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The Political and Economic Repercussions of Hungary’s Illiberal Policies on the European Integration Process

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Abstract

This research investigates the political and economic implications of illiberal policies implemented in Hungary on the European integration process. The study employs a qualitative analysis and uses Hungary as a case study. The main findings unveil that Hungary's illiberal policies pose a challenge of the EU's democratic values and the rule of law, straining the coherence and unity of the union. In addition to that, these policies have economic repercussions, potentially having an effect on the single market and the Eurozone stability. Interpreting these findings, it becomes noticeable that Hungary's illiberalism threatens the European integration process, posing a risk to shared principles and values. The conclusion emphasizes the significance of addressing illiberal tendencies to ensure the future of the EU. This research project contributes to the discourse on European integration, while underlining the need for a united approach to maintain the European's project's resilience and sustainability.

Zusammenfassung

In dieser Studie werden die politischen und wirtschaftlichen Auswirkungen der in Ungarn umgesetzten illiberalen Politik auf den europäischen Integrationsprozess untersucht. Die Studie bedient sich einer qualitativen Analyse und verwendet Ungarn als Fallstudie. Die wichtigsten Ergebnisse zeigen, dass die illiberale Politik Ungarns eine Herausforderung für die demokratischen Werte und die Rechtsstaatlichkeit der EU darstellt und die Kohärenz und Einheit der Union belastet. Darüber hinaus hat diese Politik auch wirtschaftliche Auswirkungen, die sich auf den Binnenmarkt und die Stabilität der Eurozone auswirken können. Bei der Interpretation dieser Ergebnisse wird deutlich, dass der ungarische Illiberalismus den europäischen Integrationsprozess bedroht und eine Gefahr für die gemeinsamen Grundsätze und Werte darstellt. Die Schlussfolgerung unterstreicht die Bedeutung einer Auseinandersetzung mit illiberalen Tendenzen, um die Zukunft der EU zu sichern. Dieses Forschungsprojekt trägt zum Diskurs über die europäische Integration bei und unterstreicht gleichzeitig die Notwendigkeit eines gemeinsamen Ansatzes, um die Widerstandsfähigkeit und Nachhaltigkeit des europäischen Projekts zu erhalten.

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List of Abbreviations

CEE	Central and Eastern Europe
CEPMF	Central European Press and Media Foundation
CFR	Charter of Fundamental Rights
CFSP	Common Foreign and Security Policy
CJEU	Court of Justice of the European Union
ECB	European Central Bank
ECtHR	European Court of Human Rights
EIB	European Investment Bank
EU	European Union
EP	European Parliament
ERM II	Exchange Rate Mechanism
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
HUF	Hungarian Forint
MNB	Hungarian National Bank
MSZP	Hungarian Socialist Party
NGO	Non-Governmental Organization
R&D	Research & Development
SNC	System of National Cooperation
TEU	Treaty on European Union
TFEU	Treaty on the Functioning of the European Union
VAT	Value-Added Tax

1. Introduction

The European Union (EU) has long embodied ideals of unity, cooperation, and shared democratic values, providing a political and economic framework that aims to foster peace and stability across its member states. Founded with the goal of transcending historical divisions, the EU has progressively expanded its membership, welcoming new states from diverse political and economic backgrounds, especially from Central and Eastern Europe (CEE) in the early 2000s. These states joined with commitments to uphold the EU's core principles, including respect for democracy, human rights, and the rule of law, which form the base of the Union's identity. (Csehi, 2020)

However, recent political developments within the EU have tested these commitments. Specifically, Hungary's emergence as an illiberal democracy has challenged the notion of shared values among EU members, raising critical questions about the EU's capacity to enforce its standards internally. Under the leadership of Prime Minister Viktor Orbán, Hungary has pursued policies that critics argue undermine democratic principles, triggering concerns within the EU about the stability and integrity of its governance model. This illiberal turn has brought Hungary into conflicts with EU institutions, which find themselves limited in their ability to respond to member states that diverge from established standards. To address these challenges, the case of Hungary serves as a focal point for understanding the broader implications of illiberalism within a Union built on liberal democratic ideals. (Kelemen, 2020; Szent-Iványi & Kugiel, 2020)

1.1 Background and Context

The development of Hungary to illiberalism has posed a challenge for the EU. Even though the EU institutions have expressed great concern about the political changes in Hungary, they have been largely ineffective in curbing the government's authoritarian changes. In 2018, the European Parliament (EP) opened Article 7 TEU proceedings against Hungary, which could suspend the country's voting rights in the Council, but the actual enforcement of such sanctions seems unlikely. The Hungarian government often portrays the EU as an intrusive external authority interfering in its internal affairs and positions the Union as an adversary to be challenged and fought against. (Szent-Iványi & Kugiel, 2020)

Hungary's resistance and defiance of EU standards underline a fundamental challenge in the union's governance: balancing respect for national sovereignty with the enforcement of common values. This divergence places Hungary at the center of a debate about the EU's ability to respond to democratic backsliding among its member states, and how such deviations affect both political cohesion and economic stability within the union. (Blauberger & Kelemen, 2017; Pech & Scheppele, 2017)

1.2 Research Problem

The study of illiberal democracies within the EU and their economic and political implications on the European integration process is a crucial area of research; nevertheless, it is marked by significant gaps in the existing literature.

While the literature around the topic illiberal democracies in the EU has increased clearly in recent years, there exists a notable gap in understanding the political and economic implications of these policies, especially regarding their impact on the European integration process. Existing studies, as those mentioned above, mainly focus on the institutional and political aspects of illiberalism, while often missing the dimensions and implications on the European integration and leaving pending issues in the economic context.

1.3 Research Question and Objectives

After presenting the research gap, the following research questions need to be addressed and will be answered:

1. How are illiberal practices expressed in Hungary?
2. How and to what extent do illiberal policies and practices implemented in Hungary affect the European integration process politically and economically?
3. To what extent does the illiberal turn in Hungary affect the perception of political and economic risk within the EU?
4. How is the EU dealing with the challenges of illiberal democracies?

To address the research questions effectively, the following objectives will guide the study:
The primary objective of this research is to undertake an in-depth analysis of illiberal policies within the EU and their political and economic implications on the European integration process. First, the concept of illiberal democracies and their emergence will be explained. This analysis will be attained through the lens of Hungary, which serves as a relevant case study. Its illiberal turn was a result of the rule of law crisis (Raube & Reis, 2021), which will be also thematized. This objective incorporates an extensive overview of the illiberal policies imple-

mented in Hungary, including their implementation mechanisms, legal frameworks, and impacts on democratic institutions, as for instance the media and judiciary.

The main part will deal with the political and economic consequences of the illiberal policies and practices. The impact will be further analyzed on a domestic level in Hungary itself as well as on the EU level. The economic part aims to serve on evidence by involving collecting and analyzing data from the European Semester, the European Commission, and the Economic and Growth Pack, while for the political part scholarly articles, government statements, and policy documents will be critically analyzed.

Furthermore, the subsequent challenges faced by the European Union and its institutions as well as strategies by the EU in dealing with illiberal democracies will be elaborated, such as the delicate balance between using sanctions and incentives to counter democratic backsliding while pursuing economic cooperation and trade. These findings will then be evaluated.

1.4 Relevance of the Study

The issue of Hungary's illiberal policies and their influence on the European integration process is highly essential in the contemporary political landscape. As illiberal tendencies become more present in Hungary and other member states, the EU faces a critical challenge to its core values of democracy, human rights, and the rule of law. Comprehending the repercussions of these policies is important for maintaining the stability and integrity of the EU as a political and economic union.

The relevance of the study is in the examination of Hungary within the EU, in which illiberal policies pose a challenge for fundamental EU values. As a pioneer in introducing and fostering an illiberal stance, Hungary is setting a precedent within the EU and encouraging other member states to adopt similar policies. This development not only jeopardizes the decline of democratic values, it also threatens the stability of European integration, as it is encouraging governments to diverge from long-established EU norms with no direct consequences. (Kelemen, 2020; Szent-Inányi & Kugiel, 2020)

The political stance of Hungary is symbolic of the increasing gap between liberal and illiberal models of governance in Europe, a collision that is testing the EU's ability to enforce its founding principles. By asserting its national sovereignty against what it perceives as 'EU interference', Hungary is simultaneously undermining supranational governance and jeopardizing collective European interests. This study emphasizes the importance of understanding how Hungary's transformation affects both the internal dynamics of the EU and its global image as a promoter of democratic values. (Csehi, 2020)

1.5 Structure of the Thesis

This thesis is structured to systematically explore and analyze the repercussions of Hungary's illiberal policies on the European integration process, considering both political and economic dimensions. Each chapter contributed uniquely to the overarching research question, with a clear progression from theoretical underpinnings to in-depth analysis and conclusion.

The first chapter introduces the background and context of the research, clearly stating the research problem, and outlining the research question and objectives. The relevance of the study in the current political and socio-economic context is discussed. The methodology section details the qualitative research approach, the rationale behind case selection, and the data collection methods.

Subsequently, the second chapter lays the foundational theories and concepts related to illiberalism and its manifestation in Hungary. It critically examines Hungary's role in the European Union and identifies key illiberal policies that have shaped the country's political landscape. This theoretical background is essential for understanding the subsequent analysis of political and economic repercussions.

Focusing on the core of the research, the third chapter delves into the political and economic implications of Hungary's illiberal policies. It is divided into two main sections: political consequences, which include democratic backsliding and its impact on Hungary and the EU, and economic implications, encompassing economic performance, trade relations, and the influence of EU funding. Moreover, the broader consequences on the perception of political and economic risk within the EU will be addressed.

The fourth chapter analyzes the EU's response to Hungary's illiberal policies and the challenges it faces in dealing with member states that deviate from democratic norms. It provides an examination of the efficacy, limitations, and consequences of the EU's actions and strategies.

The concluding chapter summarizes the findings from the analysis and reflects the research objectives and questions. Furthermore, it discusses the implications of the study as well as brings closure to the research while underlining its contribution to the broader discourse on illiberalism and European integration.

2. Methodology

2.1 Theoretical Framework

Within the framework of the enlargement processes of the European Union (EU), the EU has been capable of modifying policies and societies of Eastern Europe, which started after the Cold War. Nonetheless, there has only been limited success in the practical implementation with regards to democratic principles, for instance human as well as minority rights, democracy, and rule of law. This means that in those countries, there exists an underrepresentation of a fully liberal implementation of democratic values. (Raube & Reis, 2021)

The rise of the so-called illiberal democracies apparently has developed to a common phenomenon that creates substantial problems to all those who strive for preserving and protecting the core values as well as institutions and bodies of liberal democracies. (Raube & Reis, 2021)

Illiberalism refers to an emerging concept in the field of political studies which applies to a range of phenomenon, varying in the social, cultural, political, mental, and legal context, that are related with the disappearance of personal and individual freedom as a daily experience. It is the consequence of practices – social, political, and environmental ones – that lead to an excessive concentration of power in the executive, or restrictions on political pluralism or social diversity. For illiberal regimes, freedom and its claim to it is not of relevance, particularly when these regimes control how rights and freedoms are invoked and utilized in society. The key topics of illiberal critique are therefore the fundamental ideals of what political liberalism stands for: equality, justice, human rights, and the rule of law. (Halmai, 2021; Laruelle, 2022; Sajó et al., 2021)

Illiberalism is characterized by the denial of rational discourse and rather encouraging intolerance, the culture of violence, fear of otherness, moral authority, and discipline. The deference for authority and tradition in society, and the dread of individual liberty are quite prevalent in the ideological assaults on liberalism and in the political systems associated with these standpoints. (Sajó et al., 2021)

Whilst the introduction of the concept of "illiberal democracy" was decades ago, it has a recently gained greater prominence, and the European Union is not invulnerable to this tendency of evolving illiberal consensus. Some of its member states are perceived as belonging to a larger movement that is eroding democratic mechanisms. This involves subverting the independence of the judiciary, restricting civil society, disrupting checks and balances, and manipulating voting systems to increase the power of ruling parties. (Raube & Reis, 2021)

Illiberal tendencies, which are oftentimes related with the rising of populism, do not seek to create any alternative democratic systems, but rather attempt to displace liberal democracy itself. The expression 'illiberal democracy' has been widely criticized as inconsistent, as an oxymoron, as it emphasizes the irreconcilability of illiberal views with democratic principles. Likewise, the notion 'authoritarian populism' has been put forward to define more accurately the tendencies and dynamics that ultimately undermine the bases of liberal democracies. (Raube & Reis, 2021)

The concept of illiberal democracies has become more present in the last years. Over the past decade, more and more illiberal regimes have arisen in numerous countries. They characterize themselves typically through a regime which has been democratically voted for and elected, but once they are in the government they do not act within their constitutional authorization. The worry is that as soon as populist forces have gained political control, they tend to steer both society and government, and ultimately international affairs, in an illiberal trajectory. Moreover, with the ignoration of their limits, they take away the basic human rights as well as the freedom from their citizens. (Bermeo, 2016; Raube & Reis, 2021; Sajó et al., 2021)

It is crucial to point out that there exist different definitions and viewpoints of illiberalism. While Sajó et al. (2021) clearly state that "illiberalism is not an ideology", Laruelle (2022) suggests to "look at illiberalism as a (thin) ideology". Yet, both papers emphasize the distinction of illiberalism from other concepts and forms of regime, such as anti-liberalism, populism, conservatism, and the far right. (Laruelle, 2022; Sajó et al., 2021)

