

The End of Urbanomics: From Leader to Outsider. Lessons for Poland from Hungary's Stagnation



At the beginning of the 2000s, Hungary was one of the leaders of political and economic transformation in Central and Eastern Europe, serving as a model for countries in the region, including Poland. By successfully attracting foreign capital, Budapest earned a reputation as a pioneer of free-market reforms.

Today, the roles have reversed. Poland has become the economic powerhouse of the region, while Hungary has largely lost its initial position. For the past three years, Hungary has been in stagnation, recording zero economic growth and the largest negative difference compared to Poland in 25 years. Since 2019, its industrial production has fallen by 5%, while in Poland it has increased by 20%. Hungary has failed to fully overcome post-pandemic inflation or bring high market interest rates under control.

The economic system built by Viktor Orbán, based on the control of economic processes by allied oligarchs, has proven unable to respond to major macroeconomic shocks and structural changes. Abandoning the principles of institutional stability and the rule of law has pushed Hungary away from the free-market development model, contributing to a deterioration in living standards.

Why did this happen? And what lessons does it hold for Poland? The report offers answers to these questions.

It is worth noting that many of the problems affecting the Hungarian economy are also present in Poland: relatively low productivity of small companies, a lack of domestic innovation, a development model based on low labour costs, high public debt, and erosion of institutional quality. Why did these phenomena accumulate in Hungary to the point of becoming a significant burden on the economy, while in Poland they remain in the background? The answer is complex, but it can be briefly captured in one word: diversification. It applies to both the economic and political spheres – system flexibility, diversity, and spontaneous competition. Hungary lacked these qualities, while Poland still possesses them. It is important, however, to ensure this advantage is not lost. In seeking ways to achieve a major technological leap – an idea that captures the imagination of Poles – we must avoid falling into the kinds of problems Hungary has faced.

About the Report

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Executive Summary

From Leader to Outsider. Historically, Hungary, alongside Czech Republic, was a regional economic leader. It was characterised by strong dynamism and an inflow of technologically advanced investments. However, in recent years the country has fallen into stagnation, revealing numerous problems that have been building up for at least two decades. Average GDP growth in 2022–2025 amounted to only 1.1% (compared to 3.1% in Poland), while HICP inflation peaked at 26.2% – the highest level in the region. In 2019 industrial production has declined by 5%, while in Poland it has increased by 20%. From the position of regional frontrunner, Hungary has slipped into the role of an outsider.

Hungarians disappointed with their country Poor economic performance is reflected in a widespread sense of disappointment. Hungarians observe that other countries in the region, including Poland and Romania, have managed economic transformation more effectively over the past decade. Hungarians are among the least satisfied populations in Central Europe – on the Cantril ladder they reach a level comparable to Belarus. The Index of Consumer Sentiment has dropped by 18 points since 2019, whereas in Poland it has fallen by only 1 point. Support for adopting the euro has already reached 75% – Hungarians do not believe that their own currency, the forint, can provide a stable foundation.

From Sovereignty to an oligarchic state The government of Viktor Orbán was officially guided by the idea of restoring national sovereignty, but in practice it evolved into the creation of an oligarchic state. Market competition was systematically undermined, the independence of the media and judiciary curtailed, and civic organisations suppressed. Public procurement became a tool for building business loyalty, while regulations were used to favour “national champions” and networks of dependency at the expense of the free market. The result is an economy lacking dynamism: the Hungarian market shows very high concentration indicators, rates of new business formation are below the OECD average, and over a decade there were only five stock market debuts (compared to 66 in Warsaw). Hungary also has the highest number of regulated professions in Europe.

Trust crisis and high interest rates One of Hungary’s main macroeconomic challenges is the loss of investor confidence, which has translated into persistently high interest rates. This crisis has its roots in 2003–2006, when excessive debt expansion, the falsification of fiscal data, and the infamous 2006 speech by Prime Minister Ferenc Gyurcsány triggered a vicious cycle: low trust → higher rates → weaker growth → even lower trust. Since 2004, Hungary’s average reference interest rate has been 5.3%, compared to 3.5% in Poland. Despite partial stabilisation of public finances (a 15 percentage point reduction in debt over a decade), Orbán’s government has not ultimately broken this cycle – conflicts with the EU, undermining the rule of law, and closeness to Russia have maintained a high risk premium, which re-emerged painfully during the pandemic and energy crisis.

Clashes with the EU and investment recession The freezing of EUR 19 billion in EU funds – equivalent to two years of public investment and roughly 10% of GDP – led to a sharp decline in investments. In 2024, public investment in Hungary remained at the nominal level of 2018, while in Poland it increased by 75% over the same period. Over the past decade, up to 90% of Hungary’s investment spending was financed by EU funds – without them, the country’s investment engine has stalled. Since the escalation of conflict with Brussels, support for Fidesz has steadily declined, confirming that confrontational policies toward the EU have not been accepted by voters.

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PART I. Hungary on Road to Nowhere

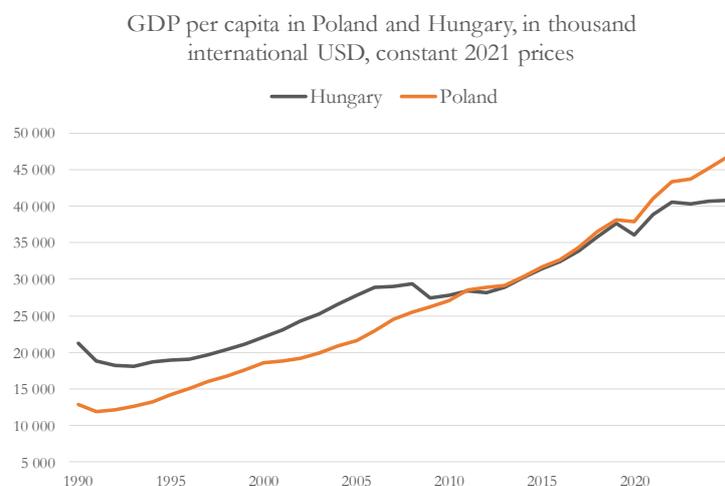
In the past, Hungary was prosperous and served as a point of reference for other countries in Central Europe. National pride remains strong among Hungarians, perhaps increasingly rooted in memories of the Austro-Hungarian Empire before the 1920 Treaty of Trianon, which divided the country. Economically, many Hungarians still look back very positively on the early years following the 1989 transition, when the country was a regional leader in terms of income, economic growth, and attracting foreign investment.

Nowadays, however, the country sees all that is best in the past, treating the present as a depressing episode. National pride has been wounded, and the sense of success has largely vanished. There is a widespread belief that the last decades have not been a period of progress, development, and rising prosperity – as has been the case in Poland – but rather a story of failure, overshadowed by growing dissatisfaction with political elites and state policies.

“We have lost our attractiveness. We were unable to harness our potential. Today we are almost at the very bottom. Our new model is no longer Austria, but Poland. Poland today is the real success story of the region,” says Dr. Ákos Kozák, co-founder and director of the Equilibrium Institute, an independent Hungarian think tank.

For nearly two decades after the fall of communism, Hungary was considered one of the economic leaders of Central and Eastern Europe, alongside the Czech Republic, and a pioneer of free-market reforms. Dynamic privatisation, early openness to foreign capital, and the rapid development of the automotive cluster were expected to position the country as the economic heart of the region. It did not happen. Since 2006, Hungary has experienced a series of crises, increased economic volatility, and a loss of relative position compared to other Central European economies. From the role of regional frontrunner, the country has slipped into that of an outsider.

Chart 1. At the beginning of the transformation, Hungary had significantly higher GDP per capita than Poland. Today, it is the opposite.



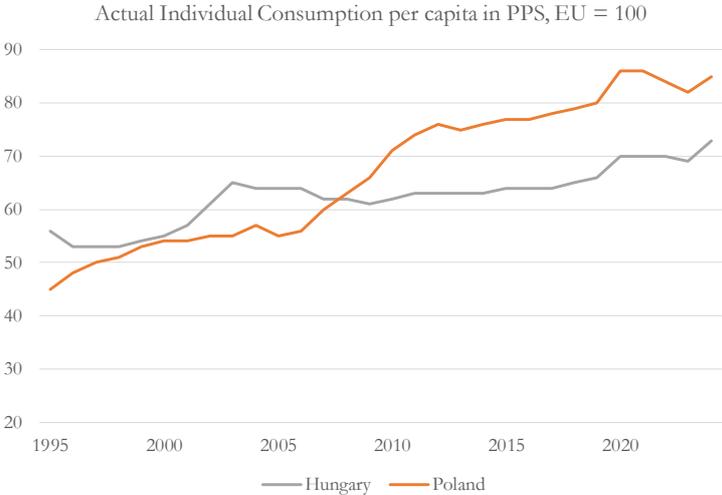
Source: Spotdata based on World Bank data

“The path Hungary is currently following leads nowhere, and there is no indication that this could change,” says Éva Palócz, Director General of the Kopint-Tárki Economic Research Institute, one of Hungary’s most respected independent economists.

Pessimism is reflected in social sentiment. Hungarians are the least happy nation in Central Europe, and within the broader Central and Eastern European region, they are surpassed only by Russians, with life satisfaction comparable to that of Belarusians. On the Cantril ladder, which measures life satisfaction on a scale from 1 to 10, Hungarians score 5.92, while Poles score 6.67, Czechs 6.78, and Lithuanians 6.83.

This is partly a consequence of relatively low living standards. Measured in purchasing power parity, the average Hungarian now consumes less than the average resident of almost every other EU country (except Latvia). Economists consider this indicator a better measure of household living standards than GDP per capita, as it reflects the goods and services actually consumed by people, including those financed by the state, such as healthcare and education. While over the past two decades the average Hungarian has only slightly improved their standard of living relative to the EU (an increase of about 9 percentage points compared to the EU average), Poland has made a huge leap during the same period, rising from around 57% to 85%.

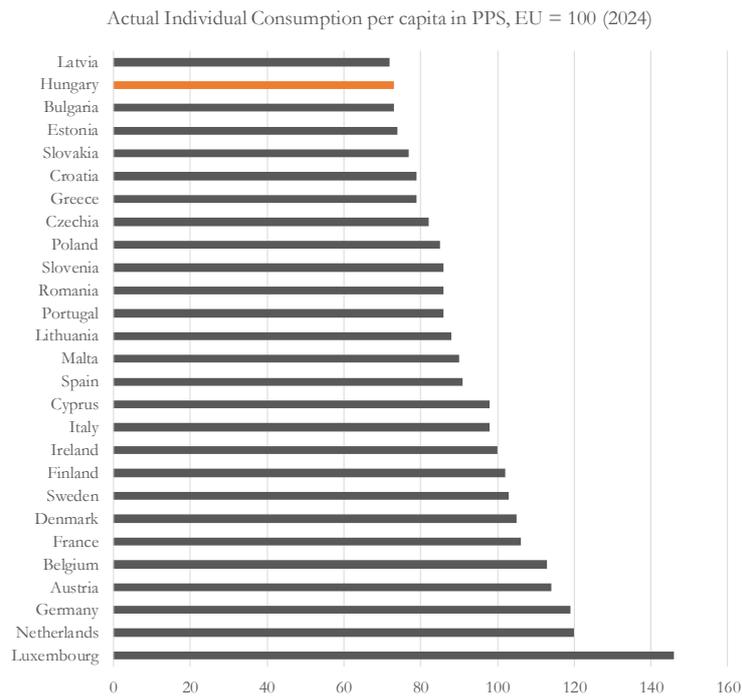
Chart 2. The pace of catching up with wealthier countries in terms of prosperity is much weaker compared to Poland



Source: Spotdata based on Eurostat data

“We had two periods when we felt the economy was growing dynamically: the early 2000s and the second half of the 2010s. Both of these cycles have already come to an end. We are currently stuck in a phase of stagnation, and nothing indicates that a new ‘golden era’ will arrive in the foreseeable future,” says Zoltán Török, Chief Economist and Head of Research at Raiffeisen Bank in Hungary.

