

# Hungary

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*Capital:* Budapest  
*Population:* 10.0 million  
*GDP/capita:* US\$18,100  
*Ethnic Groups:* Hungarian (92.3%), Roma (1.9%),  
other (5.8%)

*The economic and social data on this page were taken from the following sources:*

**GDP/capita, Population:** *Transition Report 2006: Finance in Transition* (London, UK: European Bank for Reconstruction and Development, 2006).

**Ethnic Groups:** *CIA World Fact Book 2007* (Washington, D.C.: Central Intelligence Agency, 2007).

## Nations in Transit Ratings and Averaged Scores

	1999	2001	2002	2003	2004	2005	2006	2007
Electoral Process	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.75
Civil Society	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.50
Independent Media	2.00	2.25	2.25	2.25	2.25	2.50	2.50	2.50
Governance*	2.50	3.00	3.00	2.50	2.50	n/a	n/a	n/a
National Democratic Governance	n/a	n/a	n/a	n/a	n/a	2.00	2.00	2.25
Local Democratic Governance	n/a	n/a	n/a	n/a	n/a	2.25	2.25	2.25
Judicial Framework and Independence	1.75	2.00	2.00	1.75	1.75	1.75	1.75	1.75
Corruption	2.50	3.00	3.00	2.75	2.75	2.75	3.00	3.00
Democracy Score	1.88	2.13	2.13	1.96	1.96	1.96	2.00	2.14

\* With the 2005 edition, Freedom House introduced separate analysis and ratings for national democratic governance and local democratic governance to provide readers with more detailed and nuanced analysis of these two important subjects.

NOTE: The ratings reflect the consensus of Freedom House, its academic advisers, and the author of this report. The opinions expressed in this report are those of the author. The ratings are based on a scale of 1 to 7, with 1 representing the highest level of democratic progress and 7 the lowest. The Democracy Score is an average of ratings for the categories tracked in a given year.

# EXECUTIVE SUMMARY

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In 2006, Hungary faced its greatest challenge since the country's democratic transition. Even though the reforms of the early 1990s successfully introduced a free market economy, the state's involvement in the economy still remains significant, particularly in the redistribution of resources and the provision of human services. The consecutive governments' combination of an inability to introduce major structural reforms and six years of largesse has led to a high deficit and financial crisis. Prime Minister Ferenc Gyurcsány's second government expressed its determination to tackle structural problems, most prominently in the central administration, education system, and health care. Reforms are still needed, but continued political turmoil might imperil their progress. Nevertheless, Hungary has demonstrated a stable parliamentary system; the Hungarian Socialist Party (MSZP) and center-right Fidesz–Hungarian Civic Union (Fidesz) dominate the Parliament, in which three minor parties also have independent factions.

The deep-running division between Hungary's political Left and Right manifested itself in riots during September and October 2006. Clashes between police and protesters were sparked by a leaked audio recording of a speech by Prime Minister Gyurcsány in which he admitted to lying about the state of the economy in order to win the general elections. The tensions released, however, had built up over a longer period and stem from several factors, including the lack of fundamental reforms, the state's central role in providing services beyond its capacity, and public reliance on the state instead of the private and nongovernmental sectors. The country's unresolved Communist legacy, including the role of secret services before the transition and the management of privatization, still haunts the sociopolitical landscape.

Division between the Left and the Right has greatly increased, and the political elite have not done much to reconcile it. Reluctance to tackle substantive problems and symbolic politics with sometimes illiberal rhetoric are largely responsible for the crisis of 2006. Despite attempts, President László Sólyom has not been able to position himself as an independent actor, and his perceived loss of credibility limits his ability to mediate between the parties. On a positive note, Hungarian democratic institutions have proved remarkably resilient in the face of political crisis and will likely contribute to a resolution.

**National Democratic Governance.** The strength of Hungary's democratic institutions and constitutional framework was shown in a stark light during the political convulsions of 2006. The much criticized creation of the development cabinet outside the government concentrated huge resources in the hands of the prime minis-

ter, and the body is now planned to be transformed into a ministry at the beginning of 2007. Following the highly contested April elections, the divide between the government and the opposition widened even further. The violent events of September and October, a level of unrest unseen since 1956, finally highlighted the cracks in the country's democratic consensus. *Owing to the questionable handling of the riots by the government and irresponsible attitudes by a majority of the opposition during autumn 2006, Hungary's rating for national democratic governance falls to 2.25.*

**Electoral Process.** In the 2006 parliamentary elections, the Socialist-liberal coalition won consecutive national elections for the first time since the end of the Communist regime in 1989. While the two major parties competed with populist messages for higher popularity, their junior counterparts struggled to reach beyond the 5 percent threshold for election to the Parliament. The campaign deteriorated as parties accused one another of planning election fraud, some of which was eventually revealed. The government withheld information about the economy before the elections and later admitted to lying in order to win. *Owing to illegal and unethical party campaign practices during the parliamentary election; and because a growing, vocal segment of the opposition showed little respect for representative government, instead favoring demonstrations and intimidation as a way to gain political ground, Hungary's rating for electoral process deteriorates from 1.25 to 1.75.*

**Civil Society.** Hungary's legal framework is hospitable to civil society. Even though the most visible nongovernmental organizations (NGOs) are affiliated with political parties, the majority of organizations work without any political influence, mostly providing human services to their communities. The most salient feature of 2006 was the politicization of civil society. Political parties used affiliated groups in their campaigns, and the autumn brought the sudden appearance of a number of groups that are opposed to the fundamental principles of liberal democracy. While this did not affect the overall integrity of Hungarian civil society, human rights groups voiced their concerns over questionable actions by the police during the riots. *Owing to increasing visibility of illiberal views in the sector, Hungary's civil society rating worsens from 1.25 to 1.50.*

**Independent Media.** Media are considered to be generally free in Hungary. The wide selection of media outlets prevents any control over freedom of the press and information. Particularly among print sources, the media scene currently reflects Hungary's polarized political climate. In general, Hungarian journalists are trained professionals maintaining high standards; still, the lines between factual information, analysis, and commentary are often blurred. Libel remains a criminal offense, and the high number of libel and state secrecy suits over the last few years has raised widespread concern. The lack of proper legal regulation and financing keeps public service broadcasts at the crossroads of political and professional debates. *Hungary's independent media rating remains at 2.50.*