To begin with, illiberalism is not to be confused with anti-liberalism. The notion of anti-liberalism, which is directed against liberal societies or theories, blames liberalism as the main cause of the current moral decline of society, leading to cultural, economic, political, and other forms of decay. Anti-liberalism relies on rationalism, liberal individualism, and pluralism; it contains a significant democratic and egalitarian element by turning against the elites and in favor of the ordinary individual, population, or nation. However, illiberalism in governance and social control reaches further than this: it rejects public reasons as well as values and truth; therefore, contemporary illiberalism is receptive to misinformation. Moreover, illiberalism lacks a coherent theoretical framework in terms of society, politics, or its own constitutional principles. In fact, it rather depends on contextual ideologies such as populism, religious doctrines, or communalism. Illiberalism is not per se opposed to individualism, even though it tends to favor the idea of a perceived communal unity. (Sajó et al., 2021)

As mentioned above, there often exists a link to populism with authoritative features, yet there has to be made a distinction between illiberalism and populism. Whilst populism can be affected by right-wing as well as left-wing ideologies, this is not the case with illiberalism. Illiberalism is restricted to advocating the reintroduction of certain traditional structures and hierarchies and culturally uniform solutions. These attributes generally exclude contemporary left-wing movements, which almost uniformly advocate cultural liberalism and promote a broad, inclusive concept of nationhood. However, even within populism inspired by right-wing ideologies, there exist clear differences from illiberalism. For example, there are multiple movements that are populist yet not illiberal. Moreover, there exist two important distinctions that differentiate illiberalism from populism: first, illiberalism is not inherently reliant on a charismatic leader, a characteristic commonly seen as essential to populism; and second, illiberalism is not fundamentally opposed to intellectualism. Rather, it can position itself as an ideology that favors an elitist perspective. (Laruelle, 2022; Sajó et al., 2021)

Illiberalism and conservatism agree in their basic convictions: human beings have inherent characteristics that cannot be easily changed or negated by personal preferences; identities, whether they are national, sexual, or gender, are not simply social constructs that can be modified based on individual dissatisfaction. Both ideologies maintain specific concepts of morality, uniformity, authority, and structured hierarchy, and hold a skeptical worldview of human nature that what is often referred to as progress could be leading to moral decay and liberation to disorder. A significant unifying factor of the contemporary debate is the collective rejection of what is referred to the third liberal narrative, in particular cultural liberalism, with gay rights advocacy as well as multiculturalism as its prime examples. (Laruelle, 2022)

Considering this issue from an institutional perspective, the extent of illiberalism poses a challenge for liberal democracy. Liberal democracy not only implies the restriction of the public power of the majority; it also requires the process of checks and balances, the rule of law, and ensured basic rights. This implies that without liberalism, there exists no democracy and moreover, without democracy, no liberal rights. (Halmai, 2021; Laruelle, 2022)

2.2 Research Method

This research utilizes a qualitative research methodology, predominantly relying on the method of literature review. A literature review is defined as a systematic approach to explore existing academic literature of a specific subject, which enables synthesis of existing knowledge, identifying of gaps, and wording of research questions (Synder, 2019). This approach adjusts with the study's objective to extensively examine the relationship between illiberal democracies in the EU, by using Hungary as a case study, and their political and economic repercussions on the European Integration Process.

The methodological framework for this research is based on Hannah Snyder's paper, "Literature review as a research methodology: An overview and guidelines" (2019). Synder's guidelines highlight the relevance of realizing a systematic literature review to guarantee the comprehensiveness of the research process.

The literature review in this study will concentrate on several key thematic topics:

Illiberal Democracies in the EU: In this section a concept of illiberal democracies within the EU will be defined as well as their characteristics, drivers, and manifestations. The main themes will imply the erosion of democratic norms, the effects on the EU's core values, and the role of political leaders.

1. Illiberal Policies in Hungary and their impact: A thorough examination of the illiberal policies which were implemented in Hungary, as well as changes in legislations, judicial reforms, media regulations, legal frameworks, and electoral practices. Academic sources, reports from international organizations, policy documents, and government statements will be analyzed in order to understand the scope and implications of these policies.

2. Political and Economic Consequences on European integration: In the main part the political and economic consequences of illiberal policies within the EU will be investigated. Here, relevant academic papers and economic reports will be analyzed to evaluate the economic aspects of illiberalism, also under the scope of the European Semester as well as the political impact, such as the democratic backsliding.

2.2.1 Single Case Study: Case Selection Rationale

This research utilizes the case study as a research method. Its framework is based on Robert K. Yin's book "Case study research and applications: Design and methods (2018). According to Yin (2018), he defines a case study as an empirical method which examines a phenomenon in the real world. In this research, Hungary will be used as a contemporary case in this in-depth analysis.

This approach was used for two reasons. First, as Yin (2018) stated in his above-mentioned book, the more research questions start with "how" and try to explain contemporary conditions or situations, the more suitable is a case study as research method. Second, since the objective of this research will be to provide an in-depth analysis of a contemporary case, which will be Hungary, a case study is more applicable. Therefore, the case study strategy will be deployed in this research due to the relevance of context in which the illiberal policies in Hungary are taking place.

The case study approach was selected because of its suitability for investigating a complex and specific phenomenon within its real-life context. Hungary's illiberal policies and their consequences on the European integration process are intertwined with the country's unique economic and political dynamics.

Furthermore, Yin (2018) differentiates between two strategies when it comes to case studies: single case studies and multiple case studies. In this paper, a single case study format will be applied since the objective is deep and focused research. In addition to this, Hungary has been selected as a single case due to its distinctive illiberal shift and pioneering illiberalism in the EU. Besides that, this strategy is applicative as it serves a suitable methodology to examine in detail how illiberal policies implemented in Hungary affect the European integration process politically and economically.

Another essential distinction that has to be addressed concerns the unit of analysis. Yin (2018) pinpoints two types of case studies, holistic and embedded single case studies. This research is subject to a holistic design as Hungary will be explored as a whole and its illiberal policies and their implications will be examined within a broader, holistic context of the political and economic dynamics of the European Union.

2.2.2 Qualitative Systematic Review

The literature review will be based on a systematic and structured process, drawing inspirations from examples of systematic literature reviews in the academic field (e.g., Dumay et al., 2016; Massaro et al., 2016b). The procedure implies the following steps, including the steps for a single case study:

The data collection for this literature review will predominantly involve the identification and retrieval of relevant academic papers, reports, and policy documents. Comprehensive searches in academic databases will be conducted, for instance Univie Library, JSTOR, as well as specialized journals listed in the Academic Journal Guide, Google Scholar, and many more. The data will be systematically reviewed and analyzed in accordance with identified thematic areas. The key findings and arguments from the selected sources are synthesized into a coherent narrative to answer the research questions.

3. Illiberalism in Hungary

The conceptuality of illiberalism was adopted by the Prime Minister of Hungary, Viktor Orbán, during his Băile Tuşnad speech in 2014, and since then it has been used as a mark of honor by numerous politicians who describe themselves as illiberal. Orbán utilized the term out of the belief that liberalism promotes encourages egoism and a detached cosmopolitanism, resulting in a fragmented and more multicultural society in which individuals assert their rights without recognizing responsibility to the domestic community and the state. In order to deal with this issue, Orbán argued for a more work-oriented society in which the value of individuals is defined by their work-ethic, in combination with a system that promotes majority rule, and a resilient agenda anchored in conservative values. In Orbán’s interpretation, illiberalism is the response to the perceived deficiencies of liberalism as exercised by the elites over the past two decades, who are blamed for being out of touch with the – in his point of view – real nation. Orbán links the emergence of individualism and moral nihilism directly to global capitalism and neoliberalism. He has advocated the concept of establishing an “illiberal state” – a term he took over from Gyula Tellér, one of his advisors – within the scope of the European Union. (Laruelle, 2022)

3.1.1 The Rule of Law Crisis

At the time of Hungary's accession to the EU – or to be more precise, the Republic of Hungary as it was called back then – the country was administrated by a coalition under the leadership of the Hungarian Socialist Party (MSZP), which faced strong opposition from the right-wing Hungarian Civic Alliance, Fidesz. In spite of winning a second term in 2006, the ruling MSZP-led government had to deal with internal scandals and conflicts, which Fidesz effectively exploited, as well as also faced criticism regarding its failure to address the economic issues of the country. Nevertheless, the government operated in accordance with the general principles of Article 2 of the Treaty on European Union and during this time, Hungary was considered a "fully consolidated democracy" (Freedom House, 2022) as assessed by Freedom House. At the General Election in 2010, Fidesz won an overwhelming victory with two-thirds of the seats of the parliamentary seats, which enabled it to change the Constitution and introduce important laws on political parties and the Constitutional Court. Exploiting this power, Fidesz has systematically reshaped the country, result in Hungary being reclassified from a "semi-consolidated democracy" in 2015 (Freedom House, 2015) to a now "transitional or hybrid regime" (Freedom House, 2023) by Freedom House. (Neuwahl & Kovacs, 2021)

In its annual 'Freedom in the World' report, Freedom House assesses the availability of political rights as well as fundamental civil liberties across 210 nations and territories. This assessment covers a wide range of individual rights and freedoms, from freedom of speech to voting rights and legal equality, that can be shaped by the actions of both governmental and non-governmental bodies. (Freedom House, 2024)

Following its election victory, Orbán's administration commenced drafting a new constitution. This step suited in well with a populist approach, as populists generally regard the people as a fundamental rather than a formative force. Therefore, they regularly tend to question and criticize existing constitutional mechanisms that they perceive do not reflect the interests of the people. Orbán took the view that the existing constitution was not truly representative of the Hungarian people. The new and revised constitution, known as the Fundamental Law of Hungary, was approved by the parliament on April 18, 2011, and came into effect the subsequent year. It was a replacement of the former Constitution and with it, the official name of the Republic of Hungary was modified into Hungary. The preamble of the Fundamental Law is an expression of the conservative and traditional values that are promoted by Fidesz and a commitment to Hungarians living abroad. Significantly, this law has eroded the system of checks and balances that was a central pillar of the old constitution, in particular by limiting the powers of the Constitutional Court and by enabling the Parliament to override its decisions with a two-thirds majority. Other changes have restricted the autonomy of the judiciary and made it easier to appoint political supporters to key positions in perceived autonomous bodies, like for instance the Public Prosecutor's Office, the Media Authority, as well as the National Bank of Hungary. These modifications were implemented while remaining within the existing national legal framework and did not meet with any notable public opposition. (Csehi & Zgut, 2020; Neuwahl & Kovacs, 2021)

The EU and the Venice Commission of the Council of Europe criticized not only the new constitutional text and its subsequent amendments; further laws affecting the media, the election system, the central bank, the judicial system, the civil society, data protection authorities, non-governmental organizations (NGO), and much more were and remain to be a cause for great worry. (Csehi & Zgut, 2020; Neuwahl & Kovacs, 2021)

From the very start, Orbán utilized a confrontational tone when responding to the EU's criticism concerning the new constitution. He described the people as the nation of Hungarians and made a contrast between them and an elite that he blamed of staging assaults against Hungary. Foreign interference and its supposed domestic supporters were referred to as a corrupt elite, a narrative that more and more developed an EU-centric tone over time. (Csehi & Zgut, 2020)

3.1.2 Religion

In Hungary, Viktor Orbán has never had to make compromises or concessions to political factions that differ significantly in their ideology or social foundation, as Fidesz was transformed into a strictly structured, top-down organization, in particular after the second election defeat in 2006. (Csaba, 2021)

Religion is an essential part when it comes to national legitimization regarding illiberalism in Hungary through the characterization of the population as a Christian collectivity, which even restricts the circle of people who can identify themselves as being part of it. In Hungary, the Basic Law of 2011, the recent constitution of Hungary, even refers to this function of religion. Its preamble, which states the commitment to Christianity, hints through its wording that there is tolerance towards different religious traditions – even though it implies rather Christian ones – but there exists no equality between those world views. (Halmai, 2021)

The religious transition in Hungary began long before the migration crisis in 2015 with the implementation of a System of National Cooperation (SNC), whose multi-denominational structure gave both Protestantism and Catholicism a privileged place. Legislation that privileges particular "traditional" churches reinforces this. (Halmai, 2021)

The migration crisis of 2015 has underlined the intolerance of the governing leadership of Hungary, presenting itself as the so-called protector of Europe's Christian civility against a – as they say – Islamic intrusion. Hungary's prime minister Viktor Orbán emphasized the importance of the Christian culture right at the start of the crisis; in his perception, it is its force and power than unifies the nation. Furthermore, he added that "Hungary will either be Christian or not at all" (Szabolcs, 2015). Adjustments have also been made in the Basic Law in regard to Christianity, to be more precise through the Seventh Amendment which has been passed in 2018 and understands the safeguarding of the Hungarian self-conception as well as its Christian identity as the responsibility of all state institutions. (Halmai, 2021; Szabolcs, 2015)

Another modification that has been made was with the implementation of the Ninth Amendment in 2020. It was introduced in order to determine the gender identity of children when they are born, so that subsequent gender transitions cannot be recorded in the natal register. Significantly, in the English translation of this amendment that was made available by the Ministry of Justice, the word "self-identity" was utilized in place of the literal, direct translation "gender identity", presumptively in avoidance of the despised concept of gender. (Halmai, 2021)

This alteration was justified by Prime Minister Viktor Orbán in one of the state-run papers, describing the Basic Law as the "national-Christian Constitution" (Halmai, 2021). According to him, proponents of Christian democracy also expect educational institutions to preserve and reinforce the gender identity given to each child by God at birth. This includes guiding young girls to develop into excellent and praiseworthy women and helping boys to mature into men who can provide stability and livelihood for their households. Orbán added that these institutions should protect the principles and ideals of family life and ensure that young people are protected from concepts related to "gender ideology and rainbow propaganda" (Halmai, 2021). This emphasizes the traditionalist and conservative viewpoints of Orbán, especially within the scope of family values and gender roles, that have been characteristic of his governance in Hungary. (Halmai, 2021)

During 2018-2019, amid tensions with the European Union and the suspending of his party Fidesz by the European People's Party over rule-of-law issues, Orbán endeavored to re-define the notion of illiberalism by characterizing it as a democracy anchored in the nation state or, to be more accurately, in Christian principles. This underlining on Christian principles was an attempt to set a common discourse with mainstream conservative groups and to incorporate his illiberal turn into a larger ideological framework based on traditional principles and values. (Laruelle, 2022)

3.1.3 Media Control

In recent years, Central and Eastern Europe (CEE) has undergone a considerable decrease in democratic practices. The emergence of autocratic leaders and political parties in countries such as Hungary posed a serious challenge to core democratic institutions, as well as the freedom of the press. The region is experiencing a rise in right-wing populist movements, which are reinforced through several online platforms and media channels, causing greater social polarization. This movement is also facilitating the rise of xenophobic, illiberal and anti-European stances in the public discourse. In CEE, the phenomenon of democratic backsliding is especially expressed and was emphasized by Viktor Orbán in 2014. Orbán proudly announced his government's endeavors to create an illiberal state, that substitutes nationalism over liberalism as a foundational state ideal and aims for an authoritarian form of governance. (Surowiec & Štětka, 2019).