Chart 3. The level of prosperity measured by individual consumption is now almost the lowest in the EU in Hungary



Source: Spotdata based on Eurostat data

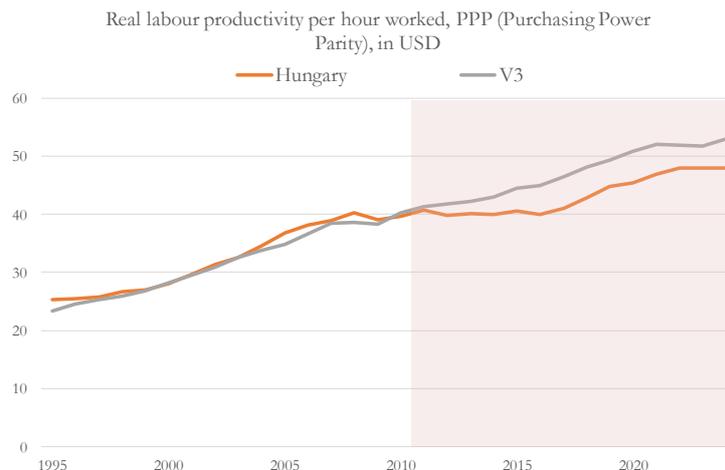
Stagflationary End of Orbanomics

The foundation of these negative developments is the exhaustion of the model known as Orbanomics – an unorthodox set of economic policies that, after 2010, was intended to bring about a breakthrough and restore Hungary to its former glory: technological advancement, economic sovereignty, a developmental leap, improved quality of life, and protection of society from global crises. This model placed political and economic sovereignty on a pedestal, based on the diagnosis that Hungary’s economic weakness stemmed from dependence on foreign capital, technology, and political decisions. In practice, however, the pursuit of sovereignty went hand in hand with oligarchisation, the weakening of independent institutions (including courts and media), and increased dependence on Russia and China. At the same time, old mistakes in fiscal and monetary policy re-emerged, leaving the country vulnerable to global macroeconomic shocks.

Orbanomics had its moments of success, particularly in 2015–2019, when the Hungarian economy showed dynamism and high capital inflows. However, beneath these solid macroeconomic indicators, cracks and structural weaknesses were accumulating – issues described in later parts of this report.

Everything began to unravel in the years following the pandemic and the energy crisis. Hungary became the “sick man of the region,” simultaneously experiencing the lowest economic growth and the highest inflation, significantly eroding citizens’ living standards. In essence, this was a classic case of stagflation.

Chart 4. Productivity growth paths diverged after the global financial crisis



Source: Spotdata based on World Bank data

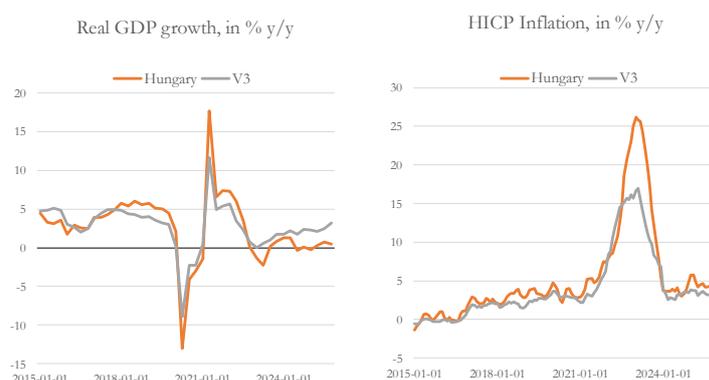
Between 2022 and 2025, Hungary's average annual GDP growth amounted to 1.1%, compared to 3.1% in Poland and 2.1% on average in the region (including 1.4% in Slovakia and 1.7% in the Czech Republic). At the same time, Hungary faced the deepest inflation crisis in the region. At its peak, HICP inflation (calculated according to Eurostat's harmonised EU methodology) rose to 26.2% year-on-year. By comparison, inflation peaked at 17.2% in Poland, 19.1% in the Czech Republic, and 15.4% in Slovakia.

The stagflation of recent years resulted from the accumulation of misguided economic decisions made over the past two decades. However, at its critical moment, three factors acted as the final nail in the coffin for the Orbanomics system.

- Firstly, the rule-of-law dispute with the European Commission and the freezing of EU funds led to falling investment, rising risk premiums, and sharp currency depreciation. Low investment reduced GDP, while a weak currency became an additional channel for importing inflation, trapping the economy in a vicious cycle of eroding trust, stronger price shocks, stagnation, and rising debt-servicing costs.
- Secondly, domestic economic policy significantly fuelled fundamental price pressures. Between 2021 and 2023, Hungary's average primary fiscal balance stood at -3.5% of GDP, compared to -1.9% in Poland and -2.9% in both the Czech Republic and Slovakia. This resulted from an unprecedented package of social transfers introduced by Fidesz in the 2022 election year, including a 13th pension payment, full personal income tax refunds for parents, and generous bonuses for the public sector. The budget deficit financed investment (i.e., future consumption) to a much lesser extent than in other countries, favouring social spending (current consumption), which is more pro-inflationary. The fiscal balance excluding public investment remained negative (-1.2% of GDP), while in Poland and the Czech Republic it was positive.
- Moreover, heavy dependence on energy imports from Russia exacerbated inflationary pressures and the current account deficit. Hungary's power system relies more heavily than its regional competitors on fossil fuels (mainly natural gas) purchased from Russian

producers. In 2022, Hungary imported nearly 90% of its natural gas consumption and most of its crude oil, with Russia supplying the dominant share. Although Poland had a higher share of fossil fuels at the time due to coal, its domestic production and diversified gas supply (LNG terminal, Baltic Pipe) increased its resilience to external price shocks. The lack of diversification and heavy reliance on Russian imports exposed Hungary directly to extreme commodity price volatility.

Chart 5. Hungarian stagflation – slower GDP growth and higher inflation than in the region



Source: Spotdata based on Eurostat data

From Leader to Outsider

The troubles of the Hungarian economy in recent years are part of a longer trend.

In the past, Hungary was regarded by Poles and other Central European nations as a model to follow – perhaps not as wealthy as the Czech Republic, but close. It is no coincidence that a trip to Lake Balaton during the Polish People's Republic era meant for Poles what a trip to Mallorca does today, just as Hungarian wine back then was what Italian wine is today.

In 1989, Hungary's GDP per capita amounted to nearly 50% of the US level (measured in purchasing power parity terms). By comparison, that metric peaked at 30% in Poland, 40% in the Czech Republic, and 55% in Slovakia. Labour productivity in the 1990s was also relatively high compared to other countries in the region. In 1995, value added per hour worked reached USD 25.3 (PPP), compared to USD 19.6 in Poland, USD 21.1 in Slovakia, and USD 28.5 in the Czech Republic.

Currently, both income per capita and labour productivity in Hungary are below the regional average, and the gap with its neighbours is widening. At an early stage of convergence, Hungary fell into a low-efficiency trap. While the country only entered a phase of stagnation in recent years, the slowdown in productivity growth has persisted for more than a decade. Labour productivity

clearly decelerated after the global financial crisis, creating a growing gap between Hungary and the other members of the Visegrad Group (V3)¹,

In 2024, Hungary's GDP per capita amounted to 47,000 international dollars, corresponding to 55% of the US level. Thus, in relation to the world's technological frontier, represented by the United States, today's Hungary is at a similar level to where it stood at the start of the systemic transition. During the same period, Poland reached 59.7%, the Czech Republic 66.1%, and Slovakia 55%. An even more pronounced regression is visible in labour productivity statistics. While in 1995 Hungary exceeded the regional average by 8.1%, and in 2008 still maintained a positive gap of 4.1%, today its productivity is 9.2% lower than the average of neighbouring regional economies.

Costly Dualism of Economy

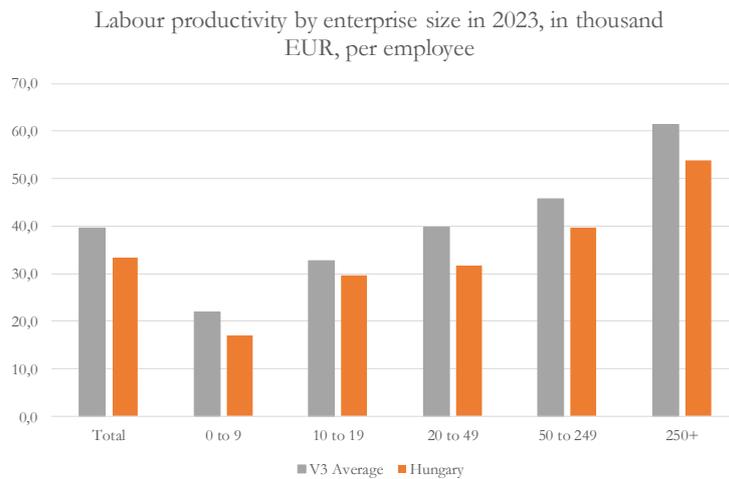
Paul Krugman, the American economist and Nobel Prize laureate (2009), once said words that provide the best introduction to a structural diagnosis of economic development: "Productivity isn't everything, but in the long run it is almost everything." When searching for the sources of developmental success or failure, the first step should always be to examine productivity and its growth – that is, how effectively a country uses its labour, capital, and technology resources.

One of the greatest weaknesses of the Hungarian economy is the small-scale trap and the low efficiency of domestic companies. Although this issue affects all countries in the region and the EU as a whole, it poses a particularly acute challenge for Hungary. The structure of enterprises itself does not differ significantly from that of Poland, the Czech Republic, or Slovakia: micro-enterprises (up to 9 employees) account for 96.2% of all companies in Hungary, compared to 95.7%, 96.4%, and 97.4% in neighbouring countries, respectively. The key difference, however, is the significantly lower productivity of small entities.

In 2023, labour productivity in Hungarian micro-companies amounted to 17,000 euro per employee annually, compared to a regional average of 22,000 euro. As a result, the problem of an excess of low-efficiency, locally operating small companies that fail to fully utilise human capital is more pronounced in Hungary than in Poland or the Czech Republic.

¹ which includes Poland, Hungary, the Czech Republic, and Slovakia.

Chart 6. Hungary companies are characterised by low productivity compared with the rest of the region



Source: Spotdata based on Eurostat data

It is noteworthy that at every level of enterprise size – from micro, through small and medium-sized enterprises, to large companies – productivity in Hungary remains below the V3 average. This is largely the result of trends over the past decade, characterised by relatively weak productivity growth. Between 2014 and 2023, productivity in Hungary increased by 60.7% (in nominal euro terms), compared to 76.5% in Poland and as much as 87.3% in the Czech Republic.

Although part of this disparity may stem from the deeper depreciation of the forint against the euro, even when measured in purchasing power parity terms – which eliminate exchange rate and price differences – labour productivity in Hungary has grown more slowly than in other regional leaders.

“We have large multinational corporations and small Hungarian companies operating side by side, but they are not connected. Local SMEs are unable to enter the supply chains of major corporations, which deprives them of access to new technologies and innovation,” says Ákos Kozák, co-founder and director at the Equilibrium Institute, an independent Hungarian think tank.

“The excess of micro-enterprises blocks economies of scale. The productivity of our small companies is only 30–35% of the EU average,” he adds.

