributions, the suspension of evictions, and extension of maternity entitlements. The package also promised to re-introduce a thirteenth-month pension from 2021 onwards (Podvršič et al. 2020:34).

The Economy Protection Action Plan introduced two sets of measures relevant for social and labour market policies: measures aiming to preserve jobs and measures aiming at the protection of families and pensioners.[3] At the core of the job protection measures lies the *Kurzarbeit* scheme (*Munkahelyvédelmi bértámogatási program*)[4] that covered 70 per cent of the net wages of employees in companies that lost between 15 per cent and 75 per cent of their revenues due to the crisis. State subsidies were, however, capped at HUF 112,418 (EUR 315).[5] The scheme was first extended until August 31, and then until December 31 for all businesses that had applied until the end of August.[6] A workplace protection plan partially financed from EU funds supported the engineering and R&D sector, where the government would subsidise 40 per cent of the wage costs, up to a maximum of HUF 318,920 (EUR 900).[7] The overall budget planned for the *Kurzarbeit* scheme was HUF 220 billion (EUR 600 million). Almost the same amount was planned for tax relief and the reduced administrative burdens, which also aimed at job preservation. In July 2020, the government opened a separate scheme of HUF 8 billion (EUR 22 million), offering both wage subsidies and tax exemptions for the aviation industry.[8]

In the second wave of the pandemic, the government adopted very few additional measures. An exception is a partially EU-funded *Kurzarbeit* scheme announced in December 2020, which is available for business entities in the accommodation services sector. This measure offers tax exemptions, a wage subsidy (capped at HUF 241,500, EUR 676) amounting to 50 per cent of the gross salary and compensation up to 80 per cent of the expected net revenue lost in November and December.[9] In two steps, the gov-

3 https://4cdn.hu/kraken/raw/upload/7S99TvsQW0YA.pdf, https://qubit.hu/2020/05/13/kiszivarogtak-a-kormany-gazdasagvedelmi-akciotervenek-reszletei-eddig-keves-penz-ment-munkahelyek-vedelmere-es-meg-kevesebb-szocialis-valsagkezelesre?

4 Gvt Decree 105/2020

5 https://forbes.hu/uzlet/bertamogatas-112-ezer-forintra-emelik-az-egy-dolgozo-utan-jaro-maximalis-tamogatast/

6 Act 2020/LVIII 66. § (1), and on the extension of the Kurzarbeit period Gvt Decree 290/2020.

7 Gvt Decree 103/2020

8 SA.57767

9 SA.59477, from March 1 2021, the cap increased to HUF 251,100 (EUR 703)

ernment extended this program's duration until the end of May 2021 and increased its total budget to HUF 106.7 billion (EUR 299 million).[10] It also included land transport service providers and added HUF 5 billion (EUR 14 million) more to the budget.[11] In early March 2021, retail, personal care and repair services were included[12] that also received an exemption from paying rental fees from February through June 2021.[13] The *Kurzarbeit* scheme supported more than 180,000 employees in nearly 30,000 businesses.[14]

Overall, job retention policies have been less important and less generously subsidised than measures to support the industry and infrastructure. The government has not changed the meagre unemployment insurance, which is in line with the "workfarist" orientation of the government. As Orbán himself has repeatedly stated, the Hungarian road to success rests on full employment rather than free money.[15]

The second set of social policy measures that concern pensioners and family policy are rather symbolic. The government pledged to gradually introduce a 13th month pension over four years, starting from February 2021.[16] The estimated cost of this is equivalent to that of the *Kurzarbeit* scheme. In terms of family policies, the government mostly pledged to extend deadlines for entitlements of existing family support schemes. Besides, families with one or more children would be eligible for a preferential loan for home renovation as of January 2021.[17]

Even though the pandemic has revealed a severe shortage

10 SA.61842

11 SA.61329

12 Gvt Decree 105/2021

13 Gvt Decree 52/2021

14 https://www.portfolio.hu/gazdasag/20210601/matol-uj-program-lepett-a-bertamogatasi-program-helyebe-485808

15 E.g. https://hungarianspectrum.org/2020/04/04/orbans-incomprehensibly-large-stimulus-package-turns-out-to-be-rather-slim/

16 The 13h month pension is a highly symbolic issue as it was abolished under the socialist government in 2009 as one of the austerity measures after the GFC.