**Local Democratic Governance.** Local government reform legislation took pride of place among transition laws in Hungary and played a vital part in the creation of democratic state structures. Still, the over-fragmented system at the subnational level created gaps and insufficiencies in public policy making and delivery, and further reforms are required to enable the financial viability of subnational units and the real decentralization of state power. Both local and minority self-governments were elected in 2006. While local elections have been considered free and fair since 1990, irregularities and scandals overshadow minority self-government elections. *Hungary's local democratic governance rating remains at 2.25.*

**Judicial Framework and Independence.** Fundamental civil and political rights are guaranteed by an independent judiciary, the Constitutional Court, and the ombudsmen. The unfolding conflict between the government and the president delayed the election of the new chief prosecutor. There is no systematic torture or ill-treatment of defendants in Hungary. But the police received a heavy barrage of criticism from the opposition following the autumn clashes with extreme right-wing rioters, which became one of the year's core topics of political debate in and outside of the Parliament. A welcome development in 2006 was the long overdue open debate about the accountability of the judiciary. If continued, this debate may improve the justice system's practices and accountability. *Hungary's rating for judicial framework and independence remains unchanged at 1.75.*

**Corruption.** Anticorruption legislation has seen continuous improvement in Hungary, but the implementation of these laws requires further reinforcement. Non-transparent political party and campaign financing, questionable businesses closely associated with political parties, and favoritism with public procurement contracts were regularly reported in the media, suggesting continuous problems in these areas. *The country's rating for corruption remains unchanged at 3.00.*

**Outlook for 2007.** Two major issues are likely to dominate Hungarian politics in 2007. The government announced a series of far-reaching structural reforms, and their implementation will be a chief priority. The reforms are already contested by the opposition and interest groups. The other issue is the political strife between the Fidesz-led opposition and the government. This struggle can hurt the reform process and has the potential to widen the already significant political gap in Hungarian society. Fidesz, the MSZP, and the Alliance of Free Democrats (SZDSZ) will elect new leaders. Incumbent SZDSZ president Gábor Kuncze already announced his retirement from politics, and the two prime candidates for the post are Gábor Fodor and newcomer to the party János Kóka. Under growing pressure by his colleagues after having lost two elections, Viktor Orbán of Fidesz is still likely to hold on to power and remain at the helm of the opposition for the time being. Prime Minister Ferenc Gyurcsány will be running for office from within the MSZP. Gyurcsány was seen as the primary candidate for the job up until the September scandal and the subsequent Socialist defeat at the municipal elections, but his

candidacy is not as solid as before. The most important question for 2007 is whether the government will actually be able to carry out structural reforms or only maintain the austerity measures introduced at the end of 2006 and planned for the beginning of 2007. Street protests are likely to continue into the new year, and their nature will be an important factor in 2007.

# MAIN REPORT

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## National Democratic Governance

1999	2001	2002	2003	2004	2005	2006	2007
n/a	n/a	n/a	n/a	n/a	2.00	2.00	2.25

Hungary's constitutional system overall ensures stable, democratic governance. Following general elections, the president requests the winning party to nominate—and Parliament then elects by absolute majority—a prime minister, who is responsible for governance. Ministers cannot be impeached directly, and the Parliament can remove the prime minister and his/her entire cabinet through the process of “constructive no-confidence,” which requires not only a vote of no-confidence but the previous nomination of and vote on a new prime minister. This method ensures that the new head of the executive will also hold the support of a majority of members of Parliament (MPs). As a consequence, the opposition has very little chance to oust an incumbent prime minister between general elections. The Constitutional Court, with its broad powers to control legislation and the executive's decisions, provides effective checks. The president of the State Audit Office, president of the Supreme Court, chief prosecutor, and members of the Constitutional Court are elected by the Parliament, usually after reaching a broad consensus.

The top legislative organ in Hungary is the 386-member unicameral Parliament. The government and ministries may pass decrees that must conform to laws in force. Citizens have easy access to information on the Parliament through the media, interactions with MPs, and a frequently updated, easy-to-use Web site,<sup>1</sup> although there is room for improvement regarding legislative transparency and consultations with civil society. The Hungarian Civil Liberties Union sued the Ministry of Justice and Law Enforcement for access to the new draft Constitution, and a court of first instance ruled that the ministry must publish the material.<sup>2</sup> The Fidesz–Hungarian Civic Union (Fidesz) party's policy of abstention during the speeches of Prime Minister Ferenc Gyurcsány of the Hungarian Socialist Party (MSZP) is an obstacle to finding a constructive solution to the country's current political crisis.

The country's political system and democratic institutions are stable. This became markedly visible in the second half of 2006 when a series of worrisome developments challenged the democratic framework. Following the highly contested general elections in the spring, reelected prime minister Gyurcsány reshuffled his government. Part of this move was the controversial creation of the development cabinet, headed by Gordon Bajnai. Responsible for the management of approximately 8 trillion forint (US\$40 billion) in European Union (EU) subsidies, the development cabinet reports directly to the prime minister but is not part of the government; hence its head, unlike ministers, is not answerable to either the Parlia-

ment or ministers. It is planned, however, that Bajnai will become a minister in the government, which will end this anomaly.<sup>3</sup>

The events of September and October overshadowed all previous developments in the country. On September 17, an audio recording was leaked to the press in which Prime Minister Gyurcsány admitted to the Socialist Party caucus in a closed-door meeting that the previous Socialist government had not done anything worth mentioning and that his government had been lying to win the elections. That same day, people congregated in front of the Parliament to protest. By September 18, the crowd had grown to several thousand. Many of them, roused by László Toroczkai—then head of the 64 Counties Youth Movement, a well-known nationalist group—went to nearby Szabadság Square, where they attacked and captured the national television headquarters.

Street violence also occurred on the following two nights, but with a police force markedly more prepared to take on rioters.<sup>4</sup> The leaked audiotape, street violence, and looming municipal elections created a “cold war” atmosphere in Hungarian politics for the rest of September. Opposition leader Viktor Orbán sent an ultimatum to Prime Minister Gyurcsány on October 2 demanding his resignation within 72 hours. Earlier, Orbán argued that the municipal elections on October 1 would be a watershed event and *de facto* referendum on the government’s legitimacy.<sup>5</sup> Also, Fidesz’s continued attempts to delegitimize the Péter Medgyessy government (and later the first and second Gyurcsány governments) and its repeated questioning of election results since 2002 contributed to the intensity of the protests.