According to some Hungarian economists, an important factor weakening domestic enterprises is the government’s strategy, which focuses on attracting foreign direct investment (FDI) while neglecting support for domestic private companies. The lack of a coherent strategy and comprehensive industrial policy instruments deepens the gap between these two groups of enterprises. In contrast to Poland, where the role of foreign investment in transferring technology and knowledge is widely acknowledged, Hungary tends to focus more on its drawbacks.

As a result, the productivity gap between domestic and foreign-owned companies in Hungary is relatively large. In 2023, it amounted to 54.7%, compared to 43.4% in the Czech Republic and 39.0% in Poland (only Slovakia recorded a higher figure at the level of 61.6%).

“Our small and medium-sized enterprises are not strong enough compared to those in Poland, the Czech Republic, or even Romania. They focus mainly on the domestic market, lack innovation, and are not subject to sufficient competitive pressure. This is a structural problem that cannot be solved within the short political horizon,” says Zoltán Török, Chief Economist and Head of Analysis at Raiffeisen Bank in Hungary.

The International Monetary Fund points to the significant role of state ownership in weakening the productivity of private companies. In a special report on Hungary, it highlights long-term productivity obstacles stemming from the excessive presence of the state in key sectors, which hinders competition. Orbanomics has led to a situation in which investments are directed not where they generate the highest returns or innovations, but where they serve to build capital loyal to the regime. This is a process known as kleptocracy, typical of low-income countries.

Competition in the Hungarian economy is therefore not based on efficiency but on access to power. Foreign companies benefit from tax breaks, while domestic companies receive government contracts.

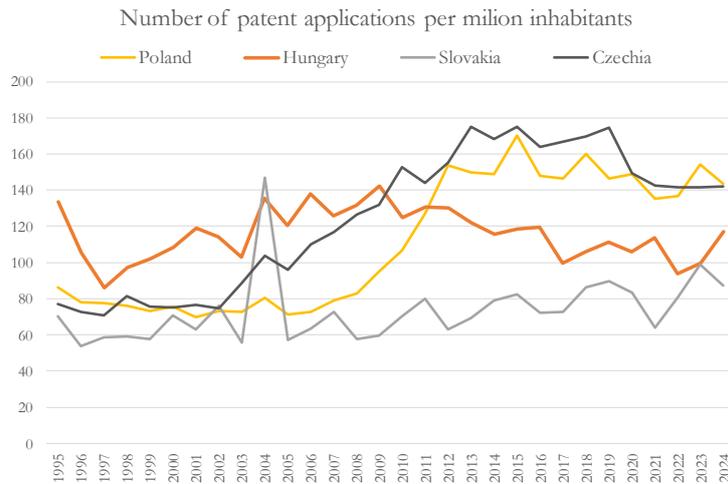
Ákos Kozák: “The government’s strategy continues to focus on attracting FDI (foreign direct investment) in sectors such as battery production and automotive, while simultaneously supporting “national champions”. These are two separate strategies. The problem is that if we maintain low labour costs to attract capital, we do not build human productivity and limit consumption potential.

Zoltán Török: “In public procurement, there has been a tendency to favour national champions. These are purely political decisions, driven by so-called NER groups – business circles closely connected to the government through family or personal ties. Of course, this does not promote economic efficiency.

Many problems in the Hungarian economy are similar to those in other regional countries. But in Hungary, these problems are deeper, more rooted in the country’s institutional structure. Example? Innovation. Hungary has gone from being the most innovative country to having the lowest number of patents per million inhabitants – alongside Slovakia. As a result, domestic companies lack access to new technologies that could improve production efficiency.

The problem of insufficient domestic technological development in Hungary is both significant and growing. While the Czech Republic and Poland have seen noticeable improvements in this area over the past two decades, Hungary has experienced regression. In 2000, with 119 patent applications per million inhabitants, the country was a regional leader. However, in the following years – especially after 2009 – the pace of innovation slowed significantly. As a result, Hungary now produces almost the same number of domestic patents as at the beginning of the 21st century. At the same time, Poland and the Czech Republic recorded dynamic growth in this indicator, rising by 89.7% and 89.1%, respectively. It may be a consequence of the oligarchisation system and high corruption: companies close to power do not need to compete through innovation, only through access to public contracts, which eliminates the incentive to develop patents.

Chart 7. At the beginning of the 21st century, Hungary was the most innovative country in the region. Then a deep regression occurred



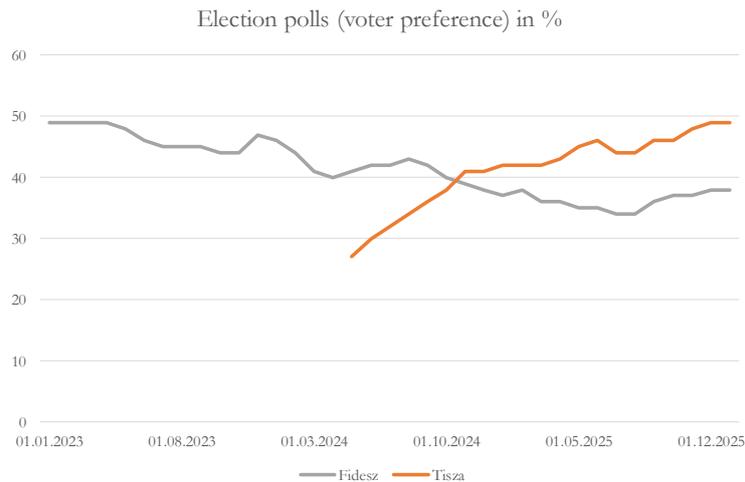
Source: Spotdata based on World Bank and UN data

Hungary Heads to Polls

The worsening macroeconomic situation is directly reflected in social attitudes. In recent years, subjective well-being has deteriorated – a trend that stands out when compared to Poland. Between 2019 and 2026, the consumer sentiment index, measured by the European Commission, dropped by 18 points in Hungary, while in Poland it fell by only 1 point. In 2019, the life satisfaction index (on a scale of 0–10) was 6.0 in Hungary, compared to 6.19 in Poland. In subsequent years, the index decreased in Hungary by 0.09 points, while in Poland it increased by 0.49 points. The decline in relative living standards has contributed to widespread pessimism and growing fatigue with the current power structure. Society increasingly believes that the current state model is exhausted, generating a need for deep political changes as a necessary condition for returning the country to a path of stable development.

In April 2026, parliamentary elections will be held in Hungary, which for the first time in 16 years may result in a change of government. The main political forces are Viktor Orbán’s Fidesz and Péter Magyar’s Tisza (Respect and Freedom) party. Magyar, a former official associated with Orbán’s party, used his knowledge of the inner workings of Orbanomics to build a movement opposing corruption and the rise of oligarchic structures. His party has quickly become the most serious challenge to Orbán in the last 16 years. According to polling data collected by Politico, Tisza’s party is ahead of Fidesz and is the favourite in the upcoming parliamentary elections.

Chart 8. Tisza's victory in the elections could break the political status quo



Source: Spotdata based on Politico data

The key components of Tisza's political strategy are as follows:

- Technocratic populism: Magyar does not appeal to traditional left-right divisions but builds a front of “honest people” against the “corrupt elite”.
- “New Deal” for the economy: A proposal to move away from a dependent economic model toward supporting innovation, transparency, and repairing relations with the EU to unlock funds.
- Mobilisation of the less developed regions: Tisza effectively reaches voters in smaller towns, who were previously strongholds of Fidesz and now suffer most from inflation and declining public service quality.

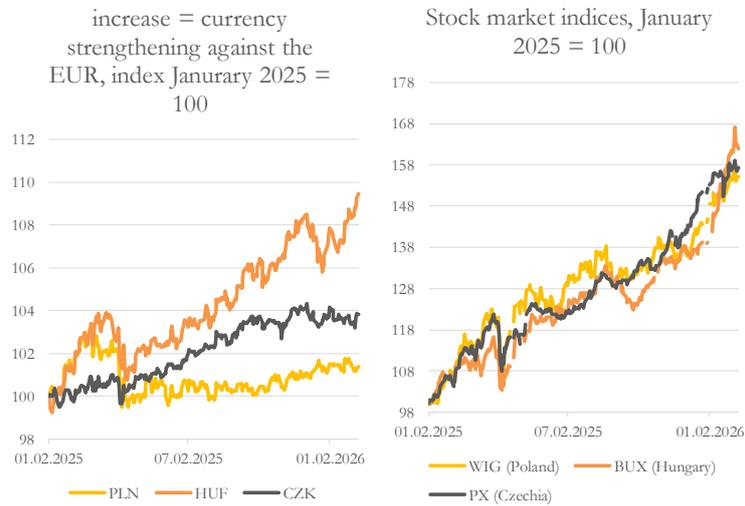
In financial markets, there is a belief that the current government's defeat and a change in power would unlock EU funds, potentially triggering a rapid revival in industry and the broader economy. In recent months, the forint has been the fastest-strengthening currency in the region, while the BUX stock index has risen by 9.46% since the beginning of the year compared with 3.03% for the WIG and a fall of 6.40% for the Czech PX index (as of 16 March 2026).

There are three main possible election scenarios:

- **Tisza victory:** An attempt to dismantle the current system, restore rule-of-law standards, and unblock EU funds. In the optimistic scenario – a chance to reset relations with Brussels and gain a new development boost. However, Tisza is a young party without a proven administrative team or governing experience, and dismantling the institutional foundations of Orbán's system – including justice, media, and oligarchic structures – would be a multi-year and challenging process. A new government carries inherent uncertainty.
- **Fidesz retaining power:** Continuation of the current model would increase the risk of economic stagnation and deeper isolation within the EU. Nevertheless, a pragmatic adjustment of policy cannot be excluded – Orbán has often demonstrated the capacity for tactical shifts when economic circumstances demand it. In a pessimistic scenario, further institutional erosion and growing marginalisation of Hungary in European structures could occur.

- Parliament in suspension:** If no party gains a majority, various configurations become possible – from a Fidesz coalition with the radical Mi Hazánk (implying a shift toward extreme nationalism) to a minority government. Each scenario would involve a period of heightened political unpredictability.

Chart 9. The stock market is rising at record speed, and the forint is the fastest-strengthening currency in the region. Markets are pricing in a scenario of Viktor Orbán’s defeat.



Source: Spotdata based on Bloomberg data

PART II: Macroeconomic Sources of Hungarian Stagnation

Crisis of Trust and Dream of Euro

Recently, more attention has been paid to the theory that high public debt does not necessarily pose a risk to economic stability and development. Under certain conditions, this may indeed be the case, as illustrated by Japan. However, Hungary exemplifies the opposite thesis: in some circumstances, high debt can become a serious problem for the economy, triggering a vicious cycle of low trust, slow GDP growth, and high debt-servicing costs. It is worth examining these circumstances and considering whether they could occur in Poland in the future.

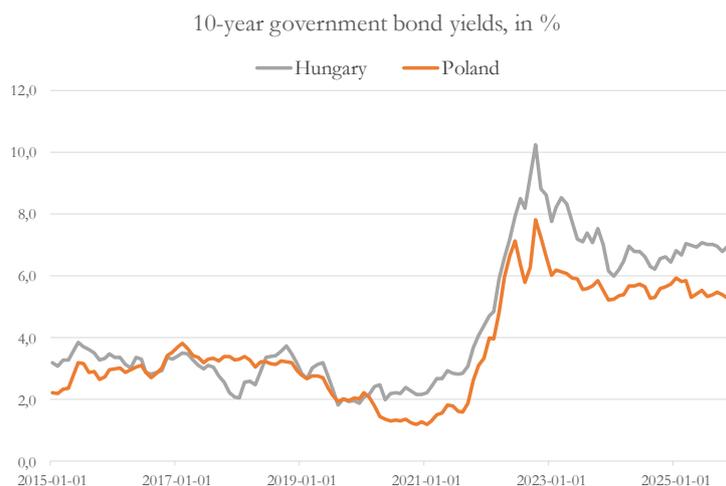
Once triggered, this vicious cycle is extremely difficult to break because each element reinforces the next. Low trust raises risk and interest rates; higher capital costs hinder growth; low growth further undermines trust. Hungary has been trapped in this cycle for over 20 years, with its effects becoming particularly painful during global crises. This is why Hungary lags behind Poland in terms of growth and macroeconomic stability, especially during periods when global investors are fearful.