17 https://csalad.hu/tamogatasok/minden-amit-az-otthonteremt%C3%A9si-programrol-tudni-kell

of medical personnel, and that Hungarian healthcare workers are among the worst paid in Europe, the government has done very little to protect or compensate them, and the measures it has eventually taken prove to be hugely controversial. First, the government appointed hospital commanders recruited from the military and the police to monitor their operations.[18] Officially, the commanders' task is to ensure medical equipment supplies, but with this move, the government has also seized direct control over the hospitals. In April 2020, the government barred health workers from leaving the country without ministerial permission, trying desperately to stem an exodus of qualified personnel.[19] It also allocated a one-time bonus of HUF 500,000 (EUR 1,400) for frontline healthcare workers. However, this bonus could not compensate for income losses due to reduced activities in hospitals.[20] It also excluded those working in elderly care. In October 2020, the government announced a salary increase for medical doctors and nurses. According to the announcement, salaries of doctors working in state or municipally maintained health care facilities receive an increase between HUF 687,000 and HUF 2.38 million by 2023 (between EUR 1,900 and 6,700), whereas nurses' salaries will be increased twice: 20 per cent in November 2020, and 30 per cent in January 2021.

However, the otherwise generous salary increases are tied to a major reform of medical workers' employment status.[21] Their status as civil servants ceased to exist, and collective agreement were abolished. According to the initial plan, public medical service workers may spend up to two years in secondment, away

18 https://hungarytoday.hu/coronavirus-hospital-commander-hospitals-military-command/

19 "According to the Union of Hungarian Doctors, more than 8,000 healthcare workers had left Hungary in the first half of 2020. While the Orbán government purchased around 16,000 ventilators between March and May, official registries estimate that there are only about 2,000 doctors and 2,000 intensive care nurses in the country able to operate them." (https://www.bmj.com/content/371/bmj.m4153).

20 In early April, the government ordered all hospitals to free up 60 per cent of their bed capacities for COVID patients. This hugely controversial and unnecessary measure reduced hospital activity significantly. In addition, many emergency operations were cancelled. (https://www.bmj.com/content/371/bmj.m4153)

21 Act 2020/C on medical service relations adopted on October 14 2020

from their residence. Moreover, they are not allowed to perform any gainful activities beyond their position unless they obtain a permit from the head of the newly established National Healthcare Service Center (*Országos Kórházi Főigazgatóság*). As second jobs in the private sector have been a major source of income for medical doctors, it is doubtful whether the salary increases will leave them better off. Overall, the reform ignited strong resistance among the doctors, and the government backtracked on some of the most controversial points.[22] Most importantly, the secondment of medical workers has been limited to a maximum of 44 days per year, and they will receive a 50 per cent salary top-up during this period. However, the ban on second jobs has remained in place. Despite the government's backtracking, more than 4,000 medical workers (including 727 doctors[23]) refused to sign their new contract until the deadline, March 1 2021.[24] Consequently, the severely understaffed Hungarian health care system lost 3.6 per cent of its employees in the middle of the biggest healthcare crisis since the second World War.

5.4 Industrial policy

The government combined heterodox (sectoral taxes), and Keynesian (direct grants, subsidised loans) measures to combat the crisis, but their policy aims mostly served particular political interests. For instance, with various selective tax measures and granting policies, the government used the pandemic to limit opposition-led local governments' political and fiscal autonomy. At the same time, it has extensively supported businesses of oligarchs and foreign-owned manufacturing enterprises. Therefore, industrial policy interventions have become a field of political power play that reflects both the country's declining democratic checks and balances and its heavy dependence on foreign manufacturing investments.

22 Gvt Decree 528/2020

23 https://hvg.hu/itthon/20210311_Kormanyinfo_gulyas. At the same time, the government also reported 420 doctors as new entrants to the health care system.