The civil unrest continued until late October, but apart from the October 23 commemorations of the 50th anniversary of the 1956 revolution, there was no violence. The riots on October 23 began in the afternoon and ended in the early hours of the following day. Clashes between rioters and police were intense, with many people injured on both sides. After the smoke cleared, a controversy over the legality of the police actions began between the government, opposition, and human rights groups such as Hungarian Civil Liberties Union and the Hungarian Helsinki Committee. The riot police deployed on October 23 did not wear identification insignia and on several accounts used unnecessary force against detainees and passersby caught in the crossfire or near but not within the operational area. Police were videotaped beating people unprovoked, including the opposition MP Máriusz Révész.

Budapest police chief Péter Gergényi at first refused to conduct internal investigations on the legality of certain incidents. The government, as well as Budapest mayor Gábor Demszky of the Alliance of Free Democrats (SZDSZ), protected Gergényi against calls for his resignation and denied his request for retirement.<sup>6</sup> Under pressure from human rights groups, investigations started by the end of the year.

Following the events of October 23, the Fidesz-affiliated farmers group MAGOSZ announced a demonstration with farmers and their tractors, to be held in Budapest. To prevent this demonstration, Mayor Demszky and the Budapest City Council ordered the placement of road signs forbidding the entry of tractors at all venues that the farmers were likely to use to enter the city.<sup>7</sup> Whereas the

placement of such signs could normally be considered reasonable, the timing of the action suggests it happened to obstruct the farmers' rally and curtail their freedom to assemble. In a similar vein, the Budapest City Council modified the rules for demonstrations in public areas, effectively limiting freedom of assembly.<sup>8</sup>

Following the landslide victory of Fidesz in the municipal elections, Viktor Orbán began organizing new Fidesz mayors by creating the Municipal Representatives National Assembly within the party. The assembly is headed by Orbán, the president of the party.<sup>9</sup> Whereas Fidesz claims the rationale for the assembly is to give more influence to local politicians in the party, the new body would grant Orbán even more power than he has now and suggests an intention to confer upon the party leader more direct control over municipalities.

Law enforcement agencies and security services are under civilian control, ultimately accountable to the Minister of Justice and Law Enforcement. However, they were criticized for their handling of the October events, and in the heated political atmosphere, the government has thus far failed to effectively investigate the anomalies surrounding actions by the police and security services. Police records created during the protests were given classified status for 80 years. This seems unnecessarily long, as it prevents investigations that would add clarity about the controversial events and supercedes the natural lifetimes of the participants.<sup>10</sup> Similarly, developments during the August 20th national holiday highlighted serious flaws in the decision-making mechanism of the government. A national celebration in Budapest was not called off when bad weather arrived, which resulted in several deaths and injuries.

#### Electoral Process

1999	2001	2002	2003	2004	2005	2006	2007
1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.75

Representatives to the 386-seat unicameral Hungarian Országgyűlés (Parliament) are elected for a four-year term by popular vote under a two-round mixed electoral system; 176 members are elected in single-seat constituencies, 152 from regional party lists by proportional representation, and 58 from national party lists. In the first round, voters cast two ballots: one for a single-seat constituency candidate and one for a party with a regional list. A second round of voting is required only in single-seat constituencies where none of the candidates wins an absolute majority in the first round. Only parties that reach the 5 percent parliamentary threshold gain seats from national or regional lists.

Forty-eight parties were eligible to run for parliamentary elections in 2006, out of which 12 set up national party lists alone or in coalitions and 5 set up regional party lists—additionally, candidates from 7 parties ran in single-seat constituencies.<sup>11</sup> The most recent national legislative elections were held on April 9 and April 23, 2006, with voter turnouts of 67.83 percent in the first round and 64.39 percent in



the second. Although only the two main parties were expected to receive enough votes to win seats in the Parliament, five parties either individually or in coalition cleared the 5 percent threshold necessary for individual party representation or the 10 percent threshold needed for coalition representation.

The elections resulted in confirming the center-left coalition government in office headed by the post-Communist social democratic MSZP with 190 seats and the left-liberal SZDSZ as a junior partner with 20 seats. The center-right Fidesz, in alliance with the Christian Democratic People's Party (KDNP), received 164 seats, while the conservative Hungarian Democratic Forum (MDF) gained 11 seats. Although Fidesz originally wanted to form a joint parliamentary faction, the KDNP, once in the Parliament, formed an independent faction. Only one extra-parliamentary party, the far-right Hungarian Justice and Life Party, with 2.2 percent support, was entitled to state subsidy. And only one independent candidate was elected to the Parliament.

Since the narrowly divided 2002 elections, which deepened the political polarization of the Left and the Right, a continuous campaign among the parties has penetrated most areas of public life. In 2006, populism characterized the campaigns of the leading parties, the MSZP and Fidesz, in a contest to see whose government would be more cohesive, particularly regarding their economic promises and positions. Statements by the MSZP and Fidesz contained contradictory elements promising both tax cuts and increases in state subsidies without clear, concrete ideas on social security or state administration reform or plans for how they would run the economy if elected.

Overall, Hungarian elections have consistently been considered free and fair. While the 2006 elections were managed sufficiently, their fairness and transparency were overshadowed by various questionable and illegal practices by the parties during the campaign. The MSZP–SZDSZ government withheld state budgetary figures hiding the country's critical financial situation before the elections, misleading voters about the state of the country's economy. After the elections, Prime Minister Gyurcsány was caught on a leaked audio recording admitting to the Socialist Party caucus in a closed-door meeting that the previous Socialist government had been lying in order to win the elections.

Additionally, in February the MSZP's computer server was hacked into by rival Fidesz and campaign files and documents were downloaded, after which the police investigated the case and three Fidesz workers were suspended by the party. In another instance, the MSZP's Szolnok chapter admitted that one of its activists handled data from candidate nomination forms in an unauthorized, unlawful way. In March, the National Election Office condemned Zoltán Bagó, a Fidesz candidate, for violating the electoral law by threatening a potential MDF candidate.<sup>12</sup> Yet for the first time since transition, no observers from the Organization for Security and Cooperation in Europe monitored the parliamentary elections in Hungary.