The main macroeconomic manifestation of low investor confidence in Hungary is the persistent need to maintain higher interest rates than those in other Central European countries.

“We have some of the highest interest rates in the region, which is a direct result of past monetary and fiscal policy errors. This drastically suppresses investment and consumption, creating a growth barrier that our neighbours, including Poland, do not face,” says Éva Palócz, Director General of the Kopint-Tárki Institute for Economic Research.

This example illustrates that a country does not have full control over its cost of money. Even though interest rates are formally set by the central bank, they ultimately depend on broader macroeconomic conditions. The freedom of monetary authorities to set rates is like a climber ascending a mountain: they follow the available path, not any path they wish.

Chart 10. Hungary pays significantly higher interest on its debt than Poland



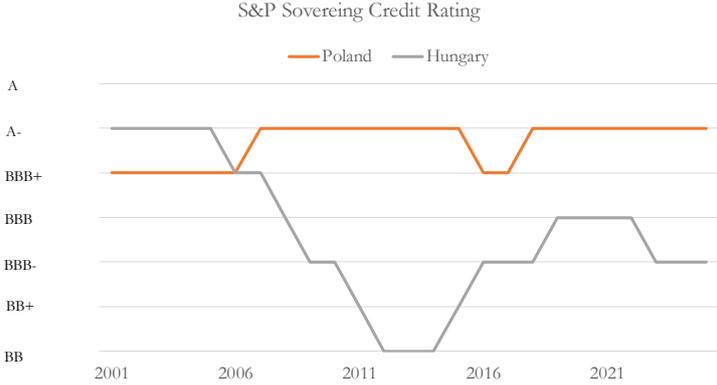
Source: Spotdata based on Bloomberg data

As late as 2003, just before EU enlargement, Hungary’s central bank reference rate was exactly the same as Poland’s – 6.5%. However, in subsequent years, the paths of interest rates in forints and zlotys diverged significantly. Since 2004, Hungary’s average interest rate has been 5.3%, compared with 3.5% in Poland and 2% in the Czech Republic. This difference of nearly 2 percentage points contributed to weaker growth outcomes for the Hungarian economy. The divergence was particularly pronounced during periods of global crises – in 2008, 2012, 2020, and 2022, when Hungarian rates were nearly 3 percentage points higher than in Poland, illustrating the high risk premium the country had to bear.

Another manifestation of low confidence in the Hungarian economy is the valuation of local companies, which is closely linked to the cost of capital. Between 2004 and 2025, the average price-to-earnings ratio of companies listed on the Hungarian stock exchange was 15% lower than the corresponding ratio in Poland. This occurred even though the Polish market also experienced limited investor confidence during this period due to open pension funds reforms and frequent regulatory changes affecting state-owned companies, such as the bank tax and the costs of restructuring foreign-currency loans. Of course, the average price-to-earnings ratio can be influenced by factors other than risk, including the sectoral composition of the market. Nevertheless, the negative premium in this indicator in Hungary reflects a broader pattern of distrust in the economy.

What lies at the root of Hungary’s relatively low trust compared to the region? The answer can be traced back to the events of 2003–2006, when Hungary began to fall behind other countries. The consequences of the decisions and political directions taken during this period became entrenched for years due to the “vicious circle” described at the beginning of this chapter. Despite numerous efforts, subsequent governments were unable to break this cycle. In many cases, these interventions worsened rather than improved the country’s situation.

Chart 11. Since 2006, Hungary has had a lower rating than Poland



Source: Spotdata based on S&P data

The years 2003–2006 were marked by significant debt expansion in Hungary, both public and private. Much of this debt was owed to foreign creditors, predominantly in the form of foreign currency loans – government and bank loans alike. In 2004, Hungary recorded a massive current account deficit, the most important measure of stability for emerging markets, highlighting the country’s dependence on foreign capital to finance both public and private expenditures. That year,

the deficit reached 9% of GDP, whereas a prudent level is generally considered to be around 4–6% of GDP. The inflow of capital financed, among other things, household mortgage loans denominated in foreign currency and public consumption by the Hungarian government. Importantly, much of this capital came in the form of debt rather than equity, creating additional risks for the economy, as repayment obligations had to be met regardless of economic conditions. In 2004, foreign debt was slightly above 60% of GDP, and by 2007 it had grown to 90% of GDP.

A key element in the erosion of trust was fiscal policy, which maintained very high budget deficits – exceeding 5% of GDP year after year, and at one point approaching 10% of GDP – despite a still favourable economic situation and low unemployment. An important factor in this context was the fact that the Hungarian government misled the public, investors, and international institutions about the budget situation and planned austerity measures. It committed to making certain changes but then failed to follow through on those promises. Gradually, investors began to lose confidence in the government’s ability to manage public finances. The public debt ratio in Hungary was not very high initially, but by 2005 it had exceeded the EU threshold of 60% of GDP, which at the time was considered a serious breach of fiscal prudence. Three years later, debt surpassed 70% of GDP.

As a result, Hungary gradually began to be treated as a higher-risk country. Just after joining the European Union, this risk was not immediately reflected in credit ratings, as the wave of optimism surrounding EU enlargement masked structural weaknesses. However, it soon became visible in interest rates and government bond markets. Between 2004 and 2006, Hungary gradually fell behind other Central European countries. While Poland and the Czech Republic were able to reduce interest rates, benefiting from growing global confidence in the new EU members, Hungary had to raise its cost of money as the market demanded increasingly higher risk premiums.

At one point, this gradual erosion of trust escalated into a full-blown crisis. The trigger was the infamous speech by Prime Minister Ferenc Gyurcsány in May 2006. Initially confidential, the recording was made public by the media four months later. In the speech, the Prime Minister admitted that his government had deliberately lied about the state of public finances, used accounting tricks, and pretended to govern. The release of the recording caused a political and social shock, and for the economic environment, it was a clear signal that the government did not have effective control over the country.

Rating agencies quickly began to downgrade Hungary’s creditworthiness. By mid-2006, Hungary still held a higher rating than Poland (according to S&P), but its creditworthiness was declining while Poland’s was rising. The financial crisis of 2008 made any macroeconomic stabilisation in Hungary impossible. As the country was increasingly treated as risky, it experienced massive capital outflow and a deep recession.

In 2010, Viktor Orbán came to power and, during the early years of his government, took significant steps to restore macroeconomic stability. Over the next decade, the public debt ratio fell by 15 percentage points of GDP (from 80% to 65%), Hungary began recording high current account surpluses, and foreign debt fell from 150% to 90% of GDP. Strong inflows of foreign direct investment boosted exports, partly thanks to well-established economic ties between Hungary and Germany. Interest rates and bond yields fell to levels comparable with those in Poland.

However, restoring trust was not easy. Although Hungary stabilised public finances and balanced its external accounts, its credit rating remained relatively low. And Viktor Orbán’s conflicts with

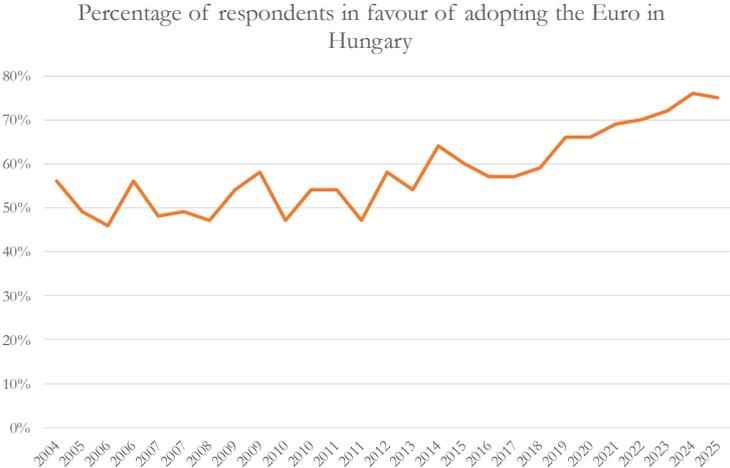
the European Union, his open questioning of the principles of liberal democracy, and the erosion of judicial independence meant that investor confidence – by nature coming from the West and attached to its legal order – kept the risk premium that Hungary had to pay at a high level. When crises struck again – the pandemic followed by the energy crisis – this risk premium became particularly painful: capital fled, bond yields surged, interest rates rose to the highest levels in the region, and economic growth stagnated.

It can be confidently stated that Hungary continues to feel the effects of mistakes made in the first half of the 2000s. Since then, the country has had little opportunity for its anti-system approach to reverse the erosion of trust, despite occasional improvements in macroeconomic stability. In the coming years, if global conditions improve and macroeconomic shocks stabilise (it is difficult to repeat a series like the largest pandemic in a century and the largest war in 80 years), Hungary could potentially return to economic growth. However, without a significant shift in structural policy – which is discussed in the next chapter of the report – it will be challenging to restore trust permanently.

Persistently low confidence in the forint and Hungarian assets suggests that Hungarians themselves would likely favour adopting the euro. According to Eurobarometer surveys, support for the euro in Hungary reached 75% in 2025, up from 60% ten years earlier and only 49% twenty years ago.

“In my opinion, adopting the euro would be a win-win for the economy: lower interest rates and a stable currency. For the past 17 years, the forint has been in continuous depreciation, which has fuelled inflation. But the current government, for political reasons, does not support joining the eurozone,” says Zoltán Török, Chief Economist and Head of Analysis at Raiffeisen Bank Hungary.

Chart 12. Support for the euro is rising in Hungary



Source: Spotdata based on Eurobarometer data

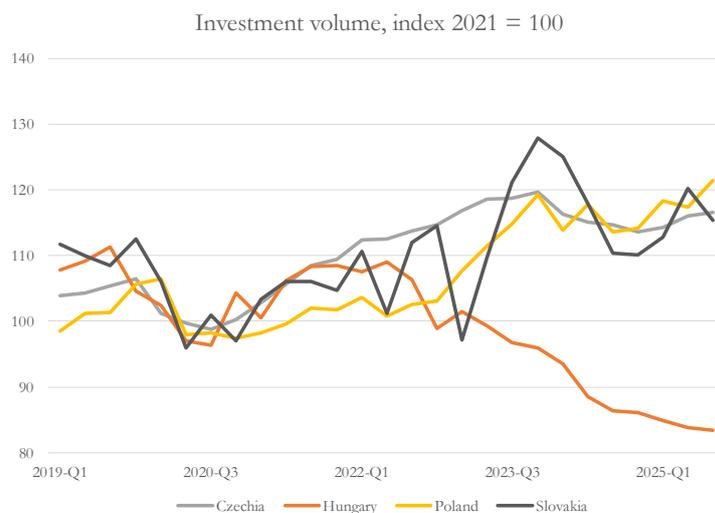
Opposing the EU, Contrary to Public Opinion

In addition to macroeconomic imbalances and low investor confidence, another significant burden for the Hungarian economy in recent years has been the freezing of EU funds by the European Union due to violations of the rule of law. These funds had been an important source of financing for public investments, and their suspension clearly slowed investment dynamics. They also supported the balance of payments, so their absence further exacerbated the problems of distrust and high capital costs described in earlier sections.