24 reported by the National Healthcare Service Center

The government mobilised resources for crisis management by integrating existing budget lines (such as the Country Protection Fund and the National Employment Fund), reallocating spending from line ministries, reallocating EUR 1 billion of EU funds[25], and levying new sectoral taxes.[26] A special tax for credit institutions was introduced (0.19 per cent of the tax base over HUF 50 billion)[27] with an expected HUF 55 billion (EUR 145 million) contribution[28] and a progressive retail tax[29], with an estimated HUF 36 billion (EUR 100 million). The latter tax, which the government subsequently made permanent[30], has mostly affected the large foreign-owned retail chains (Tesco, Spar, Lidl, and Aldi).[31] The government also transferred the vehicle registration tax from the local governments to the central budget (HUF 34.4 billion), and withheld 50 per cent of the central support for political parties (HUF 1.27 billion).[32]

The above tax measures are merely symbolic because they do not represent significant additional revenues for the budget. Instead, the sectoral taxes primarily hit those foreign companies that the Orbán-government considers “bad FDI” (Bohle and Greskovits 2019). The centralisation of the vehicle tax, which is the third biggest source of own revenues for local governments, negatively affected the large cities and the district municipalities in Budapest, where the opposition holds relatively strong positions.[33]

The suspension of public parking fees[34] in the first and second

25 SA.56994

26 Gvt. Decree 92/2020

27 Gvt Decree 108/2020

28 Gvt Decree 92/2020

29 Gvt Decree 109/2020 — 0.1 per cent on tax base above HUF 500 million but below HUF 30 billion, 0.4 per cent between 30 and 100 billion HUF and 2.5 per cent above HUF 100 billion.

30 https://www.portfolio.hu/gazdasag/20200428/gulyas-gergely-a-jarvany-utan-is-megmarad-a-kiskereskedelmi-kulonado-428878

31 https://www.portfolio.hu/gazdasag/20200404/tesco-spar-lidl-aldi-nekik-fajhat-igazan-a-kormany-uj-kulonadoja-424200

32 Gvt. Decree 92/2020

33 https://g7.hu/kozelet/20200407/mar-azelott-padlora-kerultek-az-onkormanyzatok-hogy-a-kormany-tovabb-utotte-volna-oket/

34 Gvt Decree 87/2020

waves further hit urban local governments. Besides causing permanent parking chaos, it also resulted in revenue loss for cities and Budapest district municipalities.[35] The local governments' shaky financial situation suffered the next blow when the government banned levying new local taxes and prohibited raising local taxes and public services fees.[36] In December 2020, the government decided to halve the local business tax for small and medium enterprises with a net turnover lower than HUF 4 billion.[37] The business tax, which mostly benefits large municipalities with considerable economic activity, is the local governments' largest own revenue source and, on average, takes one-third of their total budget. Local governments' subsequent revenue loss is estimated between HUF 150[38] and 220[39] billion (EUR 0.4 –0.6 billion). Gergely Karácsony, the opposition mayor of Budapest, considered the measure the assassination of local autonomy in Hungary.[40] The National Association of Municipalities issued a document with similar content[41], while the Association of Cities with County Rights urged the government to cover their losses[42] — without any effect[43], however. Although the government automatically compensates municipalities with less than 25,000 inhabitants, above this threshold it decides on a case by case basis,

35 https://24.hu/belfold/2020/11/14/koronavirus-ingyenes-parkolas-polgarmesterek/

36 Gvt Decree 535/2020

37 Gvt Decree 639/2020

38 https://www.portfolio.hu/gazdasag/20201221/150-milliard-tol-esnek-el-az-onkormanyzatok-az-iparuzesi-ado-csokkentese-miatt-462758

39 https://g7.hu/kozelet/20201222/teljesen-kiszolgaltatotta-teszi-az-ellenzeki-varosokat-orban-viktor-bejelentese/

40 https://24.hu/belfold/2020/12/19/karacsony-gergely-orban-viktor-bejelentes-iparuzesi-ado-fovaros/

41 http://töosz.hu/news/653/73/A-ToOSZ-velemenye-az-iparuzesi-ado-felere-csokkenteserol/

42 https://hvg.hu/gazdasag/20210212_megyei_jogu_varosok_levele_gulyas_gergelynek

43 https://telex.hu/belfold/2021/01/14/szisztematikusan-csinaljak-ki-az-onkormanyzatokat

which may serve partisan interests.[44]

Another measure that threatens local autonomy is the introduction of special economic zones to protect investments of national economic importance.[45] Following a government decree that subsequently became a law[46], the central government may delineate special economic zones where the local governments lose their authority to the corresponding county councils that are regional elected bodies where Fidesz enjoys a majority throughout the country. Samsung's battery manufacturing plant, the land of which formerly belonged to opposition-led Göd, became the first special economic zone.[47] Although the Constitutional Court rejected Göd's constitutional complaint, it ordered the parliament to offer compensation for the affected municipalities commensurate with their former responsibilities.[48]

Similar to hospitals' militarisation, the government introduced military task forces to monitor strategic businesses of national significance.[49] By April 2020, the government sent commanders to 184 companies mostly operating in the energy, telecommunication, retail, and medical sectors.[50] Many of them were private businesses, including foreign-owned companies such as Tesco, Spar, Auchan, Telekom and Robert Bosch.