Membership in political parties is low, with only about 1 percent of the population participating. It is relatively easy to form a party in Hungary, yet out of the more than 200 political parties registered in the last decade, approximately half ceased to

exist after several years or were transformed into civic associations. Minorities and women are under-represented at the national level. Out of 386 parliamentary seats, women candidates won 40 seats in the 2006 elections, and two went on to serve as cabinet ministers in the MSZP–SZDSZ government. Three Roma representatives won parliamentary seats in 2006, all of them from Fidesz as the result of an agreement between Fidesz and Lungo Drom, the largest Roma organization in Hungary. However, the Parliament should have already achieved real representation for Roma and other minorities in Hungary by 1992, as required by the Constitution.

The last presidential elections were held in 2005. Under the Constitution, the president is mainly a ceremonial figure, elected indirectly by the Parliament with a two-thirds majority for a maximum of two five-year terms. If a qualified majority cannot be reached in either of the first two rounds, then a third round with a simple majority is necessary. While the governing coalition could not agree on a mutually acceptable candidate, Fidesz-nominated László Sólyom—the candidate of an ecopolitical NGO, Protect the Future—enjoyed the formal support of over a hundred intellectuals across the political spectrum and gained the majority of votes in a heated third round to become president. President Sólyom—former chief judge of the Hungarian Constitutional Court, a committed environmentalist, and an internationally respected lawyer—has not been successful in bridging the political divide in Hungary.

#### Civil Society

1999	2001	2002	2003	2004	2005	2006	2007
1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.50

With the 1987 amendment to the civil code and 1989 Law on Associations at its core, Hungary's legal framework for civil society facilitates the creation and functioning of NGOs, and there are no laws in place that restrict their activities. Foundations and associations are registered by county courts, and there is little legal ground for denying registration. Tax regulations, however, put a considerable administrative burden on all sectors, nonprofit and for-profit alike.

There are about 76,000 registered NGOs in Hungary, according to data from the National Statistical Office, only half of them operational.<sup>13</sup> The majority of NGOs provide human and community services and sports, recreational, and cultural programs. Organizations with a national reach are concentrated in Budapest and include human rights defenders, think tanks, and political foundations.

NGO funding remains problematic, although according to a Nonprofit Information and Training Center survey, Hungarians are charitable and more than willing to give. Four-fifths of all Hungarian citizens and companies have contributed, providing some 13 percent of nonprofit sector income. Totalling approximately 100 billion forint (US\$500 million), civil sector support in Hungary is provided

by foreign donors, Hungarian businesses, and citizens, most of whom contribute through voluntary work. The state provides the biggest chunk of NGO income, some 45 percent, while the rest is made up through activities conducted by the organizations themselves.<sup>14</sup>

Citizens are entitled to contribute 1 percent of their income tax to NGOs and another 1 percent to churches or, alternatively, to one of four priority lines (crime prevention; supporting sports to improve health; support for the Heritage Fund; supporting the eradication of hemp) in the state budget. In 2005, some 24,811 NGOs and 127 churches received approximately 11.8 billion forint (US\$62 million), roughly 53 percent of the potential 22.4 billion forint (US\$124.4 million) that could have been raised if all citizens contributed. Of the NGOs that received some funding from the 1 percent mechanism, 31 percent were engaged in education, 16 percent in sports, 14 percent in cultural activities, 10 percent in health care, and 8 percent in social services.<sup>15</sup> Data for 2006 showed a slight increase as 25,648 NGOs, 137 churches, and 5 priority lines received approximately 12.77 billion forint (US\$69.3 million).<sup>16</sup> Additionally, volunteerism has become a significant source of support for Hungarian civil society. According to a 2004 study, approximately 40 percent of Hungarians over 14 years of age work as volunteers. Volunteerism is regulated by the 2005 Law on Volunteerism.<sup>17</sup>

Trade unions are autonomous and operate freely in Hungary. There are six major union alliances in the country in addition to various interest groups, such as vocational chambers. Unions have low membership, and many are seen as partisan. Most traditional groups that originated before Hungary's transition are seen as affiliated with the political Left, whereas some new unions and interest groups, especially farmers groups, are perceived as right-wing. The farmers group MAGOSZ was vocal during autumn 2006 and planned to hold a demonstration in Budapest against the policies of the government.

After April's general elections and the government's announcement of planned austerity measures, Hungarian trade unions held several protests. Interest groups, including the Chamber of Physicians and the Chamber of Pharmacists, began a media campaign supported by the opposition to stop health care reforms and pharmacy liberalization. The National Conference of Student Self-Governments (HÖÖK) held a rally and several rounds of negotiations with the Ministry of Education and Culture over the introduction of tuition fees in higher education, without much success.<sup>18</sup> The rectors of the country's universities, on the other hand, expressed their support for the introduction of the new funding mechanism.

Civil society has been vibrant in Hungary for years, and 2006 was no exception. The key feature of the year was the further politicization of the civil sector. NGOs were active on both sides of the political spectrum during the electoral campaigns. Fidesz used the publication *Magyar Vizsla*, produced by the taxpayer watchdog group Association for the Representation of Taxpayers' Interests, to disseminate propaganda against the MSZP and SZDSZ.<sup>19</sup> Fidesz's "civic circles" and the MSZP's "Amoba"—party-organized grassroots movements—were also used to mobilize supporters.

In part, the trend toward politicization is fueled by the emergence of illiberal views (groups that are opposed to the fundamental principles of liberal democracy) in Hungarian civil society. In September and October, a number of new and widely publicized associations were created during the protests sparked by the public leak of Prime Minister Gyurcsány's speech, and their emergence dominated the press. These high-profile groups demanded "system change," while others published the names, addresses, and other personal data of judges and prosecutors involved in the cases of arrested demonstrators.<sup>20</sup> Another facet of the problem is the leadership role some extremist groups, such as the 64 Counties Youth Movement, played in the violent riots. The leader of the group, László Toroczkai, was fined 40,000 forint (US\$200) for breaching the Law on Assembly when he called for protesters to move from Parliament Square to the national television headquarters on Szabadság (Freedom) Square, which resulted in the attack on the building.