In total, 19 billion euro was frozen for Hungary – an enormous sum equivalent to two years of public investment, or roughly 10% of GDP. In 2024 (the most recent year with full data), public investment in Hungary in nominal euro terms remained at a level similar to 2018. By contrast, public investment in Poland increased by 75% over the same period. Notably, this growth in Poland occurred even under the United Right government, demonstrating that Polish authorities were better able to manage the effects of conflict with Brussels than their counterparts in Budapest.

“In the last decade, there were years in which almost 90% of total investment expenditures were financed from EU funds. I am referring to all investments in the country. Currently, we are observing a drastic recession in this area – the level of investment has fallen by half (50%). Without EU funds, Hungary’s investment engine simply doesn't move. The conflict with Brussels is not just a diplomatic problem; it is a fundamental barrier to GDP growth, which cannot be replaced by domestic capital,” notes Dr. Ákos Kozák, co-founder and director at the Equilibrium Institute.

Chart 13. Hungary is undergoing a major investment recession



Source: Spotdata based on Eurostat data

The government of Viktor Orbán chose a path of radical confrontation and further weakened its political position by maintaining close ties with Russia following that country’s full-scale invasion of Ukraine in 2022. This hardline stance was not accepted by the voters. Since the start of the conflict over European funds, support for Fidesz has been steadily declining. After peaking in June 2022, it entered a consistent downward trend.

In April 2022, the European Commission activated the so-called conditionality mechanism against Hungary, a regulation that links access to EU funds to respect for the rule of law. Hungary was the first country to which this mechanism was applied. The main allegations against Hungary included:

- Irregularities in public procurement, systemic issues with the transparency and fairness of tenders, conflicts of interest, and insufficient control mechanisms,
- Widespread corruption,
- Ineffectiveness of prosecution actions,
- Violations of judicial independence,
- Restrictions on fundamental rights – including with regard to LGBTIQ persons and limitations on media freedom.

Energy? Only from Russia

Geopolitical decisions had significant macroeconomic consequences that extended beyond the issue of EU funds. Heavy dependence on Russian gas, combined with a lack of efforts to diversify energy supplies, meant that the country felt the impact of the energy crisis far more acutely than other nations. Rising prices sharply worsened Hungary's trade balance and raised concerns about macroeconomic stability. To some extent, it was an objective factor, as Hungary, being landlocked, does not have easy routes for importing raw materials. However, its high reliance on Russian gas and reluctance to diversify left Budapest with very limited negotiating leverage at critical moments.

When Russia invaded Ukraine in February 2022 and the European Union imposed sanctions, most EU countries moved swiftly to diversify their energy sources. Hungary, however, continued in the opposite direction. In August 2022, the Orbán government signed an annex to its Gazprom contract, increasing gas deliveries by an additional 5.8 million cubic meters per day. This move was merely the culmination of a long-standing policy of dependence on Russian energy.

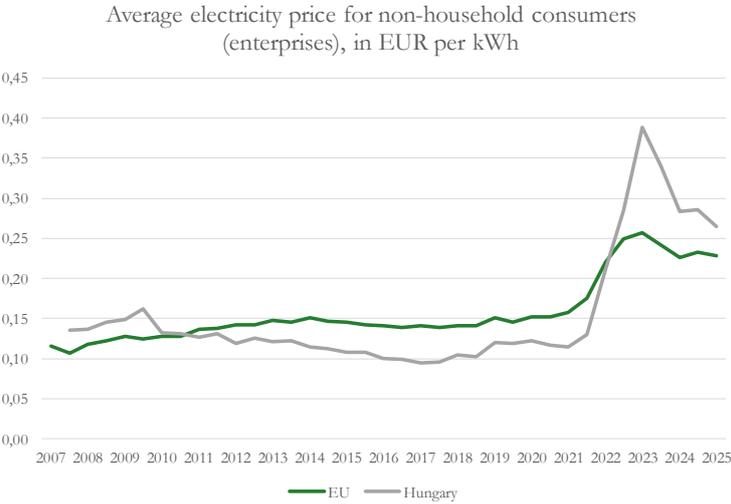
Hungary imported around 85% of its gas from Russia, maintaining one of the highest levels of reliance on Russian supplies in Europe. While Poland developed the LNG terminal in Świnoujście and the Baltic Pipe gas pipeline, Budapest remained closely tied to Moscow. As Prime Minister Orbán argued, switching suppliers would have caused immediate economic disruption. While that may have been true in 2022, Hungary had pursued a strategy of dependence on Russia for years, even after the first Russian invasion of Ukraine in 2014.

In Hungary's energy mix, gas accounted for 34% of energy production – twice as much as in Poland. Gas import dependence stood at 67%. When gas prices surged following the outbreak of the war in Ukraine, the Hungarian economy found itself in a dead end. The lack of alternative supply sources meant that Hungary had to pay Russian prices without any room for negotiation. In 2022, the country paid 40% more for gas than the European average. As a result, in 2022 Hungary recorded a current account deficit of 9% of GDP, compared with about 2.3% of GDP in Poland – even so, Poland experienced market turbulence in the autumn of 2022 due to a weakening trade balance and current account deficit.

The government's response to rising energy prices relied on administrative price freezes – first on basic food products in February 2022, and later on fuel. The problem with full price freezes lies in the fact that they can exacerbate the problem if the government does not have the resolve or funds to sustain its . Consequently, when fuel price caps were lifted in December 2022, inflation surged sharply. In that month, annual average inflation stood at 14.5% – and that was only the beginning. In January 2023, inflation reached a record 25.7%, placing Hungary alongside conflict-stricken Ukraine. Electricity, gas, and other fuels rose by 56%, while food prices increased on average by 45%, with some products – such as cheese, eggs, or bread – nearly doubling in price.

Hungary paid a higher price for its dependence on Russia than just elevated gas prices. It resulted in the loss of economic stability, investor trust, and position within the EU. Only in October 2023 – one and a half years after the crisis erupted – did Budapest sign its largest-ever LNG gas purchase contract with the Western company (Engie), with deliveries scheduled to begin only in 2028. It was too late to prevent the catastrophe that had already occurred.

Chart 14. Energy prices for businesses are much higher than the EU average



Source: Spotdata based on Eurostat data

Investments? Only from China

Another area of costly geopolitical dependence for Hungary is its strong reliance on Chinese investments. These inflows were intended to provide broad access to capital and technology, but in practice they deepened sectoral and technological concentration within the industrial sector.

In 2024, Chinese capital accounted for as much as 51% of all foreign direct investment inflows to Hungary, totalling 5.3 billion euro. When combined with investment from South Korea and Japan, Asian capital represented nearly 80% of all new FDI in Hungary that year. This was not a one-off surge: China was also Hungary’s largest investor in 2020 and 2023. According to a report by MERICS and Rhodium Group, in 2023 Hungary received 44% of all Chinese FDI directed to the European Union and the United Kingdom – a remarkable figure for a country of only ten million people, surpassing Germany, France, and the UK. In 2024, this share remained high at 31% of Chinese investment in Europe, and in the electric vehicle sector specifically, it reached as much as 62%.

The scale of these investments is unprecedented relative to the size of the Hungarian economy. According to MERICS, Chinese FDI accounted for at least 2.4% of Hungary’s GDP in 2023, compared to an average of just 0.4% for other European countries included in the study. This disparity is expected to grow as new megaprojects are implemented. Nearly all of these investments are concentrated in a single value chain: the production of electric vehicles and batteries. The automotive sector, already a pillar of the Hungarian economy – around 5% of GDP, employing over 100,000 people directly, and generating roughly 21% of exports – is becoming even more dominant, while simultaneously growing increasingly dependent on a single source of capital and a single technology.

Interestingly, public and expert attitudes in Hungary toward such heavy reliance on foreign investment are generally more skeptical than in Poland, and deepening economic ties with China may have reinforced this skepticism.

“When economic growth falters, the government’s only response is: ‘let’s attract more foreign investment.’ But it’s a trap. These factories take the remaining labour force away from local entrepreneurs who cannot afford to compete on wages with the giants. The government is deliberately pushing local companies out of the labour market,” says Éva Palócz, CEO of the Kopint-Tárki economic research institute.

When in 2022 the Chinese giant CATL announced the construction of a 7.3 billion euro battery gigafactory in Debrecen, the Hungarian government celebrated it as “the largest investment in the country’s history”. Prime Minister Viktor Orbán highlighted thousands of new jobs and creation of a new axis of economic development. It is likely that the factory will significantly support Hungarian industry and exports in the coming years. At the same time, however, it generates new risks. The electric car market, particularly in Europe, is growing more slowly than expected; rapid price declines are driving many producers into losses, and demand for components is not increasing as projected. By mid-2025, reports indicated that preparations for the factory’s second phase had been suspended, officially citing “market uncertainty”. CATL denied the reports but acknowledged that it was “focused on completing the first unit, and the decision on the second phase will be made after careful consideration”. Bloomberg also reported that CATL had to adjust the factory’s production profile – instead of exclusively producing lithium-ion batteries with ternary cathodes, it would also manufacture cheaper lithium iron phosphate (LFP) and sodium-ion batteries to meet changing expectations from European customers.

“Our manufacturing sector is hitting a low point. For example, last year one battery factory had to shut down 10 of its 12 production lines because they were designed for specific car models whose production was halted due to poor sales. This demonstrates how rigid and risky our industrial structure is,” says Zoltán Török, Chief Economist and Head of Research at Raiffeisen Bank Hungary.

CATL is not the only Chinese giant building an electromobility hub in Hungary. BYD, the world’s largest electric vehicle producer, is constructing its first European passenger car factory in Szeged, with a planned annual production capacity of up to 300,000 vehicles and an estimated investment of 4 billion euro. At the end of January 2026, the plant began trial production, with serial production scheduled to start in the second quarter of 2026. The first model assembled in Szeged will be the Dolphin Surf (known in China as the Seagull), followed by the Atto 2. In May 2025, BYD relocated its European headquarters from the Netherlands to Budapest. However, there are indications that BYD may treat Hungary more as an assembly base than a strategic centre. Reuters reported that the company may produce only “tens of thousands of vehicles” in Szeged in 2026 – far below planned capacity – while prioritizing a new factory in Turkey, where labour costs are lower.

Economist Dóra Györffy from the University of Budapest criticises the scale of Hungary’s battery strategy, arguing that the country has drastically exceeded a reasonable level of battery production relative to its population and economic size. According to forecasts by S&P Global, Hungary was expected to become the world’s fifth-largest producer of lithium-ion batteries by 2025, and once CATL reaches full capacity, its position will strengthen further. “The Hungarian government has concluded that battery production is the key to economic development and can be invested in without risk. But that makes no sense. There will always be demand for bananas and oranges, but that doesn’t mean we should grow them in Hungary”.

PART III: Building Oligarchic State

It is impossible to understand the Hungarian economy without considering the political context in which it operates. This is true for all countries, of course – but especially for those where political interference in business activity shapes the rules of the game and the behaviour of market participants.

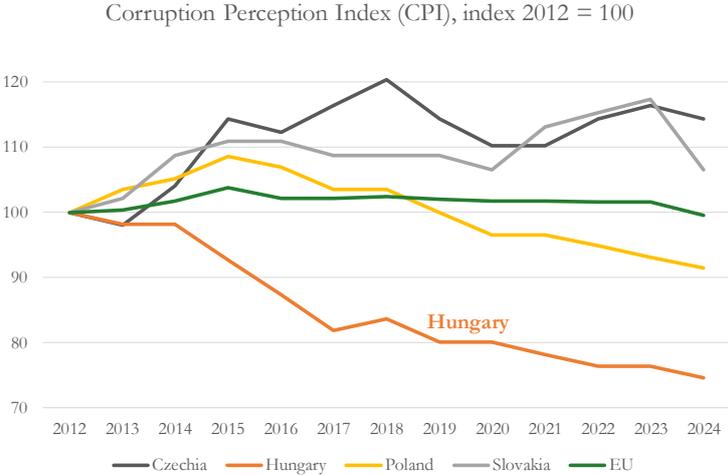
“Economic decision-making in Hungary is almost entirely politicised. There is no debate between parties about the growth model or long-term strategy. Disputes concern only current measures, such as tax cuts, while expert-level policymaking has been marginalised,” says Zoltán Török, Chief Economist and Head of Research at Raiffeisen Bank Hungary.