Besides these politically motivated and particularistic actions, the government tried to stimulate the economy through tax cuts involving a broader coverage: it lowered the social contribution tax from 17.5 per cent to 15.5 per cent, and suspended the col-

44 In a subsequent decree (2005/2020), the government distributed funding to 17 of the 23 cities with county rights (the largest Hungarian settlements) but only four of them are led by an opposition mayor while the rest are run by Fidesz mayors. What is more, the opposition-led cities received funding that is tied to a specific task where the others received general support that they may spend on their choice. This supplies evidence for the government's politically motivated decision on compensating local governments.

45 Gvt Decree 135/2020

46 Act 2020/LIX adopted on June 19 2020

47 Gvt Decree 136/2020

48 https://hungarytoday.hu/hungary-constitutional-court-ruling-special-economic-zones-god/

49 Gvt. Decree 1109/2020

50 https://www.napi.hu/magyar_vallalatok/maris_184-re_nott_a_letfontossagu_vallalatok_szama_ahol_megjelennek_a_katonak.703638.html

lection of tourism tax until the end of the emergency.[51] Furthermore, the government ordered a payment moratorium on credit, loans and lease contracts[52] and capped the interest rate for consumer credits at 5 per cent above the central bank's base rate. Passenger transport services received an exemption from small business lump-sum tax, and employees in tourism, catering, gambling, film industry, performing arts, event organizing and sports services also received an exemption from public dues.[53]

The Economy Protection Action Plan also included an Economy Protection Fund (EPF, "*Gazdaságvédelmi Alap*") with an initial budget of HUF 1,346 billion (EUR 3.8 billion), from which direct grants were distributed to various entities.[54] Initially, the government intended to keep the deficit low and limit the awarding of cash grants[55], but this attitude changed by the end of the year. In 2020, the government had spent an estimated HUF 3,264 billion (EUR 9.32 billion) on crisis mitigating measures from the EPF, which exceeds multiple times the original budget.[56]

Several supported projects received fierce criticism because they seem to have served particular political and economic interests unrelated to the coronavirus crisis. For instance, the EPF contributed to the construction of the much-disputed Budapest-Belgrade railway[57], and it also financed the building of stadiums, the organisation of the World Hunting Expo hosted by Hungary in 2021[58], and even space research.[59]

Although initially not a crisis-managing instrument, the Hun-

51 Gvt Decree 140/2020

52 until December 31 but because of the intensifying pandemic, the deadline has been moved to June 30 2021

53 Gvt Decree 47/2020

54 Convergence Programme of Hungary, April 2020 (https://ec.europa.eu/info/sites/info/files/2020-european-semester-convergence-programme-hungary_en.pdf)

55 Convergence Programme of Hungary, April 2020, p. 35

56 https://www.portfolio.hu/gazdasag/20201217/oriasi-penzkoltesbe-kezdett-a-kormany-az-ev-vegen-462186

57 https://hvg.hu/gazdasag/20200516_82_milliardot_csoportositott_at_a_kormany_a_BudapestBelgrad_vasutvonalra

58 Gvt Decree 1332/2020

59 Gvt Decree 1263/2020

garian Tourist Agency's *Kisfaludy Program* best demonstrates the politically biased distribution of support. The Agency's non-repayable grants for developing tourist accommodations served to mitigate the pandemic's dire consequences in the sector. However, much of the HUF 215 billion (EUR 0.6 billion) spent through this program benefited businesses owned by former Fidesz ministers, oligarchs and local governments led by Fidesz mayors.[60] Fidesz-run local governments received 470(!) times more support from this program than opposition-led local governments. Felcsút, PM Orbán's hometown with less than 2,000 inhabitants, received more tourism support than all the opposition-led local governments inhabited by more than 2.8 million people.[61]