The media systems' politicization in CEE has been an essential aspect of democratization. As of late, this dynamic has changed, most notably with populist leaders transforming the landscape and structure of the media and establishing or reviving different functions. One important aspect to highlight is Orbán's strategic control over television, who has adopted illiberal governance as a characteristic feature of his leadership. (Surowiec & Štětka, 2019)

For some time now, it has been known that the government of Hungary utilizes the distribution of state advertising as a means of financially supporting media that sympathize with it. This strategy is a subtle way of censorship, the so-called 'soft censorship', in which economic incentives are leveraged to influence media content in favor of the government's stance and perspective. (Máriás, 2018)

In the wake of the shift in political power in 2010, the introduction of Orbán's government was immediately succeeded by an upheaval among those authorized to deal in the trade of public funds and those who demand rights to these funds, as was to be anticipated with former alternations of power. Newly established companies with close connections to the current government began competing for contracts in the communications and media sectors. After receiving the desired public contracts, they placed their advertisements with Lajos Simicska, who owned the largest share of Fidesz media at the time. This setting, based on mutual cooperation, was seen in terms of corruption and regarded by some to be an example par excellence of state capture. (Bátorfy & Urbán, 2020)

Up until the spring of 2015, Simicska was the dominant media owner that supported Fidesz, but then a controversy made Orbán's supporters leave Simicska's media platforms. With the loss of influence over all of Simicska's media outlets, the government immediately terminated all ad placements on these platforms and started to create an absolutely new range of media properties. This was done through the formation of new companies through greenfield investments and the takeover of major international companies, such as the interests and shares of Deutsche Telekom, Pro7Sat1 and Westdeutsche Zeitung. Irrespective of the background of each individual case, a common pattern is that they were recipients of substantial government advertising revenues directly after they were obtained and put into operation. In recent years, the government-backed media conglomerate comprised 22 media companies which were under the ownership of 14 private persons closely linked to the ruling government. These firms in the same way had control of almost 500 media companies. Since 2016, Lőrinc Mészáros, a close confidant of the prime minister and until not long ago mayor of the village they both come from, has been the most well-known media owner of the country. In 2018, Mészáros ranked as the second richest person in Hungary, supervising more than 200 media platforms via Mediaworks, his company. Another main figure was Andrew G. Vajna, a government commissioner who was in the possession of the TV channel TV2 and the radio chain Rádió1. Large parts of the pro-government media landscape are also led by Ádám Matolcsy, a descendant of György Matolcsy, the head of the National Bank of Hungary, a former finance minister and the mastermind of Fidesz's central economic strategies, as well as by numerous other people. In November of 2018, the vast majority of these owners that allied with the government voluntarily gave their assets to the newly founded Central European Press and Media Foundation (CEPMF). A decree, which as been signed and approved by Prime Minister Viktor Orbán, classified this transaction as being of "national strategic importance" and serving the "public interest" (Bátorfy & Urbán, 2020), thus removing it from the supervision that is normally carried out by the Competition Authority. In the foundation's press statement, the transaction was substantiated as an action to protect the Hungarian culture, language, and identity from external factors, the impacts of globalization and the "left-liberal information monopoly" as it is called (Bátorfy & Urbán, 2020). The current pro-government media conglomerate, which incorporates PSM, CEPMF and various private firms, now owns some of the country's leading media houses. These comprise Origo.hu, one of the leading news websites, TV2, the second busiest commercial TV station, Radio 1, the main radio station, Bors, a top tabloid newspaper, and Lokál, the sole cost-free daily and weekly available newspaper, as well as all regional and local dailies and public broadcasting. This setup marks a shift from the pre-2015 landscape, as the whole media network is now under the direct control of Prime Minister Viktor Orbán. Orbán himself has monitored the strategic decisions on the purchase of these media outlets and their owners, alongside the distribution of funds for these purposes, in co-operation with the National Communications Office, a subsidiary of the office of the Prime Minister. The National Communications Office plays a central role in the management of the government's advertising spendings and is under the unofficial supervision by Árpád Habony. (Bátorfy & Urbán, 2020; Máriás, 2018)

In addition to this, there exists an assumption that government advertising affects the advertising decisions and patterns of commercial market advertisers. The emergence of investors linked to the government in the advertising sector caused significant changes in the way commercial advertising is distributed. The concentration of ad space and the provision of air-time for television and radio advertising as part of pro-government sales activities has meant that advertisers in the commercial sector are becoming increasingly forced to work with these entities. This evolution underlines the increasing power of pro-government entities in the advertising industry and has an impact on the overall market dynamics. Considering their strong market presence, many aspects of the media that benefit the government have become crucial to commercial advertisers. A survey among media agency professionals and advertisers shows that the pressure has steadily increased since 2010. This pressure is designed to get them to place ads in pro-government media, even if the choice does not meet optimal business or advertising criteria regarding its effectiveness. Furthermore, many firms give in to these demands in order to strengthen their bargaining power in negotiations with the government. (Bátorfy & Urbán, 2020; Máriás, 2018)

Similar to other countries around the world, the Hungarian newspaper sector is also struggling with enormous challenges. The emergence of digital technologies and the shift in reader habits have resulted in a sharp decrease, especially in the daily newspaper market, which has clearly fallen behind in the competitive media landscape. The major media houses have succeeded to mitigate some of these implications by shifting their focus to the publication of consumer magazines. Nonetheless, publishers that are exclusively focused on producing newspapers that report on public and political affairs still face a challenge to maintain their financial viability. Meanwhile, as mentioned above, there is a rising trend of more and more publishers coming under the control of investors that are pro-government. (Bátorfy & Urbán, 2020)

From a historical perspective, the national political newspaper sector of dailies in Hungary has been strongly politically affected and has close links to political parties. Until 2010, however, market dynamics were the predominant force in this sector. While the structure of state advertising expenditure made it clear which publications were more closely associated with the ruling Socialist Party, the natural market dynamics were not severely disrupted by the allocation of state funds. (Bátorfy & Urbán, 2020)

Since the 2010 elections, the balance in media dynamics changed fundamentally, with the changes in 2015 being notably dramatic due to a dispute between Viktor Orbán and the well-known oligarch Lajos Simicska. This conflict forced the ruling party to reconsider its media strategy and invest unprecedented money in the complete rebuilding of media market relationships. (Bátorfy & Urbán, 2020)

The tampering of the national political newspaper sector by state-funded advertising represents a major risk, which is affecting a market already dealing with severe challenges to its economic sustainability. Faced with changing habits of media consumption and the pressures of the digital age, publishers are seeking for long-term business strategies to secure their continued existence. (Bátorfy & Urbán, 2020)

The online market can be considered the least restricted area of the Hungarian media industry. This branch has the largest proportion of autonomous institutions, which are not geared towards political forces but prioritize business motives in their decision-making processes. However, people that are linked close to the state are gaining in importance in this area, which is especially apparent in the opposing positions of the two dominant news websites Index and Origo. (Bátorfy & Urbán, 2020)

Index has throughout its history always been in the possession of investors from Hungary. However, even though Zoltán Spéder was not one of the top media oligarchs, he was seen as an investor who supported Fidesz. As of April 2017, he assigned his property rights to a foundation that was managed by the news portal’s legal representative. Index has no official links to political groups. In contrast, having a closer look at the ownership of Origo, another big news channel, it was initially held intermediately via Hungarian Telekom, Deutsche Telekom’s subsidiary, therefore the actual owner. Yet, in 2016, the German telecommunications corporation withdrew its ownership of the digital media service. The company is currently trading with the new name New Wave Media Ltd. and is now domestically owned. Ádám Matolcsy, whose father is the president of the Hungarian National Bank (MNB), is the current owner. (Bátorfy & Urbán, 2020)

Throughout the years, the contribution of state advertising in this area was minimal and often accounted for less than 10% of the total ad revenue. Index saw a rather small increase during Zoltán Spéder's time as owner. After the change of ownership, though, there was a distinct shift, as Origo, which is close to the government, more and more relied on state advertising. Meanwhile, the independent Index managed practically without such advertising. From 2012 to 2013, Index benefited the most, but after that Origo was purchased by investors that were closely linked to the government and became the leading unit in revenue generation. At the same time, Index's share of the government's advertising budgets for this market segment fell to its lowest level ever. (Bátorfy & Urbán, 2020)

The situation in the online media market is worth mentioning, as this is an area in which the state had before no influence at all. Nonetheless, the purchase of one of the foremost news platforms in this area and the unilateral distribution of advertising budgets by the government have also led to a significant change in this area. (Bátorfy & Urbán, 2020)

As far as the television industry is concerned, the main commercial TV channels are the most important. The leader in the television segment RTL Klub is run by Magyar RTL Televízió Inc., a subsidiary of the globally active RTL Group. TV2 is the second dominant commercial channel and is managed by TV2 Média Csoport Ltd., which is under the ownership by government official Andy Vajna. (Bátorfy & Urbán, 2020)

The following graphic demonstrates that income from state advertising initially played a subordinate role for both commercial channels, while it has recently become more important for TV2 following its takeover by Hungarian owners in 2014. State advertising still accounts for less than 10% of total advertising revenue and is comparatively low as opposed to other media firms that are pro-government. (Bátorfy & Urbán, 2020)

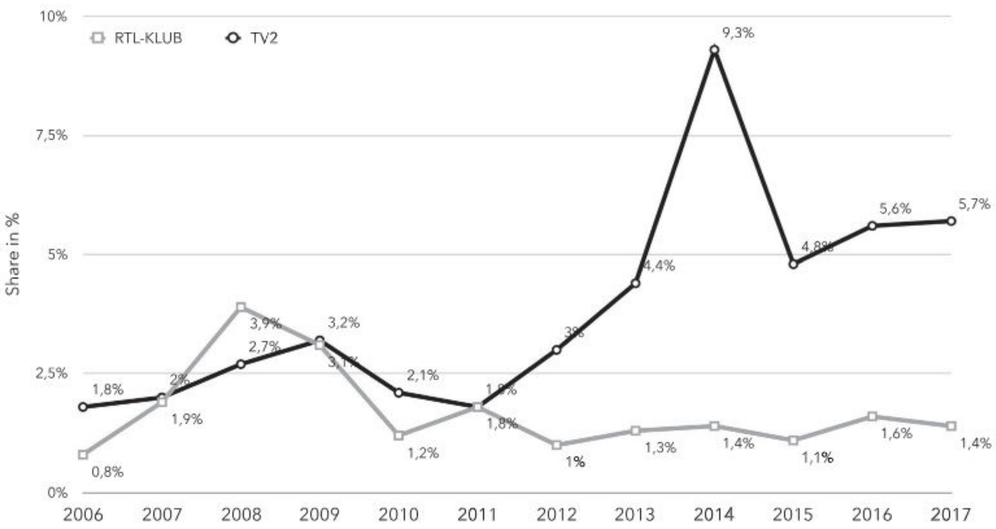

Figure 1: Share of government ad revenues at TV2 and RTL (% of total ad revenues). (Bátorfy & Urbán, 2020)

In summary, it can be said that the state advertisers clearly favor certain companies, which leads to a distortion of the competition on the Hungarian market. Before 2010, during the Socialist government, the allocation of state advertising expenditure was rather even and balanced, where no media company was depending entirely on state advertising. Yet, this situation shifted following 2010, with a significant change happening in the last years. A review of three different media sectors shows that under the Fidesz regime, state advertising funds were directly transferred to firms that were bought by investors that are pro-government. But more notably is that autonomous competitors are deliberately overlooked by state advertisers, eliminating any chance of fair opportunity and competition. This tendency can be observed regardless deeper knowledge of the specific communication tactics of certain state organizations or their target groups, suggesting that efficiency is not the primary objective for these institutions, but that rather political motives have priority. (Bátorfy & Urbán, 2020)

As of 2010, funding started to focus on companies that were affiliated with the ruling parties, especially those that were controlled by Fidesz supporters. This change of direction of state funds strengthened pro-government media and allowed a number of conservative media companies to prosper or at a minimum survive economically challenging periods. These entities show loyalty and support for the regime and align their editorial methods with the interests of the governing parties in order to keep their key source of funding. The politically strategic allocation of state advertising funds after 2010 has fundamentally changed the media sector. This switch has destabilized a pre-existing equilibrium, and moreover, also raised the amount of government funding flowing into the media industry. The combination of elevated state advertising spending and its unilateral allocation has jeopardized competitive fairness in the media sector. In a few instances, for example such as print media, government-affiliated companies obtained a large share of state advertising, although their coverage area and audience were rather small. In the television and digital news sectors, the extent of state involvement was less apparent, but the distribution of state advertising nonetheless contributed to the distortion of market dynamics. In particular, in markets where there are only two dominant players and one of them profits from strong government financial support that impacts its revenues or covers its deficits, while the other one depends only on market-driven revenues, this imbalance could ultimately weaken the sustainability of the latter, irrespective of its superior performance within the market. In addition to that, this situation is developing at a stage when the overall media industry is facing difficulties in terms of its economic framework conditions. The imbalance in the Hungarian media industry implies that media companies that support the government are comparatively less affected by the challenges that are resulting from competition within the market. By contrast, independent media are very fragile in the midst of these competitive dynamics and are at a disadvantage when it comes to keeping their market position. (Bátorfy & Urbán, 2020)