Education is free from political or ideological influence, and there is a variety of state-run, private, and church-sponsored educational institutions from primary to higher education. Parochial schools held a demonstration in front of the Ministry of Education and Culture in December 2005 to protest alleged cuts in state subsidies to church-sponsored schools. Churches, religious leaders, and parents complained about the decrease in state funding channeled to religious institutions, while the ministry, quoting different figures, alleged that governmental funding had in fact increased. The debate about funding continued into 2006 and served to mobilize voters for the elections.<sup>21</sup>

#### Independent Media

1999	2001	2002	2003	2004	2005	2006	2007
2.00	2.25	2.25	2.25	2.25	2.50	2.50	2.50

Media in Hungary are considered to be generally free. The large number and variety of media outlets in the country prevent any single interest from dominating information or public opinion. The media landscape is generally controlled by market forces yet still features some political interference.

The 1996 Law on the Media introduced commercial broadcasting and broke up the monopoly of state-controlled public service channels. Apart from this important step a decade ago, the law has been widely criticized for not laying the groundwork needed to transform the public service media into a modern, financially independent outlet free of political influence. Instead, it institutionalized political interference. Half of the board members of the public service broadcasters are appointed by governing political parties, the other half by the opposition, leaving too much room for political interference in public service broadcasting.

To secure some civilian involvement and control, the Law on the Media allows NGO representatives to sit on the boards of the public service broadcasters. However, the selection of civil sector members has also been an occasion for

controversy, as many of the NGOs delegating these members are considered to be closely connected to political parties. The law also established the National Television and Radio Board (ORTT), a regulatory and supervisory body whose members are delegated by political parties. The ORTT monitors the activities and programs of public and commercial broadcasting stations and also grants licenses and broadcasting frequencies.

After four unsuccessful attempts to elect a new board president, which left Hungarian public radio without proper legal representation for over a year, the board eventually managed to reach consensus and elected a new president in 2006. It was assumed that before the national parliamentary elections there would not be consensus on the new public radio president, illustrating how public interest is overruled by party politics.

An almost decade-long wish to modify the Law on the Media or create a new one persists. There have been various attempts at modifications, but none has succeeded owing to a lack of political consensus. The ORTT itself prepared a new draft version of the law that instead of strengthening media freedom focused on the regulation and sanctioning of television and radio channels and the Internet.<sup>22</sup>

In a letter to Prime Minister Gyurcsány in 2006, Arne Wessberg, president of the European Broadcasting Union, harshly criticized the lack of independence and financing of public service television and called Hungarian Television (MTV) one of the worst channels in Europe.<sup>23</sup> Its income depends almost entirely on annual aid from the state budget, making public service television vulnerable to government influence. MTV regularly runs overbudget, and only repeated state guarantees prevent it from going bankrupt. Since public television attracts only about 10–15 percent of viewers and has been on the edge of bankruptcy for years, the rationale for maintaining six state-sponsored stations (including three public radio stations) is questionable.

Hungarians receive their information primarily from private television channels, most of which are foreign-owned. Besides the three state-supported channels, two commercial stations—RTL Klub (affiliated with the Belgian–French RTL–UFA) and TV2 (owned by a Hungarian–American–Scandinavian consortium)—also reach the entire population. In addition, there are several commercial cable and satellite television and radio channels, some foreign-owned. There are over 200 local or regional public, commercial, nonprofit, and cable radio stations, most limiting their programming to entertainment without significant original news content. According to a report by the Open Society Institute, “Hungarian [television] channels scarcely ever broadcast investigative reports and can hardly be labeled as watchdogs of democracy.”<sup>24</sup>

Foreign media companies are active in both national and local newspaper markets, and only a small portion of daily papers are owned locally. Still, local papers are important and have managed to keep their monopolies in the counties where they are published; their total circulation is about the same as that of the national daily papers combined. In the race to attract readers to print media, tabloids prove to be the winner, however.

In general, Hungarian journalists are trained professionals maintaining high standards. Still, the lines between factual information, analysis, and commentary are often blurred. Media outlets and many journalists are divided along political cleavages, which affects their objectivity. Political figures often use the media in inter- and intra-party conflicts by providing journalists with deliberately leaked information but without much protection from political interference. The high number of court cases against journalists raised continued concerns in 2006. Libel and secrecy laws remained criminal offenses and are considered to be restrictions on press freedom. According to the Hungarian criminal code, libel constitutes not only statements that damage an individual's reputation, but also the act of giving publicity to derogatory statements. Thus a politician who has been unable to get even with another politician under immunity can take revenge on the journalist quoting the other politician.

One of the biggest problems, according to Éva Vajda, a well-known investigative journalist and deputy editor in chief of *Manager Magazin*, is that what journalists consider credible information—such as corroborating stories from separate, independent unnamed sources—is not considered credible by most judges. Likewise, judges in libel cases many times contradict one another. On the basis of recent libel cases, some journalists believe that “antipress tendencies have been forming a framework” and that professional circumstances for journalists are getting worse.<sup>25</sup>

In 2006, the Office of the Capital Prosecutor filed charges against seven executives of the Communist Party for publishing an article on the party's Web site in which the party accused the capital court's decision as being political. If found guilty, the party leaders may face up to two years in prison for expressing their critical opinions publicly. In another case, Rita Csík, a *Népszava* journalist, was charged in 2004 under outdated secrecy laws with “deliberate breach of a state secret” after she wrote a story quoting an unlawfully classified police memorandum that cited criminal evidence collected on an MP. This case continued in 2006 with the acquittal of Csík in the appeals court, confirming last year's decision by the lower court. This was the first case since Hungary's transition where a journalist accused of breaking a state secret was brought to court.

Internet news portals such as [origo] and Index.hu, as well as television and radio broadcasting on the Internet, have become increasingly popular in Hungary. Index.hu, other news sites, and smaller-scale alternative agencies have broken the monopoly of the dominant national state-owned Hungarian News Agency (MTI). Although 69 percent of the adult population knows about the e-services of public institutions, only 2 percent uses this method of interacting with state administrations.<sup>26</sup> The 2005 Law on Freedom of Electronic Information came into force on January 1, 2006, with the aim to enable anyone to access updated public information electronically, free of charge, without identification or bureaucratic procedures.<sup>27</sup>

Instances of Internet censorship have been limited in Hungary. The planned new Law on the Media, however, aims to regulate the Internet in order to apply the same liabilities and rights for both online and offline media outlets. There are

self-regulatory organizations that have been founded by Internet content providers, such as the Hungarian Association of Content Providers, with a voluntary code of conduct regulating content in order to prevent state intervention. Among Hungary's most important journalistic associations are the National Association of Journalists and the Community of Hungarian Journalists. A number of other organizations exist for specialized groups, such as publishers, broadcasters, and other media players.