Part of the EPF was the Competitiveness Enhancing Support Program administered by the Ministry of Foreign Affairs and Trade.[62] This program included an aid scheme available for large companies[63] and another one for medium and large firms.[64] Support in the latter was capped at EUR 800,000, while aid intensity in the former was linked to the verified financial damage caused by the COVID-19 outbreak. The grants required the beneficiaries to undertake investments of at least EUR 150,000, and they also had to maintain their base headcount until at least December 31, 2020. The government extended the program's initial budget of HUF 50 billion several times.[65]

As Péter Szijjártó, Minister of Foreign Affairs and Trade revealed, by January 2021, the government had supported 1,434

60 https://24.hu/belfold/2021/01/13/magyar-turisztikai-ugynokseg-egyedi-tamogatas-guller-zoltan/ and https://24.hu/belfold/2020/05/26/szallodafejlesztes-mtu-magyar-turisztikai-ugynokseg-balaton-meszaros-garancsi/

61 https://g7.hu/kozelet/20210219/a-fideszes-telepulesek-kozel-500-szor-tobb-turisztikai-tamogatast-kaptak-mint-az-ellenzekiek/

62 Decree 7/2020 issued by the Ministry of Foreign Affairs and Trade (April 16 2020)

63 SA.57375

64 SA.56926

65 The budget of SA.56926 available to medium and large firms was first extended in May (SA.57350), then in August (SA.58276) and next in November (SA.59306). As a result, the total budget of this scheme has reached HUF 219.33 billion (EUR 614 million). The budget of SA.57375 available only to large firms was extended in December (SA.59912) to HUF 70 billion (EUR 196 million).

investment projects through the EPF with a total investment value of HUF 1,676 billion (EUR 4.7 billion). These figures do not match those published by the Ministry, because their record lists only 829 projects supported through the program with a total investment value of HUF 561 billion (EUR 1.58 billion).[66] The government's contribution to these projects amounted to HUF 241 billion (EUR 0.67 billion). The top recipients have been foreign-owned manufacturing companies active mostly in the automotive sector, including Mercedes-Benz, Continental, Flextronics, TDK, Robert Bosch, Apollo Tyres, BorgWarner, and Audi, to name a few.[67]

The Competitiveness Enhancing Support Program lacked sectoral targeting, unlike other support schemes within the EPF. To compensate agricultural firms and those active in forestry, the government launched a state aid scheme with a HUF 35 billion budget.68 After performing the necessary tests, seasonal agricultural workers from neighbouring countries were also allowed to enter the country.[69] In August 2020, the government opened a program with HUF 50 billion (subsequently extended with HUF 35 and 30 billion) to assist COVID-19 related R&D activities and investments into relevant production.[70] Another program with mixed objectives supporting start-ups, fundamental and industrial R&D, renewable energy resources and culture and heritage conservation became available in June 2020.[71] Initially, its budget amounted to HUF 50 billion, but it gained a further 10 billion in August72 and in December, it climbed to HUF 114.69 billion (EUR 318.3 million).[73]

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66 The list of projects supported through SA.57375 is available at https://cdn.kormany.hu/uploads/document/b/b6/b61/b619ea9419a215757e5ec75cb8e04ea71aca2ec7.pdf while the list of projects supported through SA.56926 is available at https://cdn.kormany.hu/uploads/document/e/ec/ecc/ecc4496a1534a603b34bc563215c0c61f1780baf.pdf

67 https://g7.hu/vallalat/20210224/a-multik-es-azon-belul-a-nemetek-igen-jol-jartak-a-kormany-gazdasagi-akcioprogramjaval/

68 SA.57329

69 https://bbj.hu/budapest/travel/tourism/foreign-seasonal-workers-allowed-to-help-harvest

70 SA.58202; SA.58718; SA.59306 approved by the Commission on November 10 2020 increased the budget of several existing aid schemes and extended their duration until June 30 2021