The Hungarian government defends its actions by claiming to promote diversity of media viewpoints by providing public funding to support media that agree with its views in order to counter what it calls “left-liberal dominance”. This selective and arbitrary distribution of state funding threatens the survival of many independent media organizations that have to compete in a normal commercial environment against virtually unlimited financial support from the state. Consequently, this approach to public funding undermines media diversity, as a significant proportion of the Hungarian population obtains information predominantly from state-funded sources. This distortion of public discourse contributes to the erosion of democracy, strengthens Viktor Orbán’s position of power and traps Hungary in a harmful cycle. (Bátorfy & Urbán, 2020)

3.1.4 Illiberalism in Economic Affairs

While the health of democracy often deteriorates under autocratic rulers, the effectiveness of their centralized and economically patriotic strategies may be the key to their enduring authority. Rulers who self-identify themselves as authoritarian initially espoused the virtues of an illiberal democracy aimed at restoring the authority of the so-called authentic population, deviating from the globally influenced democratic model advocated by international elites. Vowing to boost social spending and confront global institutions and foreign investors with a protectionist economic discourse, these leaders and their parties came to power fueled by widespread dissatisfaction with those blamed for the 2008 financial crisis – usually previous governments and the rapid movement towards economic deregulation and international integration. The advocates of illiberal democracy are currently aiming to gain a hearing among those who are seen as disadvantaged by globalization, and they harshly denounce those who have benefited from it, as well as from liberalization. Especially in Eastern Europe, the controversial privatization process has triggered considerable resistance, which authoritarian politicians have used to their advantage in elections. (Ganga, 2021)

Since the early days of post-Communist Hungary, Viktor Orbán and Fidesz have been central figures in the nation's political landscape. As both a governing and opposition party, Fidesz has transformed from a liberal group opposing communism to a national populist party that dominates Hungary's political arena. Since 2010, Hungary has been characterized by a blend of nationalism and market-oriented liberalism as well as a unique type of populism. (Ganga, 2021)

Illiberal leaders, such as Viktor Orbán, promise centralized and economically patriotic measures as a strategy to fulfill their campaign promises to protect their constituencies from the volatility of global markets. Although calling this "Hungary first" – echoing "America first" – a deeper message behind this nationalist jargon is hidden: a focus on centralizing political authority in the hands of the executive, often at the expense of the constitutional checks and balances established during the shift to democracy. This bundling of political authority leads to a centralization of economic decision-making and a strengthening of economic influence within the nation, which in turn leads to increased state control over the economy. (Ganga, 2021)

The pledge of an illiberal leader lies in valuing tradition and societal authority, apprehension of personal liberty, and commendation of group collectivity. This aligns closely with the enhanced consolidation of political control, ultimately leading to the concentration of economic power. Thus, in order to fulfill their promises, leaders with illiberal tendencies must also centralize economic power and expand the state's role in the economic sector. These kinds of policies are often associated with the terms of "economic nationalism" and "state control", respectively "statism", which characterize themselves through their intensified efforts towards economic consolidation. (Ganga, 2021)

Typically, the notion of statism, which is also referred to as "etatism", is often associated with the ideas of expropriation and nationalization, as these practices were closely linked in nations under communist rule. Politicians involved in “etatization” claim that key properties are state-owned, then appropriate these assets to restrict their use by private companies, and ultimately guarantee their administration by state authorities. Nonetheless, following the end of the Cold War, a different type of statism has evolved in which a comparable development is combined with market mechanisms, often referred to as “state capitalism” (Ganga, 2021). In this new form, private ownership and widespread market activity coexist with state ownership and state regulation of large parts of the economy, so what were known as the dominant sectors in the economic landscape. In nations with a state-capitalist system, the government perceives its role as actively directing the economy and managing the corporate sector. (Ganga, 2021)

The politics of economic nationalism not only exist in contemporary times under slogans such as “America First”, but date back to the nineteenth century and extend across numerous regions. The nationalist aspect of this approach is often emphasized, yet the economic aspect is essential. This leads to protectionism and resisting global economic integration. Economic nationalism is often linked with autarky. Nevertheless, the objective of economic nationalism is not complete economic independence, but the promotion of national cohesion, the strengthening of national power, and autonomy. (Ganga, 2021)

Even though it is often linked with protectionist policies, proponents of economic nationalism can also be in favor of free trade if it strengthens national power. It is suggested that economic nationalism should be seen in a broader context and not a priori as opposed to economic liberalism. Consequently, proponents of economic nationalism may support policies that are either for or against globalization, and policies that range from liberal to protectionist, based on their specific view of national identity and their opinions on which economic policies advance the nation as an independent political and economic entity. Furthermore, the pursuit of national objectives can occasionally steer this trend to economic patriotism. Those patterns which have been explained by the notions of economic nationalism and statism can be observed in Hungary, where a fusion of economic policies, that are neoliberal, and authoritarian governmental methods occur. (Ganga, 2021)

3.1.5 Economic State Control in Hungary

By the late 1990s, Hungary had finalized its privatization process, primarily through the sales method. After joining the European Union in 2004 as a member state, the strict supervision of its political and economic development by international bodies diminished. This weakening external control, combined with the inefficiency of internal democratic mechanisms (both political and civic) and the fragmentation of the parliamentary opposition, broadened the Orbán administration's scope for maneuver. As a result, policy measures were taken to limit the influence of multinational corporations in various local markets and to improve the prospects for companies under domestic ownership or direct state control. (Ganga, 2021)

Though frequently referred to as an unconventional economic policy or the so-called "Orbanomics" (Ganga, 2021), the overarching nature of the economic policy implemented since 2010 is paradoxically quite conventional according to typical right-wing, liberal practices. The unconventional aspect lies in the antagonist stance towards the service sectors (especially financial services), characterized by the imposition of significant unilateral taxes (sector-specific levies) on these industries (such as retail, telecommunications, and energy). More crucially, these developments have profoundly changed the involvement of the state in economic policy. Orbán has repeatedly made two claims: First, that utilities, as natural monopolies providing the whole populace, should never have been privatized; secondly, that national interests necessitate an augmentation in Hungarian ownership, whilst foreign multinationals' shares in other key sectors, such as banking and media, must be reduced. (Csaba, 2021; Ganga, 2021)

In order to drive this policy forward, Viktor Orbán's government undertook important measures to consolidate its influence on the economy. The initial step centered on legal reforms that enabled the government to carry out expropriations and culminated in the introduction of a new constitution. The government then began strategic state takeovers in sectors such as energy, telecommunications, and banking. The majority of the takeovers, respectively nationalizations, in the banking sector took place in 2013 and 2014, while the nationalizations in the energy sector were carried out in 2013, 2014 and 2016 – all of which were portrayed positively in the state-run media controlled by the government. (Csaba, 2021; Ganga, 2021)
Even though state takeovers can be observed throughout the economy, certain sectors can mask the extent of these processes. The banking sector is a prime example of this. Through the nationalization of banks, the state's impact on the overall economy becomes more subtle, but more effective. A government can take control of the banks and then use them to lend to various industries that are struggling with economic problems. This initial step obviates the requirement for further nationalization in other weaking sectors, as the government implicitly gains control over these areas through credit distribution. (Ganga, 2021)

In regard to Hungary, an early indicator of the changed dynamics that the government intended to establish with the banking sector was the ongoing disagreement amongst the prime minister and the former governor of the Hungarian central bank, who had been appointed by the preceding government. This dispute resulted with the substitution of the governor, effectively limiting the autonomy of the Hungarian central bank. (Ganga, 2021)

In the early 2000s, foreign companies owned around 80 percent of Hungary's commercial banks. This changed significantly when Orbán took power. The government began to rebuild a stronger presence in the banking sector by raising the necessary deposits. As smaller banks were unable to meet these new requirements immediately, the state stepped in and supplied them with the required capital in return for a controlling ownership share. This is how the Hungarian government purchased MKB Bank from its German parent bank in 2014. The German owners were not prepared to bear the losses of its Hungarian subsidiary and sold it to the only interested party: the Hungarian government. After this first takeover, the government declared its goals of transferring 50 percent of the banking sector into Hungarian hands, so under their control. (Ganga, 2021)

Special levies and taxes were also imposed on the banking sector, which the government swiftly pushed through Parliament using the considerable party majority. This not only led to substantial instability in the legal framework, but also to a flood of regulations that expanded the regulatory influence of the state. In 2013, for instance, the government introduced a financial transaction tax for all banks as part of its efforts to raise budget revenues. This measure was intended to generate significant revenue but met with public resistance when banks had no choice but to pass these costs on to their customers. As a result, the government introduced a new scheme that allowed citizens to withdraw money from their bank each month for free, while other financial operations remained liable to the transaction fee. (Ganga, 2021)

Such measures are only possible when critical governance mechanisms are firmly in the hands of the state. The Swiss franc crisis in Hungary was dealt with through nationalizations, yet it was the control of Orbán on other central institutions like the parliament, the central bank, and the judiciary that made this feasible. What can be observed in Hungary, however, is an institutionalized ad hoc approach rather than structured institution building. Although the Hungarian system shows an increase of state intervention and centralization, it does not fully correspond to statism. It is instead a form of capitalism characterized by top-down coordination efforts that have intensified with Orbán's rise to power and the new government's management of the country's economic crisis. The result of these cumulative efforts is a form of capitalism that is coordinated and oftentimes assisted by international investors. (Ganga, 2021)

4. The Political and Economic Repercussions of Hungary's Illiberal Policies on the European Integration Process

4.1 Political Repercussions

Throughout the course of time, the process of European integration has been associated with the integration of sectoral policies. According to the principles of both supranationalism and liberal intergovernmentalism, this was seen as a fundamental requirement for the member states as well as the supranational bodies due to the increasing interdependence within Europe and globally. Concurrently, the Union has developed into a community of mutual democratic values. Following the entry into force of the Maastricht Treaty on European Union in 1992, the EU has been built on the premise of a political endeavor that requires the preservation of the identity of the member whose systems of governance are based on democratic principles (Article F 1 TEU). This basis has also led to the creation and refinement of a Common Foreign and Security Policy (CFSP), which aims to promote and strengthen democracy, as well as the rule law of law, the observance for human rights, and fundamental civil freedoms at transnational level. The political nature of the European Union was further specified in the Copenhagen criteria in 1993, which stipulated that new members must be committed to democracy, human rights, and the rule of law. Then, the Treaty of Amsterdam (1997) had amended Article F 1 TEU to incorporate these values and highlighted freedom, democratic principles, the rule of law, and human rights as key values shared among the member states. The Treaty of Lisbon (2007) anchored these core principles in Article 2 TEU. This transformed the EU not simply to a unique institution; it also became a normative power that exerts influence over and beyond its borders and is driven by its constitutional values in international affairs and policymaking. (Raube & Reis, 2021)

The fundamental values of the European Union also function as a benchmark for the assessment of member states, during their accession (Article 49(1) TEU) as well as in the cases of potential suspensions or sanctions or triggered by breaches of the values. The rule of law, first enshrined in early rulings of the European Court of Justice and later in the founding treaties of the EU, has gradually become a cornerstone of the EU, both within and beyond its borders. In spite of existing mechanisms to promote and protect these values, ongoing violations of the principles of Article 2 TEU by member states have jeopardized the EU's constitutional framework and pose a serious existential threat to its fundamental basis. (Raube & Reis, 2021)

The European Union has a strong adherence to democratic principles. As set out in the Copenhagen criteria of 1993, the two most important preconditions for EU accession are the existence of (1) stable institutions guaranteeing democracy and (2) the rule of law. The Treaty on European Union (TEU) emphasizes democracy as a foundation pillar of the Union. Article 2 of the TEU stipulates that the Union is based on the principles of respect for human dignity, democracy, equality, liberty, the rule of law and protection for human rights. In addition, the TEU contains a provision (Article 7) on penalizing member states that commit a severe and persistent violation of the values set out in Article 2 by sanctioning them. These kinds of violations and breaches can go alongside democratic backsliding. (Kelemen, 2020)

The increase of illiberal practices and the rise of defective democratic systems constitute a severe obstacle for the EU and debilitate several facets and domains of EU policies. This endangers the stability of the EU's unified values and principles and threatens the structure and efficiency of its political system. In the context of this democratic and judicial crisis in its member states, the EU is forced to act collectively and use its resources for crisis management. One of the crucial mechanisms available is set out in Article 7 TEU and is commonly termed the "nuclear option". This clause enables the EU to impose compliance with its founding principles outlined in Article 2 TEU and to ensure that member states adhere to the fundamental values on which the EU is founded. (Csehi, 2020; Raube & Reis, 2021)

4.1.1 Democratic Backsliding

In its simplest form, democratic backsliding refers to the government-lead weaking or elimination of all political structures that support an existent democracy. Paradoxically, types of democratic backsliding sanctioned by the very institutions that democracy's proponents have emphasized, could be witnessed nowadays. Generally speaking, the tendencies of backsliding point to a gradual progression of democracy rather than its complete demise. (Bermeo, 2016)