#### Local Democratic Governance

1999	2001	2002	2003	2004	2005	2006	2007
n/a	n/a	n/a	n/a	n/a	2.25	2.25	2.25

The reform of local government legislation took pride of place among transition laws in Hungary and played a vital part in creating a democratic state structure. Still, the overfragmented system at the subnational level created gaps and insufficiencies in setting and delivering public policy, and it requires further reform to enable the financial viability of subnational units and real decentralization of state power.

According to Article 42 of the Hungarian Constitution, “Local self-government is the independent and democratic management of local public affairs that affect the community of local citizens, and the exercise of authority in the interest of the local population.” In Hungary, every village, town, and county as well as the nation's capital has the right to freely administer local affairs autonomously. Consequently, the local governmental system is highly fragmented, inefficient, and excessively expensive, with 3,174 municipal and 19 county governments and the capital serving a total national population of fewer than 10 million.

The Law on Local Governance made municipalities the dominant element of the local government system and weakened the former county governments that now have only a limited role of providing public services with a regional character. Every municipality has become a unit of local government that provides primary education, basic social services, health care, and various public utilities. There are seven countrywide local government associations, as local authorities have the right to form organizations for the protection of their common interests and collective representation.

Although the legal autonomy of local governments is well protected, their financial autonomy is highly limited, and they rely heavily on state subsidies. Among municipal governments, 91 percent represent fewer than 5,000 people, while more than half have a population under 1,000. These units often cannot sustain the level of services mandated to them, as they usually are not economically viable with adequate local economic activity.<sup>28</sup> Additionally, in the smallest municipalities, those with fewer than 100 inhabitants, basic budgetary conditions and expertise are lacking. Although municipal governments can raise their income by levying local

taxes and fees, only one-third of their revenue originates from these sources. Most municipalities regularly run deficits. Many have consumed most of their wealth by selling their assets to cover local government expenses.<sup>29</sup> County self-governments have no right to levy taxes.

Weak counties, without directly elected bodies or adequate resources, have led to an increase in central government influence and strong centralization of the administrative system. Year by year, the central budget has increased its share of public expenditures with a recentralizing tendency.<sup>30</sup> The political elite are divided, while local society is rather indifferent about regional decentralization. Within local networks, there is a lack of cooperative willingness among local actors.<sup>31</sup> While many experts agree on the necessity of creating regions instead of counties as the middle-level unit of local self-governance, others believe that instead of eliminating county self-governments, merging a few smaller counties and providing them with adequate financial means would be a sufficient solution.<sup>32</sup>

Hungary has identified two directions for modernizing local self-governance: the voluntary cooperation of municipalities to be incorporated into “small regions” (instead of fragmented individual municipalities) and the establishment of 7 larger development regions (instead of 19 counties and the capital) into the Hungarian public administration system. The legally defined 168 small regions are meant to have three dominant functions: the performance of local governmental public services, management of state administration tasks where local knowledge and expertise are necessary, and operation of spatial development functions.<sup>33</sup>

Although debates about decentralization and counties versus regions have been ongoing since the beginning of Hungary’s transition, no consensus had been reached between the government and the opposition by 2006. Without two-thirds majority support of the Parliament, the constitutional status of the seven regions replacing the counties in the middle-level government and the modification of the Law on Local Governance has been rejected. Still, the government tries to bypass the opposition and aims to further weaken the counties and strengthen the seven development regions mentioned above.

In October 2006, with a record 53 percent voter turnout, local self-governments—that is, mayors and local representative bodies—were elected with a landslide victory by the center-right conservative opposition. The opposition won in 18 out of 19 counties, while it obtained 57.71 percent of the votes in the capital and county councils. Out of 23 cities with county status, 1 will be ruled by an independent mayor, 15 by the conservative opposition, and 7 by leftist liberals. In Budapest, the SZDSZ mayor, with the MSZP’s support, was reelected for his fifth term by a narrow 1.66 percent margin. Out of the 386 MPs, 16.5 percent ran for mayor,<sup>34</sup> allowable in the absence of any conflict-of-interest regulations. A little over one-third of the elected mayors ran as independent candidates; in settlements with fewer than 10,000 inhabitants, 80 percent of mayors are independent.<sup>35</sup> In larger cities, there is a much higher partisan character to local councils than in smaller settlements. Mayors and local representatives, along with their partners and children, are required to declare their assets.



Citizens are particularly active at the local level in Hungary through various NGOs and local initiatives, but their participation in local public affairs through local governments is limited. Most decisions on local matters are determined by state subsidies, constraining citizens' effectiveness in influencing local matters, especially in small municipalities.<sup>36</sup> Between local elections, the participation of citizens in the decision-making process is guaranteed by a minimum of one public hearing a year, as set by the Law on Local Governance. Eighteen local referendums were held in 2006.<sup>37</sup>

The 1993 Law on the Rights of National and Ethnic Minorities guarantees Hungary's 13 recognized minority groups the right to establish national and local minority self-governments. Minority self-governments, financed by the state budget, can maintain institutions that help to preserve their culture and ethnic identity. The 2005 modification of the Law on the Election of Minority Self-Government Representatives aimed to prevent nonminorities from holding positions in minority self-governments as a way to gain personal business advantages and benefits. Thus only those voters who previously declared their minority affiliation for the purpose of elections and registered themselves in the minority voters register could vote for or get elected in the 2006 minority self-government elections.

Candidates could run only with the nomination of minority civil organizations and were required to declare that they knew the language, culture, and traditions of the given minority. Many critics were concerned about the legislation changes, claiming that registration displays sensitive ethnic data and may violate the identity and universal suffrage rights ensured by the Constitution. Despite initial skepticism and the expected low registration and participation in the 2006 minority elections, 200,000 registered minority voters in 1,437 different settlements elected 2,045 minority self-governments, 200 more governments than in 2002. However, the amendment did not fully eliminate the preexisting pseudo-self-governments formed by nonminority members.