71 SA.57468

72 SA.58312

73 SA.59306

Contrary to the programs discussed above, which mostly offered non-repayable grants, the government also initiated loan programs to remedy liquidity shortages. In April 2020, the first loan guarantee measure administered by state-owned Hungarian Development Bank and its affiliate Garantiqa opened to businesses of all sizes with HUF 550 billion (EUR 1.54 billion).[74] In November, its budget was nearly tripled to HUF 1,400 billion (EUR 3.89 billion).[75] The Hungarian Export-Import Bank (Eximbank) has also been responsible for a similar scheme: it offered EUR 300 million guarantees on loans, and EUR 600 million subsidised interest rates on loans[76] to SMEs and large enterprises. The budget for subsidised interest rates on loans was first doubled, and in December 2020 further extended to EUR 2 billion.[77] Because of the prolonged crisis, in February 2021, the government substantially raised the budget of the two former loan programs along with several other aid measures and extended them until December 31 2021.[78] Besides, the government also announced an interest-free loan program for micro-firms and SMEs, financed by the EU's recovery assistance package (with a budget of HUF 100 billion, EUR 280 million). Applicants may take out a loan up to HUF 10 million (EUR 28,000) with a ten-year maturity without paying instalments in the first three years. [79]

5.5 Fiscal and monetary policy

Having learned from the fall of the previous socialist-liberal coalition, the Orbán-government has consistently followed a tight fiscal policy to keep the budget deficit low. Furthermore, one of its economic policy's main objectives has been to gradually lower and restructure state debt by relying more on domestic borrowing

74 SA.57121 and Gvt Decree 1170/2020

75 SA.59306

76 SA.57064 and Gvt Decree 1171/2020. The scheme also contained EUR 3 million aid in the form of grants, which was first extended to EUR 6 million, then to EUR 10 million.

77 SA.59806

78 SA.61842; The total budget increase amounts to EUR 4.57 billion, including direct grants, loan guarantees and other forms of liquidity support.

79 https://24.hu/belfold/2021/02/24/koronavirus-10-millio-hitel/

to limit exposure to foreign credit. Consequently, since 2012, the deficit stayed well below 3 per cent of the GDP, and general debt declined from a record-high 80.4 per cent in 2011 to 65.4 per cent by 2019.[80]

Within just a few months, however, the coronavirus pandemic destroyed all these results. Data published by the Ministry of Finance shows that the deficit in 2020 reached a historic-high nominal value of HUF 5,548.6 billion (EUR 15.54 billion), which is 8 per cent of the GDP.[81] Similarly, state debt has reached a record level at 81.2 per cent of the GDP.[82] Contrary to its former preferences, the government also turned to foreign borrowing in 2020. In a series of bond issuing, the government raised EUR 6.5 billion in foreign currency-denominated bonds, which increased the share of foreign currency debt within total state debt to 20 per cent by December 2020.[83]

The central bank attempted to counterbalance the deteriorating public finances and reduce the public deficit while also providing funding to the private sector. A peculiar feature of the Hungarian crisis-management has been the unusually active central bank, which performed quasi-developmental bank roles (Podvršič et al. 2020). First, it increased bank liquidity through one-week fix-swap tenders and strengthened the government securities market with a long-term collateralised lending facility. This has allowed banks to purchase government debt both in the secondary and primary markets (Podvršič et al. 2020:36). Furthermore, the central bank paid nearly its entire profit realised in 2019 as a HUF 250 billion

80 Source of data: Eurostat

81 https://www.portfolio.hu/gazdasag/20210111/hatott-a-kormany-penzszora-sa-soha-nem-volt-meg-ekkora-deficit-a-magyar-koltsegvetesben-464790

82 Macroeconomic and Budget Forecast, Ministry of Finance, 2020, p. 21(https://cdn.kormany.hu/uploads/document/d/dc/dc2/dc2bd13d9db38740b471a0e-e5759957d6fc56f08.pdf). In spite of the above 6 per cent economic growth, the Ministry calculates with a 7.5 per cent budget deficit for 2021 (source: Macroeconomic and Budget Forecast 2021-2025, Ministry of Finance, December 2021, p. 23., https://cdn.kormany.hu/uploads/document/e/ec/ec9/ec9819f5f7ab970209713e3754475e18924294e8.pdf)

83 https://www.akk.hu/statisztika/allamadossag-finanszirozas/kozponti-koltsegvetes-adossaga

dividend to the state budget[84], which it repeated with the same amount in 2021.[85] Next, it has relaunched its Funding for Growth program (*Növekedési Hitelprogram*) with a new label *Hajrá!*. This program offered credit through the commercial banks for small and medium enterprises at a subsidised interest rate of maximum 2.5 per cent. By September 2021, when the program concluded, the total value of credit and lease contracts reached HUF 3,000 billion (EUR 8.38 billion).[86] Nearly half of the 40,655 firms participating in the program were located in Budapest.