The defining feature of Hungary’s economic system is oligarchy. The contemporary political-economic model has evolved into a form of state oligarchy, where the boundary between the public sphere and the private interests of elites is blurred. The process of building an oligarchy is a deliberate political strategy aimed at permanently consolidating power. In this arrangement, the oligarchy fulfils two key functions: one, supporting the system by providing capital and loyalty to the authorities in exchange for access to power; and two, implementing the ruling agenda through state contracts, politicisation of the media, and the takeover of strategic sectors.

The scale of the phenomenon is evident in the fact that businesses connected to the authorities are completely detached from economic cycles, and their profitability surpasses that of independent entities. Political actions designed to concentrate power and wealth include reforms of the electoral and legal systems, as well as measures limiting civic activity and curtailing media freedom.

In the strategy pursued by the authorities in Budapest, building an oligarchy is framed as a necessary by-product of building sovereignty and independence from external decision-making centres. The problem is that the benefits in terms of sovereignty are minimal – as evidenced by Hungary’s continued dependence on Russian energy and Chinese capital – while the economic costs, in terms of reduced systemic efficiency, are high.

Chart 15. Hungary diverges from the region: regression in perceived corruption compared to its neighbours



Source: Spotdata based on Transparency International data

From Dividing Pie to Dominance

The Hungarian political system differed from Poland's from the outset, and its evolution followed a distinct path.

In many ways, the actions of Fidesz are a continuation of a political culture shaped after 1989. While Poland's transition led to genuine pluralism and dispersion of influence, the Hungarian model was based from the beginning on informal elite pacts and agreements. The Hungarian transition was negotiated – talks between the authorities and the opposition in 1989 resulted in a compromise between the post-communist political nomenklatura (establishment) and the moderate opposition, allowing the former elites to smoothly convert their political capital into economic capital. In contrast, Poland's Solidarity movement created a broad and internally pluralistic (albeit fractious) social base, whereas the Hungarian anti-communist opposition was relatively narrow and elite. The resulting political arrangement quickly solidified into a stable but closed system of alternation in power. Bálint Magyar, a Hungarian political scientist and former Minister of Education in liberal governments, whose works on **the Orbán** system are among the most frequently cited in international literature, describes this model through a “70/30” arrangement – an unwritten agreement according to which the ruling parties allegedly participated in illegal revenues at 70%, and opposition parties at 30%. This division served to stabilise the system and “buy” the opposition's acquiescence, creating what Magyar calls a “trench truce”.

According to Magyar, Fidesz's acquisition of a constitutional majority in 2010 marked a qualitative shift in this model. Orbán no longer needed to share the “pie” with the opposition, as he now had the tools to permanently dominate the system without co-opting competitors. Magyar describes the resulting structure as a “post-communist mafia state” – a system in which the state is not controlled by the party in the traditional sense, but by Orbán's political-economic clan, which treats society as its own domain while maintaining a formal democratic façade. Unlike a classic kleptocracy, where elites merely seize existing resources, a mafia state actively creates and institutionalises business opportunities, channeling them to loyal actors through parliamentary legislation, the tax system, and security services. Ideology – whether anti-immigration, conservative, or nationalist – serves a purely instrumental function: it exists to maintain and expand power, rather than to advance a concrete ideological agenda.

The foundation of this system's endurance lies in the electoral reforms of 2011–2012, which transformed the proportional model into an extreme majoritarian system, creating a setup that rewards the strongest actors while marginalizing a fragmented opposition. Changes introduced by Fidesz to the voting system seek to establish a mechanism that transforms minority voter support into dominance in parliament.

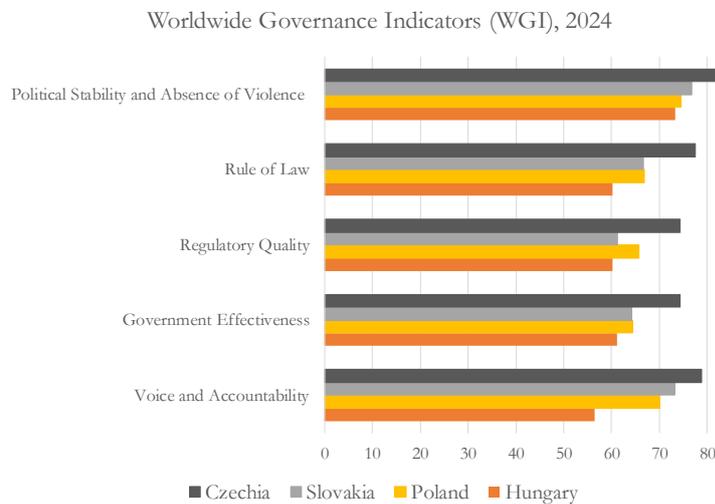
There are two mechanisms that facilitated the full takeover of the system.

- **Compensatory voting system** In Hungarian parliamentary elections, citizens cast two votes – one for a candidate in their constituency (single-member district, SMD) and one for a national party list. While compensatory voting systems in many countries are designed to give smaller parties a fair chance, in Hungary, since 2011, the system has favoured the winner, facilitating the attainment of a constitutional majority. If a candidate from Party X wins a district, votes received beyond what was necessary to beat the second candidate (the competitor's votes plus one) are considered “surplus” and are added to the national list.

Since Fidesz has consistently won the majority of single-member districts – partly due to independently drawn district boundaries – it is clear that the electoral system benefits the ruling party. Thus, in the 2018 elections, 49.27% of Fidesz’s votes translated into 66.83% of parliamentary seats.

- **Differentiation of voting rights for citizens abroad** Hungarians without a registered domestic address can vote by mail, but only for the national party list (not for a specific candidate). In practice, this mainly concerns the Hungarian minority in neighbouring countries, who generally support Fidesz. Citizens with a domestic address who are temporarily abroad on election day – such as students or other typically less conservative groups – can only vote at embassies or consulates, which entails additional costs.

Chart 16. Hungary lags behind in all dimensions of governance quality, most notably in citizen influence over the state



Source: Spotdata based on World Bank data

Regulation as Means of Greater Dominance

The electoral mechanisms described above are only the foundation of the system. Its daily functioning relies on flexible lawmaking, which – following Magyar’s logic of the “post-communist mafia state” – serves to reward loyalty and penalise opponents. New regulations allow the government to increase salaries and financial support for organisations and local authorities controlled by allies, while simultaneously reducing funds for political opponents.

This mechanism became particularly evident during the COVID-19 pandemic, when the government, using extraordinary decree powers granted by Parliament in March 2020, took actions that negatively affected opposition-run municipalities. A flagship example was the creation of Special Economic Zones, allowing the government to remove large industrial plants from municipal jurisdiction. In Göd, a city governed by the opposition since the 2019 local elections, a Samsung factory was placed in such a zone, causing the city to lose about one-third of business tax revenue to a committee controlled by Fidesz. A similar approach was applied in Dunaújváros,

which lost 3–3.5 billion HUF in annual tax revenues following the creation of the Duna-mente zone. Notably, the investment threshold qualifying for a zone was subsequently lowered twentyfold – from \$300 million to 15 million dollars – by a Fidesz parliamentary amendment, enabling much broader use of this instrument. At the same time, the redistribution mechanism of municipal revenues (the so-called *szolidaritási hozzájárulás*) was tightened, forcing wealthier cities – mainly Budapest and other opposition-controlled centres from the 2019 elections – to contribute more to smaller municipalities controlled by Fidesz.

Complementing these measures is a systematic suppression of the civil society. Fidesz’s strategy towards NGOs evolved in successive legislative waves, each expanding the scope of control. The 2017 *lex NGO* (Act on transparency of organisations receiving foreign support) required NGOs receiving foreign funding over 24,000 euro per year to register and label themselves in all publications as “foreign-supported organisations” – a measure ultimately found illegal under EU law by the CJEU. The 2018 “Stop Soros” package criminalised assistance to migrants and effectively forced the Hungarian branch of the Open Society Foundation to relocate to Berlin. Previously, independent organisations were also subjected to direct administrative repression — in 2014, raids by the Government Control Office (KEHI) and the Anti-Terrorism Centre (TEK) on the Ökotárs foundation and other organisations distributing Norwegian Fund grants provoked international condemnation.

The latest – and potentially most far-reaching – instrument is the Office for the Protection of Sovereignty (SPO), established under the National Sovereignty Protection Act of December 2023. SPO has broad investigative powers: it can demand access to organisational data, including confidential information, and use intelligence collected by security services – while those under investigation have no access to appeal mechanisms. SPO is headed by Tamás Láncki, former editor-in-chief of the pro-government weekly *Figyelő* and a former speechwriter for Orbán. In June 2024, SPO launched investigations against Transparency International Hungary and the investigative portal *Átlátszó*. In a report published in October 2024, the SPO accused TI Hungary of using foreign funding to engage in activities aimed at influencing voters’ will and acting in the interests of foreign entities. SPO also initiated proceedings against opposition MEPs and Péter Magyar, Orbán’s main opponent, just before the 2024 European and local elections. In February 2024, the European Commission opened an infringement procedure against Hungary in connection with the National Sovereignty Protection Act, subsequently referring the case to the Court of Justice of the European Union, with fourteen member states, Norway, and the European Parliament joining as interveners.

The strategy toward civic organisations also includes media stigmatisation, portraying independent actors as representing foreign interests. Combined with control over public data and municipal finances, this completes the structure Magyar calls the “post-communist mafia state”: a system in which law, institutions, and public finances serve the ruling clan’s interests rather than the common good.

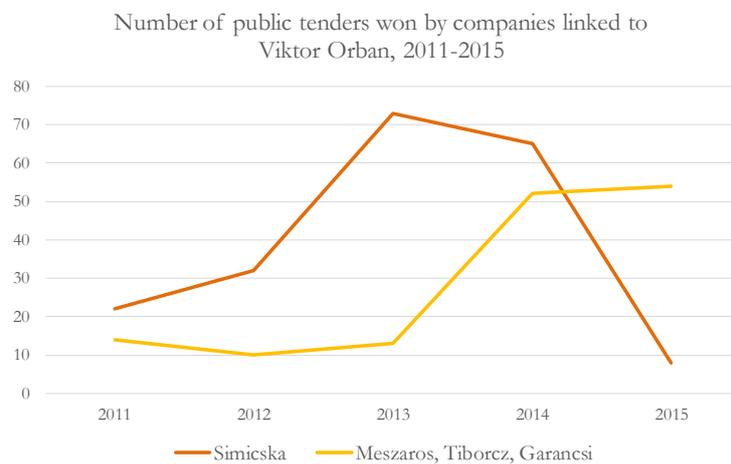
Progressive Elimination of Media Pluralism

The process of restricting media freedom over recent decades has unfolded in two main phases. 2010–2014: Political efforts focused on the “nationalisation” of public media, marginalisation of independent news agencies, and deterring private advertisers. It began with the 2010 Media Act, establishing a media council whose members are elected by Parliament and whose president is

appointed by the Prime Minister. Post-2014: A phase of deeper centralisation and the rise of private media outlets belonging to Viktor Orbán’s “political family”. At that time, Lorenc Mészáros, formerly a gas collector and mayor of Felcsút, the prime minister’s hometown, rose to become a media tycoon and today represents Hungarian oligarchisation as the nation’s wealthiest individual. Mészáros is often compared to Mark Zuckerberg, as the growth of his financial empire, based on proximity to the political elite, proceeded even faster than that of the Facebook founder.