#### Judicial Framework and Independence

1999	2001	2002	2003	2004	2005	2006	2007
1.75	2.00	2.00	1.75	1.75	1.75	1.75	1.75

The Hungarian Constitution recognizes the equality of its citizens before the law and protects their fundamental political, civil, economic, and social rights. The primary safeguard of human rights in the country is the judicial system. The Hungarian judiciary is organized in a four-tiered system of local courts, county courts, the highest appeals courts, and the Supreme Court. Local and county courts have jurisdiction over their territorial districts, and county courts also serve as local appeals courts in minor cases. The highest appeals courts have regional jurisdiction and have seats in Budapest and four other towns across the country. The Supreme Court serves as an appeals court for cases adjudicated at the highest level and

issues abstract judgments to ensure the uniform application of laws and to develop a limited form of case law.

Citizens can turn to four ombudsmen who function independently from the judiciary. The ombudsmen are elected by the parties in the Parliament and protect privacy rights, ethnic and national minority rights, and citizens' rights in general. Ombudsmen have no legal authority, but by reporting to the Parliament, they provide an effective complementary mechanism to protect human rights. The Ministry of Education and Culture employs a commissioner to protect student rights within the educational system.

The 11-member Constitutional Court, working since 1990, has shaped the legal framework of Hungary. Its members are elected by the Parliament from among the most prestigious legal scholars in the country. The Court's primary function is to safeguard human rights through its interpretation of the Constitution and control of legal norms.

The judiciary functions as an independent branch of power. Since the reform of 1997, it has been self-governed by the 15-member National Judicial Council. The head of the council is the president of the Supreme Court, currently Zoltán Lomnici. Nine members are elected from among and by judges; the other members are the minister of justice and law enforcement, the chief prosecutor, the chairman of the Hungarian Bar Association, and one delegate apiece from the Parliament's judicial and financial committees.

The chief prosecutor is nominated by the president and elected by the Parliament. In May 2006, the mandate of Chief Prosecutor Péter Polt expired. President László Sólyom nominated Miklós Horányi before the general elections, but the ruling coalition did not approve. The controversy was interpreted as yet another sign of the discord between the president and the government.<sup>38</sup> Finally, the Parliament elected Tamás Katona, a military prosecutor and former deputy of the chief prosecutor. The election drew criticism since Katona is 66 years old, and according to the Law on the Office of the Prosecutor<sup>39</sup> (Office of the Capital Prosecutor is the agency's name) the chief prosecutor is elected for a six-year term and may not hold the office beyond the age of 70.

The judiciary is among the most trusted institutions in Hungary. According to a Szonda Ipsos survey, citizens believe that the Constitutional Court and the Supreme Court contribute most to the rule of law, both having an approval rating of 69 percent. These are followed by the other courts, the police, and the prosecutors' offices. The institutions that are considered to contribute least to the rule of law are the government and the Parliament, with approval ratings of 48 percent and 46 percent, respectively.<sup>40</sup> The approval rating is higher even among lawyers. According to a *De Jure* survey, members of other legal professions say the functioning of the courts is slow but represents high professional standards, and four-fifths think judges exercise their functions without political interference.

Even so, the judiciary was the subject of serious criticism in 2006, particularly from Zoltán Fleck, a leading sociologist of law. In a published essay, Fleck urged

the reform of the judiciary to overcome its alienation from society, intolerance of criticism, and lack of transparency and accountability.<sup>41</sup> The Hungarian Lawyers Association invited Fleck to present his findings at their June conference. Later, however, the organizers withdrew the invitation owing to the potential nonappearance of judges at the event.<sup>42</sup> Publicist Mária Vásárhelyi for the weekly *Élet és Irodalom* criticized the judiciary on similar grounds, citing the lack of accountability in the judiciary.<sup>43</sup> The chair of the capital court, László Gatter, filed libel charges against seven leaders of the Workers Party for posting a commentary on the party Web site that characterized one of the court's decisions as political.

Another area that needs more transparency is the judiciary's recruitment mechanism. At a conference presentation given at Eotvos Lorand University's Faculty of Law, Gatter claimed that relatives of judges are privileged in the selection process<sup>44</sup> and that subsequent promotions depend on personal connections rather than merits. The launch of an academy in Hungary for the training of judges was a positive development, but it will likely take a few years before the academy can offer full education for judges. Yet the opening of the institution signals an effort to increase the professionalism and quality of work within the judiciary.

Intolerant views against minority groups are well entrenched in Hungarian society, and discrimination against the Roma remains an issue. Amnesty International's 2005 *Report on Hungary* published in 2006 criticizes the country for the segregation in schools of approximately one-quarter of all Roma children.<sup>45</sup> Hungary participates in the Decade of Roma Inclusion (2005–2015)<sup>46</sup>, the cooperation of Central and Southeastern European governments to improve the socio-economic conditions of the Roma, but tangible results remain to be seen.

In general, the Hungarian police work professionally and without political interference. Following the riots of September and October, however, the professionalism and democratic control of the police came under fire from the opposition and domestic human rights groups, including the Hungarian Civil Liberties Union and the Hungarian Helsinki Committee.<sup>47</sup>

The riots stretched the police and the judiciary to their limits, and Budapest courts struggled to handle the sudden flood of cases.

#### Corruption

1999	2001	2002	2003	2004	2005	2006	2007
2.50	3.00	3.00	2.75	2.75	2.75	3.00	3.00

Hungary's institutional framework for preventing and curbing corruption has improved significantly in past years and now meets international standards. Still, the implementation of these measures requires more reinforcement and commitment not only from political parties and state institutions, but from civil society and the media as well. In 2006, the media regularly reported on nontransparent party

and campaign financing, questionable businesses closely associated with political parties, and bribes to public service employees, suggesting ongoing problems in these areas.

The long-awaited Law on Lobbying was enacted in February 2006 and came into force on September 1. The law aims to make public the interests behind certain legislative decisions, regulating the activity of lobbyists by registering and accounting their activities in detailed reports. NGOs and trade unions are excluded from authorized lobby groups, and the law lists those that are prohibited from lobbying activities. A register of conversations between state officials and lobbyists must be published on the Internet, but the law lacks provisions defining a mandatory waiting period before former public officials can lobby for organizations after leaving office. Additionally, there is still no protocol or code of ethics for political decision-makers.