Backsliding can lead societies to different outcomes at different speeds. In scenarios where backsliding triggers rapid and comprehensive changes in numerous institutions, it causes an unambiguous breakdown of democracy and paves the way for unmistakably authoritarian regimes. By contrast, when backsliding is accompanied by gradual, incremental transitions concerning only a limited number of institutions, it is less probable to result in complete regime change and more likely to create political systems that are not clearly democratic or are hybrid in character. Hence, democratic backsliding can result either to the complete disintegration of democracy or just to a significant undermining of existing democratic structures for uncertain purposes. When backsliding leads to unstable and badly defined situations, the defense of democracy becomes extremely difficult. (Bermeo, 2016)

In spite of its professed commitment to democratic values, the EU has recently proven to be a conducive environment for the rise of increasingly despotic member states. The democratic backsliding has been most evident in Hungary, where the Orbán government has replaced democracy with "competitive authoritarianism" (Levitsky & Way, 2010) – a composite regime that superficially retains the structure of democratic institutions but fails to meet the basic criteria for genuine democracy. In the year 2018, a critical report by the European Parliament regarding the conditions in Hungary led to activating the first phase of the sanctioning process under Article 7 of the TEU. One year later, in 2019, Hungary was confronted with the unprecedented situation of being the first member state of the to be demoted by Freedom House to a classification of only partially free. This repercussion is due to the Orbán government's successful moves to centralize power over the judiciary and the majority of the media, to remove effective restrictions and on its power, to tamper the electoral framework, to secure the success, to suppress autonomous civil society groups, and to severely curtail the freedom of academic institutions. (Kelemen, 2020)

When democracies are confronted with authoritarian populism and its implications, they typically develop into defective democracies where liberal elements of democratic governance degrade and necessitate extensive corrective action. In particular, by eroding the rule of law, governments, which have been democratically elected, as well as legislative majorities weaken essential accountability mechanisms and measures that are integral in liberal democracies. This includes the modification of constitutions and laws by legislative majorities, frequently circumventing judicial supervision and jeopardizing the neutrality of the courts. Even if these alterations are carried out democratically, they erode democratic principles, causing crises in some individual European states and possibly impacting larger regional entities, for instance the EU, NATO, or the Council of Europe. (Bermeo, 2016; De Wilde & Gora, 2020; Raube & Reis, 2021)

With the rise of the Hungarian Civic Alliance, Fidesz, in 2010, something has developed in Hungary that is often described as a prototype for the consolidation of illiberal democracies. The government under Fidesz, which holds the reins of the parliamentary majority, has relentlessly subverted key features and elements which are embedded in liberal democratic systems. This implies targeted measures against the national press, the legal system, civic organizations and much more. The state's systematic appropriation of the state apparatus, through changes to the constitutional and legal following democratic elections, has shifted Hungary towards an illiberal constitutional system. This change, which is openly welcomed by Viktor Orbán, stands in clear contrast to the liberal democratic ideals and values advocated by the European Union. (Raube & Reis, 2021)

The European Union is facing a challenge as these tendencies in Hungary were undertaken voluntarily and encountered minimal, non-violent protests. Notwithstanding economic growth in Hungary, the country's policies, governance, and organizational setting have moved away from the fundamental values set out in Article 2 of the TEU. The Hungarian administration has denied this, arguing that its constitution protects human rights and that any deviations from EU standards are issues of national identity and sovereignty. (Neuwahl & Kovacs, 2021)

Within the scope of the infringement proceedings (in particular Article 258-260 TFEU), the Court of Justice of the European Union is empowered to deal with direct lawsuits brought against member states, which can be filed by the other ones (albeit seldom) or by the European Commission. Up until this point, the Commission has approached the issue with caution. In the first lawsuit of this category against Hungary, which is also known as the Case C-286/12, the reduction of the age of retirement for Hungarian judges was considered to be age discrimination within the meaning of Directive 2000/78/EC. This judgment was supported by the finding that the measure was overreaching in relation to the stated goals of aligning retirement policies and encouraging young lawyers to start careers and enter tribunals. However, later developments have revealed that the judgment had only a minimal effect. When the judgment was handed down, Hungary had already appointed several party supporters to take the place of around 274 judges. Following the judgment, the former judges were presented with the choice of either returning to their posts or being compensated. As the majority chose compensation, Orbán accomplished his objective by fulfilling the formal requirements of the CJEU's decision but bypassing its actual purpose. (Neuwahl & Kovacs, 2021)

In a different legal proceeding in regard to the limited autonomy of the head of the data protection authority of Hungary, the European Commission achieved a judgment from the Court of Justice in which it was confirmed that Hungary's measures were not in accordance with the Data Protection Directive 95/46/EC. The original office of data protection was terminated and substituted by a new one. Since a new director close to the Fidesz party was appointed, a reversal of this appointment would have implied a further breach of the directive. As the redress for breaches of EU law are laid down in national legislation, the Hungarian government is not under any obligation to replace the dismissed people. By reaching an accord with the offended party, the government is formally adhering to the court's decision. (Neuwahl & Kovacs, 2021)

There were other cases such as the Sargentini report which originally pointed to a systemic problem in Hungary that was examined by the European Court of Human Rights (ECtHR) in the Gaszó v Hungary case in 2015, which found that Hungary neglected to finalize civil rights procedures within a reasonable timeframe. As a point of interest, references to this judicial decision were however then taken out from the report. This failure could jeopardize the EU's judicial system, which is obliged under Article 19(1) TEU to guarantee compliance with the law and effective judicial protection throughout the Union. Resolving such issues is important, not only for the protection of human rights, but also for the integrity of the EU legal order. (Csehi, 2020; Neuwahl & Kovacs, 2021)

However, there have been enforcement measures against Hungary where the Commission has intentionally avoided the application of Article 2 TEU when taking legal action. For instance, in the Case C-718/17, where the area of concern is the handling of migrants – a field in which the EU seeks at least minimum standards – those defined by the ECtHR. Without invoking Article 2 TEU, the Commission alleges that Hungary has infringed numerous articles of the Charter of Fundamental Rights (CFR) and certain directives, among them Directives 2013/32/EU, 2013/33/EU, and 2008/115/EC. Another case, Case C-78/18 is about the so-called Hungarian 'Anti-NGO law', which is officially known as the 'Law on the Transparency of Organizations Receiving Support from Abroad' (Neuwahl & Kovacs, 2021). The Commission is claiming that particular aspects of the law subtly discriminate against and unjustifiably restrain foreign donations to civic groups, thereby violating the principle of the free capital movement. Furthermore, the Commission accuses also Hungary of violating the rights to privacy, freedom of association, and the protection of personal data as guaranteed in the CFR, in accordance with the provisions of the TEU. In a third case, Case C-66/18, the discussion revolves around the higher education law of Hungary which has been revised. The Commission is of the opinion that this new law violates the rights of education and academic freedom as well as the freedom to do business as laid down in the CFR. Furthermore, it is argued that the law violates the freedom to provide services and the freedom of establishment. The Commission also argues that the law is not in line with the obligations of the EU in the context of the General Agreement on Trade in Services. (Neuwahl & Kovacs, 2021)

The lack of references to Article 2 TEU in the above-mentioned cases is considered to be due to political reasons. It is believed that the Commission has only limited options and strategically views disputes involving Hungary in regard to market freedoms in order to anchor them in an area where the EU's role is firmly established. This approach allows the Commission to prevent potential challenges that could interfere with its overall agenda. However, it is often advised by scholars that the Commission should increase its endeavors by concentrating on the concept of systemic failure. This implies consolidating several breaches of EU law to show that their collective effect exceeds the total of the individual breaches. This kind of strategy could result in a direct judgment by the CJEU on the basis of Article 2 TEU, which could strengthen the Commission's authority in dealing with these matters. (Neuwahl & Kovacs, 2021)

Researchers are examining whether legal measures can be effective against democratic backsliding. These legal measures are regarded as mostly ineffective, as EU member states have wide discretion in determining remedies and European court rulings often fail to tackle the fundamental issues. Nevertheless, it is proposed that the Commission could strengthen its legal efforts by using Article 2 TEU. This would not only provide the basis for any future action for damages but would also allow recourse to sources beyond the pan-European judgments of the ECtHR. The Sargentini report predominantly cites ECtHR cases, which are sometimes rejected or criticized by MEPs in Hungary or even serve to question the European law or ECHR system itself. Therefore, monitoring by the EU institutions is seen as more beneficial as it keeps the decision-making process within the EU framework. The institutions of the EU are not the only actors in this scenario, yet it is essential for the EU to play its role in an effective way. Besides intensifying the impact of its policies and reaffirming its fundamental purpose, it is also about maintaining its credibility. Lacking a clear vision, the EU risks being perceived negatively, both by critics who are opposed to its intervention and by supporters who would like to see a more forceful approach. (Csehi, 2020; Neuwahl & Kovacs, 2021)

4.1.2 Rule of Law Mechanism

Article 7 of the Treaty on European Union includes a preventive as well as a sanctioning dimension and entails cooperation between the three main EU institutions: the European Commission, the Council, and the European Parliament (EP). In its preventive component (Article 7(1) TEU), the procedure can be opened by the EP, the Commission, or a coalition of 1/3 of the member states. As part of this procedure, the Council can decide, with a majority of 4/5 of the votes and the consent of the EP, whether there is "a clear risk of a serious breach by a member state of the values referred to in Article 2" (Raube & Reis, 2021). This decision shall be made subsequent to a hearing of the member state involved and may contain the submission of recommendations to that member state. (Raube & Reis, 2021; Neuwahl & Kovacs, 2021)

According to Article 7(2), the European Council, which consists of the government or the heads of state of the member states as well as the Presidents of the Commission and the European Council, may intervene in the event of a "serious and persistent breach" (Neuwahl & Kovacs, 2021) of the Union's fundamental values. Even if intervention is not absolutely necessary, their collective diplomatic competences and political impact could help to address the issue. This joint effort also serves to underline both national and European institutions and citizens that they are committed to common values. Nonetheless, in accordance with Article 7(2) to (4) of the TEU, the penalty component of Article 7 can only be activated by the Commission or one third of the member states. After the initiation of the procedure, the Council, acting unanimously with the approval of the European Parliament, has the competence to declare a severe and persistent violation of the rule of law by the member state under investigation, subsequent to the submission of its position statement. In the case that such a violation is verified, the Council, by a qualified majority, may impose sanctions on the member state concerned, including the suspension of certain rights, like for instance to vote in the Council in accordance with Article 7(3) TEU. If the members are "present in person or represented" (Neuwahl & Kovacs, 2021), their abstention does not stand in the way of a unanimous agreement. In other words, the protection and promotion of European principles and values does not automatically imply the approval of those who are "present or represented" (Neuwahl & Kovacs, 2021). It can be assumed from this that even though these decisions officially demand an active participation in the vote, in practical application they can also be taken by consensus. The European Parliament takes its decisions with a majority of two-thirds of the cast votes, which also has to be representative of the majority of its constituent members. General speaking, the effectiveness of Article 7 TEU is viewed with skepticism by observers, who tend to perceive it as a rather weak legal basis for an effective interference. (Raube & Reis, 2021; Neuwahl & Kovacs, 2021)

Should the European Council take an unprecedented decision under Article 7(2) of the Treaty on European Union, the Council of Ministers has the power to impose sanctions by a qualified majority in accordance with Article 7(3). Even though the exclusion of a member state is not possible (as set out in Article 50 TEU), the Council has the power to temporarily suspend certain privileges and rights, notably the ability to vote in the Council. This decision, which is based on Article 354 in conjunction with Article 238(3) TFEU, requires the Council of Ministers to have a “double majority” (Neuwahl & Kovacs, 2021), i.e. at least 55% and 72% of the votes of the participating countries, which must represent a minimum of 65% of the total population of these countries. Moreover, it is crucial to acknowledge that Article 7 TEU goes beyond the powers assigned to the European Union, a point that could be disputed by the Hungarian administration. Under a direct interpretation of this provision, the EU can require a member state to maintain core European principles, including in matters that are strictly an issue of national responsibility. (Neuwahl & Kovacs, 2021)

The European Commission, a key actor in the prevention of violations of the rule of law and the emergence of defective democracies, opened infringement proceedings against Hungary and introduced its “Framework for Strengthening the Rule of Law” (Raube & Reis, 2021) in its member states; the Commission quickly became aware of the limits of the Article 7 TEU process. This mechanism, which was conceived as a last resort, encountered high decision-making hurdles, complicating its successful application. In response to the necessity for supplementary protection for the integrity of the European Union, the Commission implemented the “Rule of Law Framework” in 2014 as an additional mechanism enabling the Commission to undertake proactive steps. This approach is useful as, as opposed to the European Council or the Council, the Commission has the power to make decisions on a day-to-day basis. The Rule of Law Framework empowers the Commission to initiate a “pre-Article 7 Procedure” (Neuwahl & Kovacs, 2021) to open a discussion with a member state. This is of relevance in situations where there is strong evidence of a serious threat in regard to the rule of law within a member state. In essence, this procedure gives the Commission the authority to evaluate the presence of a possible risk to the rule of law, make proposals for corrective measures, request the country concerned to comply with the principles of the Union and then organize a monitoring follow-up period to verify the actual application of these recommendations. Should the country fail to implement these suggestions, then the Commission would be indisputably empowered to proceed with a decision that would trigger the sanction procedure set out in Article 7 TEU. To be more precise, this instrument aims to foster dialog with member states to avert the escalation of systematic rule of law problems that could lead to the application of Article 7 TEU. The framework is geared more towards dialogue than sanctions and includes the provision of comments and suggestions on crisis management. In coherence with the theories of supranationalism and neofunctionalism, the European Commission has evolved into a proactive crisis manager when it comes to the emergence of defective democracies, as demonstrated by its choice to activate Article 7(1) in December 2017. (Raube & Reis, 2021; Neuwahl & Kovacs, 2021)