Control over the media market is evident in the elimination of titles covering corruption, such as the closure of Népszabadság newspaper after a series of critical publications. Consequently, major abuses – for instance, controversies surrounding public contracts executed by the Prime Minister’s son-in-law – remain outside mainstream information channels. The media ownership structure allows the government to create statistical illusions of pluralism. Pro-government analyses estimate biased media share at just 30%, considering only outlets directly state-involved and ignoring the extensive network of titles controlled by loyal oligarchs. Last year’s Press Freedom Index ranked Hungary 68th globally (Czech Republic: 10, Poland: 31, Slovakia: 38).

Chart 17. Replacement of economic elites: the fall of Simicska*



*Lőrinc Mészáros, István Tiborcz, and István Garancsi are among Hungary’s wealthiest individuals and are close to Prime Minister Orbán. Lajos Simicska is a former media mogul who left the market in 2015.

Source: Spotdata based on World Bank data

Etatisation: Politicised Economy

The building of an oligarchic state is directly reflected in the economy, where under Fidesz there has been a deep turnover of elites and a redefinition of foreign capital’s role. The influence of international companies, once considered the foundation of Hungary’s economic system, has been systematically reduced in favour of nationalisation and oligarchic takeovers. These measures are directed not only against foreign companies but also against domestic businesses that are not aligned with the political elite. The main goal of this strategy is to establish a national ownership majority in strategic sectors, achieved through a wide range of regulatory and administrative tools.

a. Mechanisms of nationalization and oligarchic asset takeover

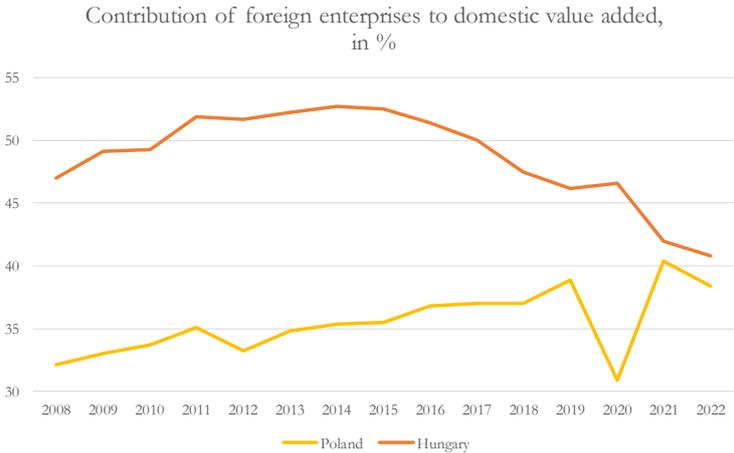
A key tool for restructuring the economy has been direct or indirect nationalisation of companies and entire industries, often as a preparatory stage for redistributing resources within the ruling elite.

This process often serves as a preliminary stage for the redistribution of resources within the ruling elite. There are many instruments of nationalisation understood in this way: statutory monopolisation of an entire industry by the state, granting licenses only to selected entities, the state taking a controlling stake in a non-state company, or imposing official prices or legal regulations that effectively remove existing owners from managing their assets.

An example of such measures is the law known as the “pharmacy for pharmacists” act, which, starting in 2017, required that the majority owner of every pharmacy be a pharmacist or the state. Similar mechanisms are described by Bálint Magyar in “The Anatomy of the Mafia State”, noting a correlation between regulatory changes in the air conditioning market and the simultaneous acquisition of shares in a leading company in the sector by Lőrinc Mészáros. In this model, the state, using institutions such as the Climate Protection Office, prepares the ground for the expansion of entities directly connected to the ruling elite.

At the same time, the state also assumes control over economic actors indirectly, through oligarchic takeovers. In such cases, the target is ultimately acquired by private actors or companies linked to the “political family”. A key mechanism here is transitional nationalisation, where an entity is temporarily taken over by the state to recapitalise it with public funds, and then transferred to private members of the ruling elite under preferential terms. This process is complemented by nationalisation designed to transfer funds, through the establishment of state entities whose only task is to issue contracts and pass profits to private subcontractors from government networks. The history of MKB Bank (Hungarian Foreign Trade Bank) reflects this mechanism. The bank was temporarily nationalised in 2014 to rescue it from bankruptcy. After restructuring using public funds, the majority of shares were acquired by leading oligarchs – Lőrinc Mészáros and László Szűj. With this strengthened capital base, the entity went on to acquire, among others, Budapest Bank, creating a powerful financial player under formally private control but closely connected to the political elite. At the same time, the government pursued a strategy of directly taking control of the financial sector, increasing the share of state-controlled banks from 30% in 2013 to over 50% in 2018.

Chart 18. The decline of foreign capital in Hungary after 2014



Source: Spotdata based on World Bank data

b. Extraordinary taxes, strategic agreements, and state sanctions

The process of marginalising foreign players and local enterprises not aligned with the centre of power is carried out by differentiating the conditions for conducting business. This mechanism is based on introducing incentives for entities loyal to the government while simultaneously imposing financial burdens on independent or opposition-aligned entities. The main instruments of this strategy are selective tax exemptions, sectoral taxes, strategic agreements, and a system of sanctions that prevent companies from adapting to imposed costs in the market. These measures lead to a reduction in the share of foreign and disloyal players in the economy, or even their complete expropriation. In such a model, expropriation does not occur normatively, but arbitrarily and individually.

Tax policy is often adjusted to the immediate needs of the political elite, which manifests in a system of selective tax exemptions. Laws, such as *lex OTP* (the largest Hungarian commercial bank) or *lex CBA*, eased certain tax burdens for Fidesz-linked companies *OTP* and *CBA* (a grocery store chain). In contrast to these benefits are sectoral taxes, designed to target industries with a high share of foreign capital or specific companies critical of the government. An example is the advertising tax, where thresholds were structured so that only the independent TV station *RTL Klub* paid the highest rate.

The state also uses the tax system to block competition against friendly companies and strategic projects. The solar battery tax aims to discourage investment in renewable energy sources in favour of the Russian nuclear power project in *Paks*, which employs selected companies. Another mechanism is indirect extraordinary taxes, involving administrative enforcement of price reductions for consumers. This measure serves not only to gain electoral support but primarily to generate losses for foreign suppliers, encouraging them to exit the Hungarian market.

For large international corporations (such as *Coca-Cola* or *Mercedes*), which cannot be easily eliminated from the economy, the state applies a policy of strategic agreements. These are specific arrangements offering companies tax exemptions and operational security in exchange for political passivity and loyalty to the administration. As noted by *Éva Palócz*, a Hungarian economist and Director General of the *Kopint-Tárki Economic Research Institute*, “*The government talks about building national champions, but in reality, the economy is becoming increasingly dependent on external giants and political decisions on resource allocation. This is not building sustainable competitiveness; this is managing stagnation*”. The system is completed by state sanctions preventing companies from passing extraordinary costs onto consumers. This ensures that the imposed burdens hit the capital of independent entities directly.

c. Ubiquitous state control over the entrepreneurship

A key economic pillar of an oligarchic state is the omnipresent decision-making power of central authorities in allocating public contracts. Hungary stands out among OECD countries for its exceptionally high share of public procurement in the economy, accounting for 16.4% of GDP and 33.8% of total government spending (compared to the OECD average of 12.9% and 27.8%, respectively). Such a large scale of public fund redistribution, coupled with restricted free competition, forms the foundation for building the financial base of the ruling elite.

The main instrument for limiting competition is the phenomenon of “single-bidding,” where only one bidder participates in the tender. Although this rate fell to 33% in 2022 (from around 40% in previous years), Hungary still ranks among EU countries with the highest risk of lack of market competition. Poland performs worse in this regard but has a slightly lower share of public

procurement in the economy than Hungary. Barriers to entry for new entities and SMEs remain high – the share of new companies in public procurement rarely exceeds 15%, cementing the position of a narrow group of system beneficiaries. The process of politically selecting tender winners has been formalised through a series of procedural changes that reduce transparency:

- **Lowering transparency standards:** raising the contract value threshold exempting it from public tender requirements and shortening the bid submission period to unrealistically short deadlines raises suspicions that winners have access to tender information before public announcements.
- **Subjective evaluation:** price often accounts for only 50% of the bid assessment, while the remaining points are awarded based on discretionary parameters, giving tender committees wide latitude to favour specific contractors.
- **The share of non-publicly announced contracts** increased from 20% in 2010 to over 60% of all public procurement in 2015.

These privileges are conditional and depend on full loyalty to the centre of power. An example is the case of Lajos Simicska, a major entrepreneur mainly operating in construction and advertising, who began losing public tenders after a conflict with Prime Minister Viktor Orbán. A beneficiary of the system became, among others, Istvan Tiborcz, Orbán's son-in-law, who amassed wealth mainly after his marriage – his company won most of the street lighting replacement tenders.

This phenomenon leads to a specific form of “top-down corruption”. Politically connected companies often act as intermediaries, entering agreements with real subcontractors who possess the competence to execute contracts but are excluded from direct access to tenders.

Consequences: State of Economy

The structural transformations described above, based on the discretion of the rulers, carry long-term consequences for the economy and economic growth. Gradual oligarchisation and arbitrariness of certain decisions have led to the deterioration of key governance indicators, reduced state credibility in the eyes of investors and international institutions, and a slow loss of national economic competitiveness.

a. Degradation of institutional indicators

For over a decade, Hungary has experienced regression in the quality of state institutional fundamentals. According to the World Bank's Worldwide Governance Indicators, the Rule of Law indicator for Hungary has dropped sharply – while in 2012 the country was in the 75th percentile globally, it has now fallen to around the 50th percentile. Simultaneously, there has been a significant decline in the Regulatory Quality indicator, which measures the government's ability to formulate and implement sound regulations supporting private sector development. This decline reflects the previously described practice of creating laws serving the interests of specific groups and the lack of transparency in the legislative process.

These data correspond to a worsening situation in corruption control. According to the Transparency International Corruption Perceptions Index, which considers a wide range of public sector corruption manifestations (such as misappropriation of public funds, state capture by narrow interest groups, or nepotism in civil service), Hungary ranked last in the European Union in 2024 with a score of 41/100 (on a scale from 0 – high corruption, to 100 – corruption-free state, with an OECD average of 65/100). Moreover, historical analysis shows that Hungary is increasingly distancing itself from the rest of Central and Eastern Europe in this regard.

European Commission data confirm that the perception of systemic unfairness is shared by the private sector: as many as 36% of Hungarian companies believe that corruption prevented them from fairly competing for public procurement over the past three years, compared to an EU average of 25% in 2025.