Last but not least, large enterprises benefited from the corporate bond purchasing programme (*Növekedési Kötvényprogram*), initially launched in 2019 and closed in December 2021. The central bank increased this program's budget three times, first to 750 billion HUF in September[87], and then to HUF 1,150 billion (EUR 3.22 billion) in January 2021[88] and to HUF 1,550 billion (EUR 4.33 billion) in August 2021[89]. However, as the beneficiaries' list reveals, the central bank tended to purchase bonds of large enterprises owned or managed by oligarchs who nurture close political ties with the government.[90]

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84 https://www.mnb.hu/sajtoszoba/sajtokozlemenyek/2020-evi-sajtokozlemenyek/az-mnb-2019-evi-eredmenye-utan-250-milliard-forint-osztalekot-fizet

85 https://www.mnb.hu/sajtoszoba/sajtokozlemenyek/2021-evi-sajtokozlemenyek/a-magyar-nemzeti-bank-2021-ben-is-250-milliard-forint-osztalek-befizetessel-segiti-a-koltsegvetest-es-a-jarvanyugyi-vedekezest

86 https://mnb.hu/letoltes/nhphajra-oktober-hu.pdf

87 https://novekedes.hu/elemzesek/750-milliardra-emeli-az-mnb-a-novekedesi-kotvenyprogram-keretosszeget

88 https://www.vg.hu/penzugy/penzugyi-hirek/negyszazmilliarddal-emeli-a-jegybank-a-novekedesi-kotvenyek-keretet-3481402/

89 https://www.mnb.hu/monetaris-politika/a-monetaris-tanacs/kozlemenyek/2021/kozlemeny-a-monetaris-tanacs-2021-augusztus-24-i-uleserol

90 https://www.mnb.hu/monetaris-politika/novekedesi-kotvenyprogram-nkp and https://www.napi.hu/magyar_gazdasag/igy-tamogatta-az-mnb-a-kormanykozeli-cegeket-volt-amelyik-tobbszor-is-beallt-a-sorba.720956.html

5.6 Conclusions

In terms of policy substance, the crisis response has exacerbated the particularistic outlook of Hungary's political economy. The government offered limited or negligible assistance to vulnerable groups such as the unemployed and the pensioners. None of the support programs targeted the Roma minority, which is particularly vulnerable because many of them are unemployed, lack health insurance or work in low-skill, low-wage jobs, often in the shadow economy. Unlike in the other Visegrád countries, the Hungarian government did not offer direct income support to families, although it launched a preferential loan program for home renovation. Wage subsidies have also been moderate and riddled with slow administration and delayed payments. Social protection measures have therefore been rather meagre and tied to a workfarist agenda.

In contrast, economic circles and sectors close to the government have benefited from the mitigation measures raising their particularistic profile. Although some initiatives, such as the support for start-ups, R&D and renewable energy aimed at economic upgrading, overall, the industrial policies seem to have instead strengthened the status quo and built up little resilience against future crises. Whether investment grants awarded to medium and large enterprises supported innovative projects also remains dubious because of the very short timeline available for preparing and submitting applications. Overall, the government's fiscal response was rather weak, consisting mostly of deferrals and liquidity guarantees rather than immediate fiscal impulses. However, the central bank proved an agile player by pouring extra liquidity into the market and offering a generous credit programme to small and medium enterprises.[91]

Although the Hungarian health care system is among the weaker ones in the region, with little funding, widespread mismanagement and corruption in hospitals, and increasing brain drain

91 The governor of the central bank, György Matolcsy, who formerly served as Minister of Economy in the Orbán government, openly criticised the government's crisis management measures (https://novekedes.hu/mag/matolcsy-gyorgy-kanyarban-elozni-2-0)

of medical personnel,[92] the government's attempt to upgrade it has been somewhat half-hearted. The considerable salary rise of doctors and nurses has prevented the impending disaster, but the government has so far failed to address the sector's systemic weaknesses.