The pre-Article 7 procedure is intended for cases in which the core values and principles of the EU are systematically jeopardized. It is applied when a member state adopts policies or allows conditions to be imposed that seriously undermine the coherence, stability, or effective functioning of the institutions, i.e. the national safeguards put in place to preserve and protect the rule of law. In theory, this type of measure facilitates intervention without the use of the serious measures described in Article 7 TEU, which is termed the “nuclear option” (Neuwahl & Kovacs, 2021). The approach that is specified in Article 7 does not seem to be suitable for the practical functioning of the Union framework. The criteria for the initiation of the two Article 7 strategies are strict, suggesting that they are meant exclusively as final measures. They cannot be implemented quickly as they need collective government action by all member states in a coordinated meeting. (Neuwahl & Kovacs, 2021)

The ‘Rule of Law Framework’ which has been introduced in 2014 is a useful addition to the proceedings stipulated in the Treaty. It would not prevent the EU from imposing the sanctions referred to in Article 7 TEU; it rather encourages the opposite. This framework permits the EU to respond more quickly when circumstances appear to justify it. The Commission’s role is to seek all the important information and enter into a dialog with the member state to resolve concerns about possible systematic violations of the rule of law. Furthermore, it is worth noting that a non-cooperation by the State would not only be in breach of its duties and responsibilities under Article 4(3) TEU, particularly the principle of sincere cooperation, but would also worsen the situation for the member state concerned. The pre-Article 7 process has met with skepticism, partly because of its minimal sanctions. Basically, it is founded on the trustworthiness and willingness of the member states to cooperate. Moreover, the definition of what exactly comprises a “systemic threat to the rule of law” (Neuwahl & Kovacs, 2021) is not sufficiently straightforward. In spite of these doubts, the proposal represents an initial, real move in the direction of procedural innovation. (Neuwahl & Kovacs, 2021)

As far as Article 2 TEU is concerned, it seems doubtful from a political point of view that the Council of Ministers would take action on every issue that could affect the proper running of the European Union. Should a situation in a member state have a minimal implication on the EU’s functioning, there is little likelihood that the Council would either decide or feel forced to act, since the national identity of a country has to be respected and considered equally and seriously as well. It can be assumed that interventions are foreseen for the most obvious situations. Article 7(1) explicitly refers only to when there is a threat of a severe violation. An idea is that intervention is only justified if the problems are so deep-rooted and severe that the member state's own political and legal systems are largely not capable of redressing and dealing with these problems in the near future. In addition to this, it is suggested by Closa et al. (2014) that the need for intervention could be determined on the basis of three interlinked criteria: first, the takeover or severe manipulation or misuse of power, however through legal processes, also termed a constitutional takeover or an "unconstitutional constitutionalism" (Closa et al. 2014), second, the substantial dismantling or serious weakening of the liberal democratic system, and third, the omnipresent corruption. It is seemingly the case that Hungary fulfills all the three criteria. However, from both a legal and legitimacy point of view, there is still the issue of national identity, which is likely to be emphasized by any nation that is faced with rule of law measures. While this issue is linked to the internal affairs point, it goes deeper into jurisdictional issues and appeals to the hierarchy of norms. Within the legal scope of the EU, national constitutions are hierarchically subordinate to the Treaties, to the exception of national identity. Yet, the assumption of an institutional takeover does not fundamentally affect a member state's constitutional identity, which, from the EU's point of view, also includes aspects of a common European identity. In this regard, it is especially crucial to closely observe certain developments, in particular those of a systemic nature. (Closa et al., 2014; Neuwahl & Kovacs, 2021)

If the Court of Justice of the European Union (CJEU) was called upon to deal with identity issues, it would recognize the wide scope of discretion granted to the political bodies; therefore, it would merely engage in cases of unprecedented breaches of European principles and values. By comparison, several bodies play a role in monitoring constitutional changes and tendencies, notably "the European Agency for Fundamental Rights, the Council of Europe Commissioner for Human Rights, and the Council of Europe's Commission for Democracy Through Law ('Venice' Commission)" (Neuwahl & Kovacs, 2021), alongside European and national courts. These bodies monitor tendencies in the member states as well as its repercussion on the EU. For the moment, there exists no EU Commission that is specialized on dealing with rule of law issues. (Neuwahl & Kovacs, 2021)

Hungary is an example of a profound systemic decline. The Fidesz political party has the control over most of the entire media and press segment, the opposition is weakened, there exists a centralization of power, corruption has become the norm and broad public discourse is notably absent. On September 12th, 2018, the European Parliament identified and declared the risk of a severe breach of the principles set out in Article 2 TEU, whereupon the proceedings under Article 7(1) TEU were initiated. In this context, a hearing was scheduled with Hungary, even though this phase has no direct impact other than the ongoing monitoring by the Council of Ministers. The decision was adopted with 448 votes in favor, 197 against and 48 abstentions. (Neuwahl & Kovacs, 2021)

In alignment with its position, the European Parliament has always proactively and openly addressed breaches of the rule of law in member states and has advocated for action since the issue was recognized in 2012. The Tavares report, a crucial early analysis of the deterioration of the rule of law in Hungary, was endorsed by the EP in July 2013. This report sharply criticized the status of basic rights in Hungary and proposed an independent “Copenhagen Commission” to supervise these rights. It also requested the Council to consider invoking Article 7(1) TEU should Hungary fail to comply with the conditions of Article 2 TEU. In its 2020 resolution on the current Article 7 procedures, the EP criticized the lack of meaningful improvements in the hearings. This was in line with expectations, which were founded on supranational and democratic norms, that the Parliament would actively participate in overcoming the crisis. Notwithstanding the Parliament’s efforts, neither the Council nor the Commission made any significant progress. (Raube & Reis, 2021; Neuwahl & Kovacs, 2021)

4.1.3 Foreign Policy and External Relations with Russia and China

Orbán has constantly used populist language in his speeches when it comes to the foreign policy of Hungary. In spite of the country’s relatively modest size, Orbán has implemented a series of aggressive international reforms. He has taken a confrontational stance towards longstanding Western associations such as NATO and the EU, while tightening bilateral relationships with authoritarian states such as China and Russia. In addition to that, Orbán has also reformed the Ministry of Foreign Affairs so that it is more directly accountable to him. These measures are broadly typical of the foreign policy characteristics of populist and illiberal governments. (Visnovitz & Jenne, 2021)

Another characteristic feature of illiberal foreign policy is the use of confrontational diplomacy with supposedly dominant powers with the aim of liberating the nation from alliance obligations that are perceived as restrictive. In contrast to former socialist regimes, which sought consensus with the EU on the basis of common interests, the government under Orbán has deliberately engaged in high-level diplomatic disputes with its Western partners since the early 2010s. Orbán expelled the IMF after it supported him throughout the economic crisis, clashed with the United Nations regarding the migration policy and exercised his right of veto within the EU and NATO. Following Russia's annexation of Crimea, for instance, Hungary blocked meetings between NATO and Ukraine as well as joint military trainings and used its right of veto within NATO. Moreover, Hungary has often used its veto power to prevent EU resolutions and agreements that it considers to be disadvantageous for its relations with Eastern partners such as Russia, China and Turkey. Along with Poland, Hungary made the threat to block the EU's seven-year budget in order to prevent the introduction of a rule of law mechanism. In addition to that, Hungary has used its veto against several international agreements as well as EU declarations that it believed are too supportive of migration. This shift represents a major change in Hungary's foreign policy under Orbán, who has moved from support for trans-Atlanticism as well as EU integration to a more skeptical and hostile stance towards multilateral bodies such as the EU and UN, using Hungary's veto power to strengthen this increasingly confrontational course in foreign policy. (Visnovitz & Jenne, 2021)

Orbán's conflicts and disagreements with Hungary's international partners are restricted, as Hungary is a landlocked and relatively small country in Europe without much military or economic influence. Moreover, Hungary also benefits to a considerable extent from EU development aid and NATO protection, so it would be costly for Orbán to consider withdrawing from these bodies. His controversial actions are more about expanding his political influence than expressing a desire to end relations. In his "peacock dance" (Visnovitz & Jenne, 2021), as he terms it, he makes extensive use of legal and technical oratory to address the world public. The NATO and EU framework provides mechanisms for such conflicts that might in other circumstances not be possible for smaller states. These organizations allow Orbán to challenge, for instance, American and German efforts within the EU and NATO. (Visnovitz & Jenne, 2021)

In his diplomatic communication, Orbán has called for a confrontational approach towards the EU and called on Hungarian diplomats to protect national sovereignty against EU interference. He underlined the need for a clear stance against the EU's attempts to enforce regulations, especially in response to the refugee crisis in 2015, when he urged a strong opposition to refugee quotas. Orbán's narrative is evident and reflected in several national consultations in which he portrays EU policies as a failure and a threat to Hungarian autonomy, whilst often drawing on controversial public individuals such as George Soros as a symbol of external threats. These consultations are utilized as a platform to strengthen the position of his government and suggest that Hungary must go its own way in the face of presumed EU incompetence. In the meantime, Orbán's strategy has been criticized by members of the opposition in the parliament, who made the argument that his diplomatic approach, which is quite aggressive, weakens Hungary's relations with its key Western partners and advantages opponents by undermining EU unity, so that rather Russian benefits from it than Hungary. (Visnovitz & Jenne, 2021)

The third characteristic of populist foreign policy is the expansion of alliances and partnerships through the collaboration with rather unconventional partners. With the implementation of the so-called 'Global Opening' policy in 2011, the Hungarian government under Orbán made a significant change in its foreign policy orientation, which had planned cooperations beyond the EU. This policy consisted of reducing Hungary's focus on the EU and instead strengthen relations with emerging economies in Africa, Asia, and Latin America. The main objectives were to boost Hungarian exports and establish new business relationships. This reorientation of foreign policy led to the establishment of new embassies and several high-level diplomatic visits to countries where Hungary had little involvement before. In 2014, a new foreign policy was introduced by the Hungarian government that was called 'Eastern Opening'. Whilst the 'Global Opening' policy focused on cooperation in the areas of terrorism, global health and food programs to boost Hungary's standing at an international level, the 'Eastern Opening' concentrated on the promotion of Hungary's economic agenda. This was accomplished through direct trade and political partnerships with countries in Asia and the Middle East, with priority given to bilateral relations to promote these interests. The "Eastern Opening" was later extended to include a 'Southern Opening', also intended to increase Hungary's trade relations. The objective of these initiatives was to boost Hungarian exports and gain more foreign investment, especially FDI, from beyond the EU in order to decrease Hungary's economic dependence on markets in the EU. A main aspect of this policy focused in particular on deepening relations with Eastern countries, primarily China and Russia, where Hungary has built long-term relationships with its non-traditional allies by participating in several significant projects. These include the renovation of the Budapest-Belgrade railroad line which is funded by China as well as the construction of a campus of the Fudan University of China in Budapest. These initiatives underline Hungary's commitment to deepening relations with these countries through strategic investments in infrastructure and education. Furthermore, especially relations with Russia have intensified. One of the most striking features of Orbán's time in office was his turn to Russia for strategic economic cooperation. This was underlined by the award of a contract to a Russian government-owned company to construct two nuclear reactors in Hungary, a project that has been financed by a Russian loan. (Szent-Iványi & Kugiel, 2020; Visnovitz & Jenne, 2021)

The 'Eastern Opening' policy has fundamentally changed Hungary's approach to foreign relations. It was initiated in 2012 and led to the establishment of the State Secretariat of Foreign Affairs and Trade in the Prime Minister's Office, which meant a new emphasis on economic diplomacy. This shift intensified when Szijjártó took over a Foreign Minister, resulting in a renaming of the ministry to focus on trade and adopt a neo-mercantilist stance. Specialized departments were set up for relations with Russia and China. By 2019, the structure of the ministry had evolved to primarily support economic relations and partnerships with non-traditional allies and placed less emphasis on established Western relations. Moreover, in September 2014, he reached another accord with the president of Russia, Vladimir Putin, on the expansion of Hungary's sole nuclear facility, with Russia granting a loan of 13.9 billion dollars, which is roughly equivalent to 12% of the Hungarian GDP. Orbán explained at the time that assuring Russia's interest in the economic prosperity of Hungary would depend on the country gaining the status of a preferred partner through a relevant agreement. The budget of this huge investment is supposed to be allocated over the construction duration from 2018 to 2025, which will lead to an annual deficit in the primary budget of 1.1% of GDP. Orbán spoke out that he opposed the exclusion of Russia from European affairs, arguing that he believes that expelling Russia out of Europe is illogical. He argued that it is a fallacy to presume that Europe can become competitive without cooperating and engaging economically with Russia. Similarly, in his opinion, the idea that Europe can provide energy security on its own without being dependent on Russian energy is not realistic. (Djankov, 2015)

Orbán became the most proactive European politician when it came to supporting Gazprom's South Stream initiative. After the decision of Bulgaria to cancel the project and Putin's statement of its termination in December 2014, Hungary became instrumental in gaining European support for a replacement initiative. In February of 2015, Orbán received Putin in Budapest, which was Putin's first formal visit in the EU since the imposition of economic sanctions the year before. Both politicians expressed their support the plan to expand a Russian pipeline project towards Turkey and proposed to transport the gas through the Balkans and Greece to Hungary. With this strategy, Orbán could achieve his goal of making Hungary a central energy supplier within Europe. (Djankov, 2015)

Moreover, in regard to campaigns that were launched in Hungary, the 'Stop Brussels' campaign criticized the European Union for, amongst other things, forcing Hungary to receive illegal migrants, rejecting the suggested tax cuts of Hungary and urging Hungary to withdraw the cuts in utility charges and fees. In parallel to these campaigns, there has been a clear shift towards a pro-Russian stance in foreign policy, including the awarding of the project to build the next nuclear plant to a Russian firm, and the strengthening of economic ties with China. (Neuwahl & Kovacs, 2021)