These negative trends are also reflected in credit rating agency assessments. In 2025, the credit rating agency Standard & Poor's (S&P) revised Hungary's rating outlook from stable to negative, citing uncertainty related to the freezing of EU funds due to breaches of the rule of law, as well as the risk of stagflation. Compared to other Visegrád Group countries (the Czech Republic, Poland, Slovakia), Hungary exhibits a higher risk profile, which translates not only into higher debt servicing costs but also into lower confidence from domestic and foreign investors, negatively impacting economic growth.

b. Erosion of competitiveness and business dynamism

Hungary's economic-political evolution has significantly reduced market efficiency. The model based on favouring political interests, eliminating competition, and oligarchising public procurement has deprived the economy of innovation and business dynamism. Frequent and selective regulatory changes, such as the introduction of temporary extraordinary taxes, imposition of regulations or official prices, and complex licensing requirements, have distorted market signals. Moreover, systematic reforms undermining the rule of law and the lack of progress in European Commission recommendations on the rule of law consistently block access to the full scale of EU

funds. These factors hinder economic development not only through regulatory uncertainty but primarily through investment paralysis. As Dr. Ákos Kozák notes: “Without EU funds, Hungary’s investment engine simply doesn't move. The conflict with Brussels is not just a diplomatic problem; it is a fundamental barrier to GDP growth, which cannot be replaced by domestic capital”. In practice, the lack of these funds affects the market structure because many tenders are conditional – they depend on receiving external financing (e.g., EU funds) – which favours only the largest entities capable of bearing operational risk while hitting SMEs. The result is persistently low productivity of local companies. According to Eurostat, the average productivity of a Hungarian company is only 58% of that of foreign enterprises operating in Hungary. Although higher efficiency of foreign corporations is common, in Hungary this disparity appears more pronounced. By comparison, in Poland the average local company achieves almost 69% of foreign productivity, in France 75%, and the EU average is 64%. A system favouring politically nominated companies over efficiency leaders thus leads to a lasting reduction of the state’s developmental potential. According to Ákos Kozák, “the biggest challenge is the changing demographics of entrepreneurs. We need companies that want and can export to become regional players, not just local ones. Without changing the demographic structure of business, we will not change the structure of the entire economy”.

Chart 19. High concentration: the Hungarian market is dominated by a few companies



*A lower score indicates that the markets are dominated by a smaller number of companies.

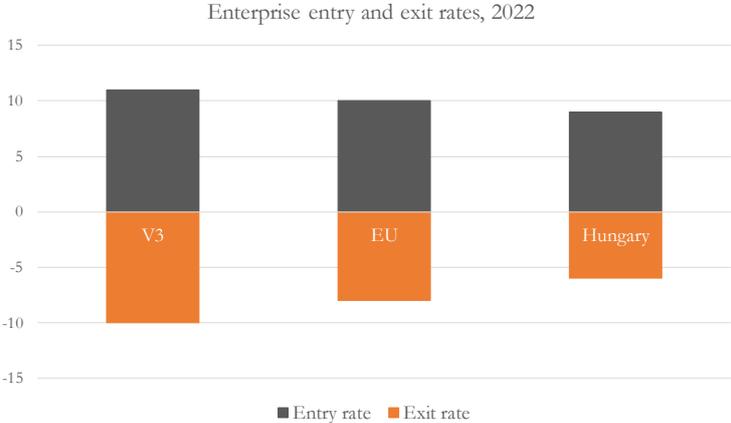
Source: PB based on the World Economic Forum

Currently, however, the legal framework, by favouring individual players at the expense of free competition, effectively blocks this change. It negatively affects new business entry indicators, which are below the OECD average in almost all sectors, especially in telecommunications and IT services. In 2023, the rate of new business creation in Hungary in industry, construction, and market services averaged 9.4%, compared to the EU average of 10.5%. New entities also exhibit lower survival rates in the first five years, a result of bureaucratic barriers and unclear rules protecting private property. Moreover, Hungary has the highest number of regulated professions in Europe, posing yet another barrier to free competition.

As a result, the market is dominated by a small number of companies. This is reflected in the BUX stock index, where over 83% of capitalisation is represented by just three closely government-linked companies: OTP (commercial bank), MOL (state oil company), and Richter Gedeon (pharmaceutical conglomerate). By comparison, the Polish WIG index is much more diversified; despite the presence of state-owned companies, its core is made up of numerous and varied private entities (LPP, Allegro, Dino, CD Projekt), with the three largest players accounting for only 27%.

In total, around 50 companies are listed on the Budapest Stock Exchange, compared to approximately 400 on the Warsaw Stock Exchange. Additionally, stagnation in the Hungarian capital market is reflected in an almost complete lack of new listings. In 2025, the Budapest Stock Exchange did not record a single IPO (Initial Public Offering), and over the past decade there have been only five. During the same period, 66 companies debuted on the Warsaw Stock Exchange.

Chart 20. The Hungarian market is characterised by low business dynamism



Source: PB, based on International Monetary Fund data

PART IV: Lessons for Poland

Hungary's situation serves as a mirror in which Poland can examine its own strengths and weaknesses. All countries in the region have followed a similar model over the past 35 years: opening to foreign capital, relying on exports, and keeping labour costs under control. Why some countries succeeded more than others provides an interesting case study highlighting the nuanced determinants of development.

Poland has managed to maintain a clearly higher growth rate and greater macroeconomic stability than Hungary. This is evident not only in hard macroeconomic indicators but also in measures of public sentiment, the behaviour of financial investors, and, ultimately, in the assessments of Hungarians themselves, who openly acknowledge that today Poland serves as a model for other countries in the region. Poland has avoided several critical mistakes and weaknesses that affected Hungarian policy. We are a highly diversified country, with many strong industrial and service sectors, which makes the economy resilient to sector-specific shocks. Few countries in the world have an export structure as diversified as Poland.

Through the efforts of multiple governments, Poland has managed to eradicate corruption, while clientelism on the Hungarian model never took hold. Poland's geopolitical conditions helped in this regard: in a large country with more dispersed demographics and economy, it is harder for interest groups to concentrate power. However, determination in tackling corruption after the infamous Rywin scandal in 2001 was also significant.

Finally, Poland succeeded in developing a vibrant sector of medium-sized companies, some of which grew within the supply chains of large corporations. This is an element evaluated differently in Hungary. There, there is suspicion toward the economic role of direct foreign investment, seen not only as a source of capital and technology but also as a disturbance to competition, a threat to local businesses, and a drain of skilled workers from the domestic market. In Poland, foreign investment has been far more successful as a catalyst for the development of a broad business ecosystem, in which not only large corporations but also medium-sized enterprises thrive.

At the same time, there are aspects of the Hungarian economic landscape that Poland should treat as lessons to be learned. Hungary's economic problems are not isolated; they arise from phenomena present in other countries, including Poland. In Hungary, they surpassed a critical threshold, and we should watch carefully to ensure we don't approach it.

Here are the lessons for Poland.

Sovereignty is Empty Slogan without Strong Economy

Hungarian policy, including economic policy, is heavily oriented around the concept of sovereignty and independence. As Viktor Orbán stated: "The last century was marked by the loss of national sovereignty, the end of the century by its recovery, and the current decade by maintaining sovereignty". Orbán's diagnosis is that the Western world operates under a dependent development model: wealthy countries develop by exploiting the resources of less affluent nations. Escaping this can only be achieved through strong-hand governments, control over the use of national economic resources, and independence from Western decision-making centres. The problem is that the idea of complete sovereignty is illusory, and Hungary experienced this painfully. By attempting to break technological dependence on the West, Hungary fell into financial dependence on speculative

investors, energy dependence on Russia, and capital dependence on China. Hungary's sovereignty policy ultimately resulted in a majority of citizens losing confidence in their sovereign currency.

In Poland, the idea of dependent development is gaining popularity. The need to emphasize sovereignty, strengthen domestic capital, and reduce reliance on technological influence from developed countries is now promoted not only by conservative parties but also centrist ones. "The era of naïve globalisation is over; economic nationalism is really nothing bad," said Prime Minister Donald Tusk in April 2025. This is largely a natural response to the changing international environment. However, it must be remembered that sovereignty requires the ability to navigate global interdependencies, build strength through cooperation, and find common ground with other countries. It also requires economic power, without which a country remains dependent on external providers of financing and raw materials. Sovereignty is an empty slogan if it is not backed by the modern attributes of a competitive economy.

Loss of Trust is Nearly Impossible to Recover

Since the political crisis of 2006, Hungary has been treated worse by investors than other countries in the region. Despite later governments' efforts to reduce public and external debt, macroeconomic stability has not returned to the level of the early 2000s. This shows how long-lasting the consequences of lost trust are. The vicious cycle of high interest rates, high debt servicing costs, and low economic growth is extremely difficult to break.

Poland is now entering a long phase of significant growth in public debt ratios. Within five years, debt is projected to approach 80% of GDP, placing Poland among the world leaders in this increase according to the International Monetary Fund. What currently differentiates Poland from Hungary is stable external debt and a low current account deficit, meaning the government is not increasing dependence on foreign financing. However, certain risks are visible on the external stability front. Potential sources of deterioration in the balance of payments could include, for example, the loss of part of service exports due to AI-driven automation, or a significant rise in imports related to defence spending and the energy transition. If several adverse developments occur simultaneously, Poland could quickly lose its reputation as a stable and predictable country. In such a situation, restoring trust would take decades, not years.

National Currency Can Become Burden

Today, three-quarters of Hungarians support abandoning the forint in favour of the euro, despite generally strong attachment to national sovereignty and a less enthusiastic attitude toward the EU than in Poland. Hungarians today do not believe that their national currency can be a foundation for independence and national development. They see it rather as a source of harm: manipulation, instability, high interest rates, and inflation. Support for the euro has gradually increased over 20 years as the forint weakened against the euro. The inflation crisis ultimately and significantly tipped the balance in favour of euro accession supporters.

In Poland today, there is broad political consensus not to adopt the euro. This position is shared both by the government (expressed, among others, by the finance minister) and even more strongly by the opposition. Skepticism also exists among many economists, though opinions within this group are more divided. It is important to remember, however, that having a national currency does not automatically determine economic strength – especially for an emerging market. For a credible economy, a national currency is an asset, allowing for flexible macroeconomic policy. For an unstable economy, it is a liability, increasing volatility and exacerbating the problem of high interest rates.

Politicisation of Economy Leads to Disappearance of Competition

Oligarchisation and clientelism are the features that most differentiate Hungary from Poland, or even from the Czech Republic. A large part of the Hungarian economy has become dependent on political decisions: through state ownership, regulations, public procurement, and the elimination of independent media. Hungarian economists and international institutions such as the IMF and OECD identify this as one of the main reasons for the low efficiency of Hungarian enterprises. In Hungary, the economic game is played on a field where the goal is influence and political protection, rather than efficiency and quality products.

Poland has avoided oligarchisation and clientelism, but the scale of state involvement in the economy is very high compared to the region and the European Union as a whole. In over 90% of Polish economic sectors, there is at least one quasi-state enterprise, defined as having at least 10% government ownership. This is slightly higher – but comparable – to the share in Slovenia, Hungary, and Romania, and considerably higher than in Latvia, Croatia, Estonia, and Lithuania. For fully state-owned companies (majority government ownership) in Poland, the figure exceeds 60%, which is also the highest level in the region. Thus, there is no sector in which competition occurs solely between companies entirely funded by private capital. The widespread presence of the state across almost all sectors can create an uneven playing field.

Excessive state ownership, extending far beyond traditional public utility sectors, blocks the process of creative destruction, market competition, and ultimately hinders technological progress – conditions essential for further productivity growth in an economy approaching the technological frontier. According to the Schumpeterian process, competition drives invention and creation, leading to the emergence of domestic technological thought. The government can support or hinder this process. In Poland, there is a risk that it may hinder it more than support it.

Public Procurement must Support Competition

In Hungary, public procurement is one of the main tools for tying business to politics. A large portion is awarded outside competitive processes, in ways that require beneficiaries to follow specific political behaviours. This is one of the reasons why the European Union has restricted Hungary's access to a large share of European funds.

In Poland, the public procurement process operates on much healthier principles than in Hungary. However, Poland is entering a period in which the government – rightly – will seek to use procurement to support the growth of domestic companies. The goal is to ensure that major investments in energy, defence, and digitalisation do not solely drive demand for foreign technologies but instead create markets in which Polish companies can thrive. The challenge will be to ensure that this approach does not fall into the Hungarian trap. Steering procurement in a particular direction must not disrupt competition, and, worse, must not increase the entanglement of business and politics, where the former becomes a client of the latter and seeks protection through political ties.

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