Parliamentarians, judges, and various other public officials are required to declare their assets annually. According to a GfK Polling Institute study, Hungarians give bribes to public service employees more frequently than the Central and East European average. A number of doctors use state equipment for their private profit. The practice of “gratitude money” for public health care employees, when the state-employed doctor receives money from the patient for provisions to which he or she is not entitled, is widespread. There are no effective mechanisms for sanctioning incomplete or false financial statements and no means for investigating asset report claims. Also, MPs are neither banned from engaging in business activities nor restrained from assuming positions at state-owned companies before or after their mandate.

Although no independent body deals solely with corruption investigations, a number of state institutions are empowered to fight corruption. The main investigative law enforcement body is the police, while high-level corruption (involving MPs, ministers, and heads of public departments) and organized crime cases fall under the jurisdiction of the Central Investigation Department of the National Office of the Prosecutor. Additional institutions with enforcement authority, such as customs and tax agencies, also have separate units to combat corruption. However, better cooperation among these institutions is required.

The State Audit Office of Hungary (ÁSZ) exercises ultimate financial control over all public and EU funds and is a completely independent agency reporting to the Parliament. The “glass pocket” law from 2003 made it possible for the ÁSZ to trace the path of public funds even through private business files, and the law widens the circle of individuals required to declare their personal assets.

Still, the path of public funds is difficult to follow. Bribery, cartels that inflate the price of public procurements, and other irregularities are likely to be present in many tenders. The personnel applying the laws are not adequately trained, and conditions are insufficient for ensuring compliance with the laws. Moreover, internal controls within public institutions are limited and weak, which contributes to a high risk of corruption.<sup>48</sup> The bidding process is excessively bureaucratic; many regulations are ambiguous and provide loopholes for businesses. “U.S. companies are

increasingly concerned about the lack of transparency and poor bidding procedures in major government procurements,” warned U.S. ambassador George Walker in his farewell speech.<sup>49</sup>

Although the “glass pocket” law, which introduced the concept of public interest data, requires ministries to publish their operational costs and high-value contracts on their Web sites, little information is up-to-date. The Law on Freedom of Electronic Information, in force from January 1, 2006, obliges state institutions to publish information of public interest on the Internet.<sup>50</sup>

The capital court in 2006 supported the Competition Authority (GVH), the financial and economic audit organization of the Parliament, in sanctioning highway construction companies in 2004 for 7 billion forint (US\$3.5 million). For years, the GVH has succeeded in revealing questionable practices in public procurement tenders where cartels divided the market with fixed prices to eliminate competition in the procurement process. Since 2005, the criminal code makes it possible to prosecute and sentence executives for forming cartels. Although informants can receive some exemptions if they provide information to authorities about cartels being formed, this modification sets back the GVH’s work since the possibility of a severe sentence inhibits informants from sharing their information.<sup>51</sup>

According to the report adopted by the Organization for Economic Cooperation and Development, Hungary needs to take further steps to combat corruption and bribery in international business transactions.<sup>52</sup> The report identifies the country’s lack of well-understood laws and untrained officials as significant obstacles in its fight against bribery. Among the report’s recommendations are ensuring necessary resources for the effective functioning of the Central Investigation Department, increasing the transparency of the prosecution, and sanctioning company auditors to report all suspicions of bribery by any employee or agent to management or competent law enforcement authorities.

Every four years—around election time—the issue of re-regulating party and campaign financing is high on party agendas, but so far without making much headway. According to reports and studies by various institutes,<sup>53</sup> there is significant evidence of illegal party and campaign funding in Hungary. Moreover, the operations and activities of party-based businesses lack transparency and adequate control, and there are no effective sanctioning and enforcement mechanisms in place for illicit bookkeeping of party financing.

The low spending limit of only 1 million forint (US\$5.5 thousand) per candidate does not allow parties to campaign intensively, leading parties to breach regulations and generate corruption. Although party reports claim they spent within the allowable limit, according to some estimations, the two main parties spent at least 10 times more for advertising raised from unknown sources during the 2006 election campaign.<sup>54</sup> More conservative estimates also reveal excessive overspending.<sup>55</sup> For advertising in 2006, the MSZP spent 1.3 billion forint (US\$6.5 million), Fidesz spent 1.1 billion forint (US\$5 million), and two smaller parties spent 400 million–500 million forint (US\$2.2 million–2.7 million). The parties, when elected, served the interests of funders through favorable government policies and

contracts,<sup>56</sup> and there are concerns about public funds ending up with political parties through irregular procurements.

According to the Austrian daily *Die Presse*, a few weeks before the local elections, the governing parties received significant funds from the Austrian construction company Strabag, which won approximately 240 billion forint (about US\$1.3 billion) in 2004 in road construction public procurement tenders in Hungary.<sup>57</sup> The SZDSZ and MSZP denied the allegations, the SZDSZ claiming there was no trace of Strabag money in the party's books. The street violence in September drove attention away from the Strabag case, and there was no investigation into the issue. Some reports noted that a few weeks after the news broke out, Strabag paid for massive advertisements in two main oppositional media outlets, the daily *Magyar Nemzet* and the news channel Hír TV.

There are major problems stemming from loopholes and inadequacy in the regulation of campaign finances, such as a lack of guidelines for campaign periods and allowable costs. As a result, costs are what parties consider them to be and what they decide to account for within the short, 60-day reporting period after the elections. Moreover, it is unclear whether in-kind contributions, free services, or bills paid by third parties are considered to be support and in what form campaign expenses and their sources should be made public. Additionally, fund-raising and spending through party foundations and party-founded enterprises are neither limited nor controlled.

The ÁSZ has recommended in various forums that the government should modify the Law on Parties in order to eliminate the discrepancy in reporting systems between the Law on Accounting and the Law on Parties. On the other hand, the ÁSZ has been recently criticized for being rather passive and limiting itself to examining campaign reports submitted by parties rather than investigating actual expenses.<sup>58</sup>

Public trust in parties and in the overall democratic process has been on a continuous decline in Hungary and has reached a critical low. Breaking the norms that parties set up for themselves undermines voter faith in the political elite and in democratic developments in general. Still, there is little political will from parties to curb hidden financing, which weakens the accountability of democratic institutions and contributes heavily to the decline of public trust.

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