4.2 Economic Repercussions

The multi-faceted concept of illiberalism implies that it manifests itself in numerous forms around the world. Eastern Europe is an example of a specific regional version of this growing global trend. As the appeal of illiberal ideologies spreads across the political spheres of nations worldwide, it is crucial to understand the potential economic impact of illiberal groups coming to power in elections. This insight is essential not only for predicting the future of these countries, but also for understanding the evolving dynamics of modern capitalism. Illiberalism is emerging as a major influence in redefining state intervention in economic affairs, advocating for protectionism and economic nationalism, whilst also benefiting on the global flow of capital that moves from one market to another market, often helping these regimes maintain financial stability. (Ganga, 2021)

In 2010, after Viktor Orbán became Hungary's prime minister, the government has significantly increased its influence in several economic sectors. For instance, the banking and energy industries have been nationalized and strict regulatory modifications have been introduced in the insurance and retail sectors. Hungary's economic polices are steering in the direction of centralized capitalism. The visible successes and positive reception of Hungary's economic approach, especially when it comes to the absence of growth strategies in Europe, are inspiring some politicians in other previously communist nations to adopt Orbán's methods. This tendency has the potential to challenge the EU's efforts at structural reform. (Djankov, 2015)

4.2.1 Economic Nationalism at EU Level

Illiberal rulers have discovered that denouncing liberalization and globalization is an effective tactic to win support. As soon as they are in power, however, they tend to selectively incorporate elements of globalization that coincide with their preferences or suit their nationalist economic agenda. At the same time, they can blame the EU while announcing new infrastructure initiatives, conveniently hiding the fact that these projects are possible thanks to funding from that very organization. (Ganga, 2021)

Advocates of economic nationalism may approve of aspects of globalization if it strengthens the national's sovereign political and economic position. Orbán had been highly critical of the EU and has positioned it as a key proponent of the reforms he rejects, emphasizing Hungary's struggle for autonomy against the constraints of EU regulations. In commemoration of the March revolution in 1848, Orbán declared in a speech in 2011: "we did not tolerate Vienna dictating to us in [18]48, and we did not tolerate in [19]56 and 1990 that Moscow dictates to us. We won't allow it now either than anyone from Brussels or anyone dictates to us" (Ganga, 2021)

Under Viktor Orbán's administration, Hungary's key economic policies are based on five main measures. Firstly, the budget deficit is to be reduced to less than 3% of the country's GDP. This will be achieved by the nationalization of the pension system, to be more precise, the second pillar, as well as by imposing higher taxes on industries such as telecommunications, banking, retail, and insurance. Secondly, the government has moved to place important assets, particularly in the energy sector, under state control through nationalization. The third measure is to strengthen the state's presence in the financial sector by acquiring certain assets in the banking sector and reforming the national development bank and the postal system to expand financing options. Fourthly, the government has established monopolies in specific markets, particularly in the manufacture of alcohol and tobacco. Finally, efforts to reduce interest rates on housing loans and the financing of small businesses are supported by state subsidies. (Djankov, 2015)

One of the initial key policy changes indicating a shift towards illiberalism was the aggressive stance towards private pension schemes, which were set up to replace contributions to the state-operated social security system. Those funds were transferred to the public sector, thereby the public debt ratio was instantly decreased. Based on Eurostat, this move led to a decline of the deficit to 2.3 percent of the gross domestic product (GDP) in 2012. (Ganga, 2021)

The main objective of the nationalization the pension funds was to bring Hungary in line with the budget deficit targets of the EU, but the result was not as expected. The EU did not consider nationalizing the private pension funds as a viable, long-term solution to maintain fiscal stability. As a result, Hungary remained subject to the Excessive Deficit Procedure until 2012. Furthermore, in February 2012, the European Commission suggested to suspend one third of the regional fund support of Hungary (about 495 million Euros) starting from 2013 unless significant measures were taken to lower the budget deficit. This move eventually forced

Hungary to the revision of its budget and adopt more traditional austerity measures, resulting in the Commission releasing the withheld funds. (Ganga, 2021)

The ongoing economic growth in illiberal democracies is due to the effects of the measures implemented by former governments. However, as illiberal governments have been in power longer, their economic growth is increasingly influenced by their ability to capitalize on their standing in the European market. A key factor is the continued inflow of EU structural aids and funds following the admission of these countries to the Union, which is significantly boosting government budgets in the region. In addition – besides other illiberal democracies such as the Czech Republic and Poland – Hungary is among the top beneficiaries of the EU funding, either because of its enhanced capability to receive funding compared to nations like Bulgaria or Romania, or because of its larger size. Cohesion funding is just one of three elements that underpin the EU's "authoritarian equilibrium" (Kelemen, 2020). This financial support, coupled with the EU's reticence to intervene in the internal affairs of its member and the freedom of movement that leads to money transfers and draws away potential supporters of dissident groups, sets a scenario in which EU membership inadvertently supports illiberal governments with resources they would not normally have. Nevertheless, post 2020, these member states, such as Hungary, will fall out of the category of recently integrated members, which will affect their entitlement to certain funding streams. The dispute is already evident, as the EU is seeking to link pandemic-related financial aid to compliance with the rule of law. At the same time, Hungary is actively withstanding any endeavor by Brussels to limit potential funding on the basis of these conditions. (Csaba, 2021; Ganga, 2021; Kelemen, 2020)

The potential outlook of diminishing contributions from the EU has pushed illiberal governments like Hungary to look for alternative partners that can provide both political and economic support. While Russia has gained recognition and partial emulation in the region, its full acceptance is hampered by Hungary's troubled communist past. Therefore, China has emerged as a prospective long-term partner. Nonetheless, despite Beijing's clear interest in various countries in the area, particularly Hungary, the achievements so far have been far from exceptional. China appears to be more willing to grant loans rather than to make direct investments. Generally speaking, Eastern European nations favor greenfield investments to credits and loans, and Chinese firms, which were familiar with working in developing markets, are averse to the EU's strict rules regarding public tender regulations. Although these countries like Hungary are not part of the Eurozone, their EU membership is linked to compliance with the comprehensive EU law, better known as the acquis communautaire. Chinese loans are subject to special condition; their terms are usually not only less advantageous and beneficial than those provided by the European Investment Bank (EIB), they also often stipulate the participation of Chinese firms or linkage to other agreements. (Ganga, 2021)

A further approach has been the promotion of foreign direct investment. In an effort to attract more FDI, Orbán's administration reduced the corporate income tax rate to 9 percent in the year 2017, which was at the lowest within the EU. This action came additionally to the significant investment incentives already in place, including tax breaks, loans with low interest rates, and the provision of land at zero cost or for a small fee. In addition to this, there were negotiable special "VIP" subsidy options for investments exceeding 10 million Euros. The administration has also taken measures to promote research and development (R&D) and investment in high-tech sectors. At the same time, it has worked to promote the participation of Hungarian suppliers in the more value-added segments of supply chains controlled by FDI. (Ganga, 2021)

These targeted tactics are in line with the principles of economic nationalism since it serves to strengthen the regime's influence domestically. The investments which were made by the government are utilized to finance the spending initiatives, which in turn contribute to preserve support from the constituents. (Ganga, 2021)

The question arises how sustainable this kind of system is. The measures that have been discussed, ranging from banking and investment policies to the introduction of new social welfare entitlements, were not exactly driven by solid economic considerations and led to rising costs for overburdened state budgets. Nonetheless, Hungary has not run into payment difficult, though in some cases these measures have been in place for a decade. (Ganga, 2021)

Currently, the scenario presented in the case study of Hungary appears to be favorable for the illiberal leader in office, Viktor Orbán. As of 2014, Hungary has recorded stable economic growth and a decline in unemployment. However, the long-term prospects of the Hungarian economy rely on its capability to boost productivity and shift to knowledge-based goods and sectors. Up to now, economic growth has been dependent on external foreign investment and a growing labor force, yet without a corresponding rise in worker productivity. One of the biggest challenges is the volatile regulatory landscape, since the government grants preferential aid and thus determines the economic winners and losers. (Ganga, 2021)

This estimation points out that whilst economic concerns may temporarily appease voters, ongoing reforms are necessary for the continuation of robust growth, in particular after the pandemic. Generally speaking, illiberal democracies like Hungary appear to have the ability to adopt policies of state control and economic nationalism; options that may not possible or universally available. Its status as part of the European Union gives it access to the common market where it benefits from a well-educated yet affordable workforce. As a result, these countries often became the locations where multinational firms set up their European subsidiaries. However, as these regimes stick to their illiberal economic policies, it remains doubtful how long international businesses and investors will tolerate such unpredictable policies. Furthermore, with the government of Hungary embracing the traditional values of the conventional family, firms supplying Western customers may fear potential consequences if they operate in countries where the leadership has openly spoken out against progressive measures and policies. Although these governments are still actively engaged in trade, the economic outlook for the illiberal state currently seems rather unpredictable. (Ganga, 2021)

4.2.2 Nationalization

The growing impact of Orbán's policies poses major challenges for the EU, especially in its endeavors to reorganize the fiscal governance of its member states, which are threatened by the emergence of unconventional practices in Eastern Europe. The economic policies that were implemented during Orbán's second and third tenures have made Hungary prone to the rise of corruption and the volatility of the Hungarian currency. The takeover of certain assets of production by the state and the granting of exclusive distribution rights for certain consumer goods have led to multiple accusations of corruption. These accusations have deterred private (mainly foreign) investors, resulting in a decrease in capital accumulation and consequently dampening the prospects for stronger economic growth. The volatility of the Hungarian currency has also risen, which is the result of the growing dependence on public sector investments that were funded by the state budgets and subsidies from the European Union. Portfolio investments are getting less due to this instability, primarily by pension funds from Western Europe. Nevertheless, Orbán has remained largely under the radar of the EU, since corruption issues in neighboring countries' administrations such as the Czech Republic and Poland have diverted the EU's focus from demanding more transparency in Hungarian public procurement and advocating for stricter application of competition laws. In the absence of such demands, the European Union's ability to impact Hungary is restricted. The proposals by Orbán's critics to reduce or suspend payments from the cohesion fund lack a legal basis, leaving the EU with few options to effect change. (Djankov, 2015)

At the elections in 2010, Fidesz, the party of Viktor Orbán, received almost 70 percent of all the votes and thus a constitutional majority that is sufficient to change the constitution. Orbán returned to power with the goal of renewing the society of Hungary. In his election campaign speeches, he claimed that Hungary has not effectively overcome its communist past. He emphasized that the country was still operating on the basis of the 1949 constitution and had only introduced a weak lustration law after it was revealed that several high-ranking officials were formerly part of the of the secret police. Orbán criticized the continued influence of the former communist leadership and secret services in shaping politics and infiltrating the economy, which he said had resulted in a corrupt political landscape and brought Hungary's economy almost to bankruptcy by 2009. The only possible solution out of this situation required a radical change in the administration and policy. Orbán argued that Hungary, with its own separate identity from other European nations, ought not to follow the economic policies of the countries of the EU that are more advanced and developed, and were experiencing a decrease in their competitiveness. Instead, Hungary should follow its own path to promote economic growth. Orbán's decision found support and was fueled by the growing skepticism towards the EU in the wake of the financial rescue package in 2008. (Djankov, 2015)

Orbán has a clear stance on liberalism and the principle of European democracy. He believes that a competitive economy on a global scale does not demand the tenets of democracy and liberalism by all means. During his time in office, this view has defined five core elements of the government's approach and policies. Feature number one is the reducing of the budget deficit, predominantly through assertive tax and pension reform policies. The initial fiscal gap was successfully addressed by 2013 by implementing extensive fiscal austerity measures. The reduction of debt was significantly progressed, mainly due to the substantial capital inflow (10% of the country's GDP, or USD 14 billion worth of assets) that occurred resulting from the government takeover of the obligatory private pension funds in 2011. It is worth noting that approximately two-thirds of the budget savings are due to spending cuts in costs that are age-related. The fiscal deficit was reduced to 2.5% of the GDP by 2013, the lowest level since Hungary's transition from communism. (Djankov, 2015)

In order to achieve the goals set, the tax policy strategy was changed considerably. The first move was to increase the value-added tax (VAT) rate to 27%, setting it as the highest in the EU. Moreover, Fidesz imposed further levies and taxes on sectors such as insurance and banking, telecommunications, retail, and the supply of gas and electricity. New types of tax were added, and several current taxes were raised. For instance, the levy on advertisements in the media sector was raised with effect from August 2014 from 40 to 50%. In addition to that, a VAT of 4.5% was imposed on tobacco producers and sellers. Retail businesses are now subject to a newly introduced food chain tax, which can amount to up to 6% of their annual revenue. (Djankov, 2015)

The most important source of revenue is the bank tax which was implemented in 2011. Hungary is actually not the only nation that has introduced a bank tax, however, with a rate of 0.6% on the total assets of banks, it ranks among the highest. This tax was welcomed by the Hungarian people, who criticized the banks for being stuck with foreign currency loans that were increasingly difficult to reimburse as the value of the forint fell in the wake of the Eurozone crisis. As the six largest Hungarian banks – with the exception of the local OTP Bank – are branches of international banks, they were also a convenient target for politicians. (Djankov, 2015)

The second key feature of the economic policy of Fidesz in the following term of office was to transfer important assets into state ownership, so its nationalization, which was in line with Orbán's goal of increasing state involvement in the economy. Consequently, in 2011, the government repurchased a 20% stake in MOL, the Hungarian oil giant, acquiring it from the privately-owned Russian firm Surgutneftegaz in a deal worth 1.9 billion euros. This reacquisition was carried out at an additional charge of 700 million euros over the initial price paid by the Austrian gas and oil group OMV when it originally sold MOL to Hungary in 2004 in the wake of the privatization sale. (Djankov, 2015)