The crisis responses in terms of policy means show a mixture of heterodox and Keynesian measures, partially mirroring the practices with which the Orbán-government treated the consequences of the 2008 crisis. Given the politically biased distribution of crisis resources serving particularistic interests and the limited economic upgrading efforts, the Hungarian response to the crisis is squarely situated in the unequal status quo policy quadrant.

Nevertheless, the use of the EU's Recovery and Resilience Facility (RFF) may help build some resilience. The national recovery plan, which outlines how the Hungarian government wants to spend the EUR 7.2 billion grant set aside from the RFF, prioritises investments into such underfunded fields as higher education and research, digitalisation, green mobility, and health care.[93] The drafting process of the document received criticism because of the limited public consultation and little involvement of social partners.[94] However, contentwise it seems forward-looking as it emphasises spending on so far neglected fields crucial for economic upgrading. At the same time, because of rule of law disputes between the European Commission and Hungary, the Commission has withheld the approval and pay out of RFF funds to Hungary. As of February 2022, the approval of the program still remains uncertain.

92 https://www.sgi-network.org/docs/2019/country/SGI2019_Hungary.pdf

93 https://www.palyazat.gov.hu/helyreallitasi-es-ellenallokepessegi-eszkoz-rrf

94 https://www.euractiv.com/section/economy-jobs/news/drafting-national-recovery-plans-a-laborious-exercise-for-visegrad-countries/

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Table 5.1: Policy summary Hungary

Policy (sub-)areas		Hungary
Social and labour market policy	Employment and income support	Wage support for reasons of mandatory closure or revenue loss gradually extended to various sectors
		Job protection support in engineering, R&D, and aviation industry
		Extending deadlines for entitlements of existing family support schemes
		Gradual reintroduction of the 13th month pension
		Free internet access for students in distance education
		Suspension of public parking fees
	Housing	Payment moratorium on housing loans and mortgages
		Preferential loan for families for home renovation
		Suspension of evictions
	Essential workers	One-time bonus and salary increase for health care workers (conditional on signing new employment contract)
	Labour migra-tion	Seasonal agricultural workers from neigh-bouring countries permitted to enter

Industry, trade and investment	Public investment	Reallocation of EU funds to wage support programs and business grants
		R&D and other support for producing or purchasing health care equipment and medicines related to the pandemic
		Large infrastructural investments (Budapest-Belgrade railway, multifunctional sports hall in Budapest, stadiums)
	Statism	Militarisation of hospitals and strategic businesses (military commanders appointed by the prime minister)
	State aid to domestic sector and foreign business	Grants for new investment projects to medium and large enterprises (both domestic and foreign-owned)
		Grants in the tourism sector (businesses and local governments as recipients) and agriculture
		Compensation for lost revenue in accommodation services
		Grants for investments into fundamental and industrial R&D, renewable energy resources and culture and heritage conservation
		Loan guarantees and preferential loans to SMEs and large firms
		Interest-free loan program for micro-firms and SMEs
		Deferral of social security contributions
		Banning the increase of rental fees (in selected sectors)
		Exemption from paying rental fees (in selected sectors)
	Trade and FDI	FDI screening
		Ban on exporting medical equipment necessary for combating the virus

Monetary and fiscal policy	Monetary and financial policy	Central bank's corporate bond purchase program (large firms)
		Central bank's preferential loan program (SMEs)
		Central bank buying government bonds
	Macroprudential	Quantitative easing (temporally waiving of capital conservation buffer, systemic risk buffer and institution buffer)
	Fiscal	Issuing of foreign currency-denominated government bonds (EUR 6.5 billion)
		Levying a progressive retail tax and a crisis tax on credit institutions
		Transferring the vehicle registration tax from the local governments to the central budget
		suspending payment of small business lump-sum tax (selected sectors), and tourism tax
		Cutting social contribution tax by 2 percentage points
		Halving local business tax
		Ban on levying new local taxes and prohibition of raising local taxes and public services fees
Governance and political institutions	Social partnership and interests	Regular consultations limited to government-friendly associations (e.g. Hungarian Chamber of Commerce and Industry)
	Political institutions	Emergency law giving extra powers to the government
		Establishing the Coronavirus Operational Task Force
		Transferring authority from local to regional governments in centrally delineated special economic zones
		Measures undermining local government finances; compensation of local governments for lost local business tax revenue is subject to individual negotiations with the central government (above 25,000 inhabitants)
		Withholding 50 per cent of the central support for political parties