The third core feature of the economic policy of Orbán is the extensive takeover of the banking sector by the state, its nationalization. The declared objective of this step is to minimize the dependence of the local economy on international banking institutions. Throughout the eurozone crisis, Western European mother banks focused on strengthening their core business, often to the disadvantage of their subsidiaries in Eastern Europe. With this came the awareness that excessive dependence on international banks could be harmful to Hungary's economic health. This worry was emphasized by the rise in non-performing loans in the Hungarian banking segment, which climbed to 14% in 2013, approximately twice the average in the rest of Central Europe. Orbán's approach was to strengthen the role of the state as the main player in the banking segment again. Through a number of purchases between 2013 and 2015, the state took control of 13% of assets in the banking sector. Nevertheless, by addressing this issue, Orbán may be setting the ground for a potentially even greater challenge. With the increase of state's influence on the banking industry carries the risk of loans being granted under political impact. Banks that are government-controlled often privilege companies with political connections in their lending practices. As a result, this approach of lending, which is generally not in accordance with sound financial principles and practices, encourages corruption and inefficiency. In certain economies in Eastern Europe, for instance in Bulgaria or Lithuania, such practices have caused the deterioration of their banking systems. (Djankov, 2015)

Another feature in regard to the economic policy of Orbán comprises the creation of monopolies in a range of economic segments, which causes the competitive landscape to be distorted. This is exemplified by the introduction of a domestic chain of tobacco stores. Based on a campaign pledge, Fidesz presented a bill at the end of 2011 that guaranteed the government the exclusive control and power over the tobacco retail market. The law was intended to pursue two objectives: to prevent the availability and accessibility of tobacco products to minors and to achieve economic perspectives for small family businesses. The existence of monopolies often goes along with corrupt practices, and the national tobacco stores are a prime example of this. According to media reports, over a third of tobacco store licenses have been given to people with direct links to the Fidesz party. (Djankov, 2015)

Another crucial policy under the Orbán government is the Funding for Growth Scheme that was launched in 2012, which aims to lower the credit obligations of smaller companies. In the midst of the eurozone crisis, multiple solvent companies were struggling to service their debt and needed temporary government support to maintain their activities. In the first period of this program in 2013, around 2.8 billion dollars in loans were distributed, with 40% of this amount (equivalent to 1% of the GDP) being made available for new loans, while the remaining amount was used to restructure existing loans. Before the parliamentary elections in 2014, the scope of the Funding for Growth Scheme was increased by a further 8 billion dollars, which corresponds to almost 8% of the GDP. The expansion implied a bigger range of qualified borrowers and also increased the borrowing ceiling for medium-sized enterprises. This expansion is recognized to have improved the outlook for economic growth and had a positive impact on GDP growth of 3.6% in 2014, one of the most significant annual income gains observed since the beginning of the economic transition. (Djankov, 2015)

4.2.3 EU Funding and Investments

The suggested "regulation on the protection of the Union's budget in case of generalized deficiencies as regards the rule of law in the member states" (European Parliament, 2019) authorizes the European Commission to detect such deficiencies and take corrective action, such as for instance the freezing of EU funds or advance payments. Based on the version revised by the European Parliament, any measure taken by the Commission will be carried out as long as the Parliament and the Council intervene to revise or block it. These decisions do not rely on unanimous vote or explicit consent. (European Parliament, 2019; Neuwahl & Kovacs, 2021)

This tool is thought for dealing with cases where governments undermine the legal framework or neglect the elimination against fraud and is only initiated when independent reviews and reportings point out concerns about the rule of law that could potentially jeopardize the EU's financial and budgetary interests. Above all, financial aid from the EU is essential for Hungary. In 2016, for instance, Hungary obtained 4,546 million Euros from the European Union, whereas the own share that Hungary contributed to the budget of the EU amounted to only 132 million Euros. In recent times, EU fundings have accounted for between 1.9% and 4.4% of Hungary's GDP, which represents more than 50% of public investment. If these funds were frozen and future contributions were reduced in a reasonable way, this would probably have a negative influence on the economic performance of Hungary. Such a decline could in turn have an indirect impact on the public support for the government party. There have already been cases in which the European Commission has paused funding projects for development. In 2013, for instance, the Commission stopped payments for 13 out of 15 Hungarian programs because it was dissatisfied with the way Hungary carried out processed in public procurement. The funds were only released again after Hungary had paid fines amounting to 157 million Euros. In one case from April 2015, Hungary was deprived of over 475 million Euros in EU funds. This decision was a reaction to concerns the country had about the use of EU financial aid to promote economic growth. This measure underlines the mandate of Article 30 of the EU Financial Regulation (966/2012), which states that EU funds must be used "in accordance with the principles of economy, efficiency and effectiveness" (European Union, 2012). It could be argued that Article 59(2) of the Regulation provides a foundation for taking measures as Hungary has not implemented the required steps to ensure the financial interests of the EU, in particular in areas related to the practical implementation of the EU budget. It has to be noted, that this regulation is no longer valid since the end of 2018. (European Union, 2012; Neuwahl & Kovacs, 2021)

The instrument to the existing framework which has been suggested is considered as an enhancement and therefore beneficial, in such a way that it implies clauses that guarantee the interests of the final beneficiaries and includes the European Parliament to increase democratic scrutiny. However, its utilization is limited to certain situations. Apart from these specific situations, discreet, unremarkable administrative practices that compromise the rule of law could continue to take place without restriction. A more detailed and objective assessment of the way Hungary is managing EU funds could identify solid justifications for stopping EU payments in specific sectors. It is often suggested that Structural Funds and Agriculture should be prioritized in this review. According to a corruption study, fraud involving EU funds are not adequately tackled. The report also proposes the implementation of monitoring measures and the preparation of yearly reportings in relation to democracy, fundamental human rights, and the rule of law. (Neuwahl & Kovacs, 2021)

The new regulation which has been put forward by the Council and the EP to protect the budget of the EU in cases of widespread deficiencies concerning the rule of law. This regulation addresses a demand by facilitating administrative measures in the context of a cooperative process which involves the Council, the Commission, and the Parliament. In the relevant fields concerned, the Commission is empowered to adopt legal acts that are based on the recommendations from a body of independent specialists and experts. (Neuwahl & Kovacs, 2021)

4.2.4 Hungary's Willingness to Join the Eurozone

In spite of the accession of Hungary to the European Union in 2004, which was associated with the expectation of introducing the same currency, the country has not yet joined the eurozone. The topic of introducing the single currency regularly crops up both in public discourse as well as in government statements. There are often frequent debates in the media about the advantages and disadvantages of joining the eurozone, but politicians and decision-makers seem reluctant to commit to a definite decision. In May 2019, Mihály Varga, the Hungarian Minister of Economy, declared that introducing the euro was not currently a priority for the government. Just one month later, however, he indicated that Hungary would meet all the necessary prerequisites for introducing the euro by 2022. In February 2019, György Matolcsy, the head of the National Bank, raised considerable doubts about the imminent introduction of the euro in Hungary and hinted that this might only be possible in the distant future. The Hungarian government's reluctance to adopt the euro is due to economic and political concerns. Politically, the government is hesitant to give up monetary independence – an essential tool for economic management – as this contradicts its focus on national sovereignty. In regard to the economic concern, the Hungarian government sees the fulfillment of the Maastricht criteria as necessary but not sufficient for entering the eurozone. It rather links accession to the country's relative economic development in comparison to the most developed and advanced EU member states. This stance is in accordance with the more careful course of the European Central Bank, as seen for instance in Bulgaria's application to join the eurozone, where the ECB demanded further assurances and guarantees in addition to the Maastricht criteria. Even if the government decided to do so, a two-thirds majority in the parliament would be needed – which it actually has – in order to alter the constitution, that presently sets the Hungarian forint (HUF) to be the national currency. (Csehi, 2020)

Generally speaking, for a country to join the Eurozone, it must meet several essential criteria, collectively known as the Convergence Criteria or the Maastricht Criteria. These standards are designed to ensure that new members are economically prepared to integrate into the monetary union, promoting stability within the Eurozone. The criteria cover four key areas: price stability, sound public finances, exchange rate stability, and convergence in long-term interest rates. First, candidate countries must demonstrate stable prices, an indication of sustainable economic conditions that support long-term growth. This is assessed through inflation rates, which must not exceed 1.5 percentage points above the average inflation rate of the three best-performing EU countries in terms of price stability. Meeting this criterion ensures that countries joining the Eurozone do not introduce significant inflationary pressures, which could disrupt the currency union. The second criterion requires countries to have a sustainable fiscal position. This is evaluated by assessing government budgets deficits and public debt levels. Specifically, the budget deficit should not exceed 3% of the country's GDP. This limit indicates that a government is managing its finances responsibly and not overly reliant on borrowing to funds its activities. The public debt-to-GDP ratio should not exceed 60% though exceptions are made if a country's debt ratio is on a path to decline substantially and approach this threshold. Meeting these standards reassures that country's debt is manageable and not likely to become an excessive burden on the Eurozone. (Council of the European Union, 2024)

In order to avoid disruptions from currency fluctuations, countries aspiring to join the Eurozone have to demonstrate exchange rate stability. This involves participation in the Exchange Rate Mechanism (ERM II) for at least two years without severe tensions or devaluations of the national currency against the euro. ERM II sets a stable exchange rate framework, ensuring that a country's currency is aligned with the euro's value, which is critical for a smooth transition when adopting the euro. Last, candidate countries need to show convergence in long-term interest rates. This criterion requires that long-term interest rates do not exceed 2 percentage points above the rates of the three Eu countries with the best price stability. Low interest rates reflect confidence in a country's economic stability and low inflations, which are necessary for cohesion within the Eurozone's financial system. (Council of the European Union, 2024)

Orbán has historically been cautious about adopting the euro, arguing that Hungary needs a stronger, more resilient economy to ensure a successful transition. Hungary's economy, while showing some growth, still faces hurdles in meeting the EU's strict criteria for Eurozone entry. Currently, Hungary's fiscal and economic indicators, especially its inflation and public debt levels, do not fully meet these criteria. Additionally, economic challenges, such as high inflation, complicate Hungary's ability to stabilize its currency within the requirements for Eurozone readiness. The Hungarian government's focus therefore remains on strengthening the national currency and the broader economy. Without significant economic reforms and stronger alignment with the EU's economic policies, Hungary is unlikely to adopt the euro in the near future. (Forgács, 2024)

Public opinion on this subject is relatively divided, as the latest Flash Eurobarometer (527) survey from 2023 shows: around 41% of the population would like to see an immediate changeover to the euro, while 35% would prefer to postpone this changeover to a later point in time or even as late as it could be possible (13%). (European Commission, 2023)

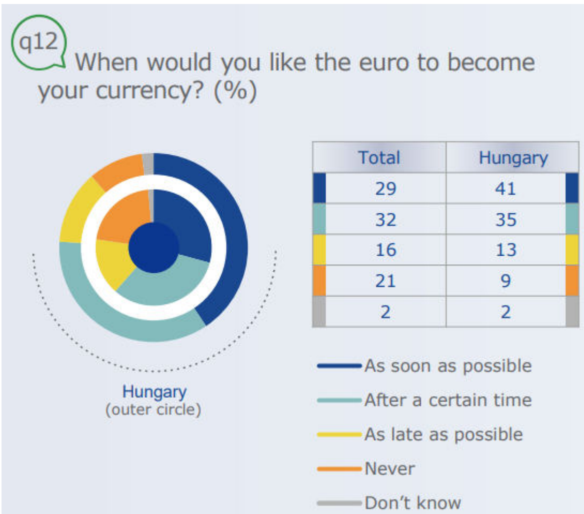

Figure 2: Preferences for Euro Adoption Timing (European Commission, 2023)

Moreover, in the same survey from 2019 there existed great skepticism among the population: according to it, 65% of Hungarians believe that the introduction of the euro could lead to a loss of control over their country's economic policy or compromise national identity – four years later, in 2023, it declines to 27% (Csehi, 2020; European Commission, 2023). However, there is still hesitation to introduce the euro in Hungary which also in line with public opinion, as 69% of Hungarians believe that it is too early for the country to join the eurozone since it is not ready yet. (European Commission, 2023)

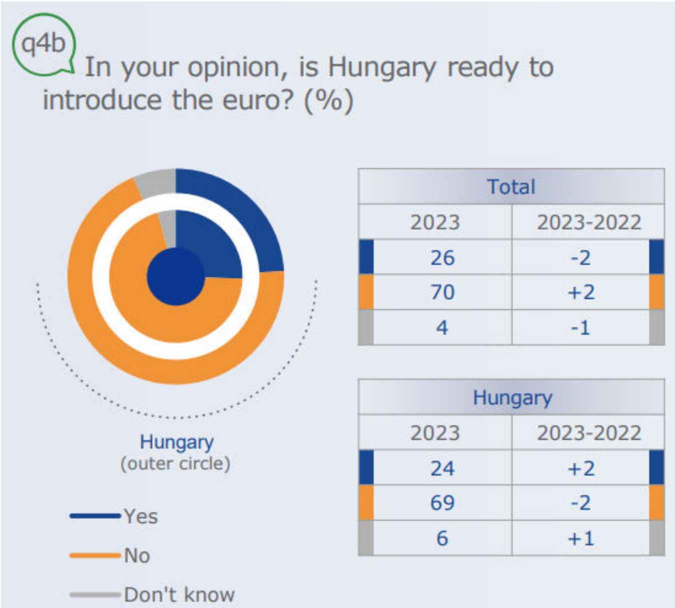

Figure 3: Readiness to introduce the euro (European Commission, 2023)

In spite of the hesitation, there is remarkable public support for deeper European integration; the Eurobarometer survey from 2023 showed that 72% of respondents support the single currency and its introduction, 3% more than in 2022, indicating a positive stance towards the European Economic and Monetary Union, as the following snippet from the survey demonstrates. (European Commission, 2023)

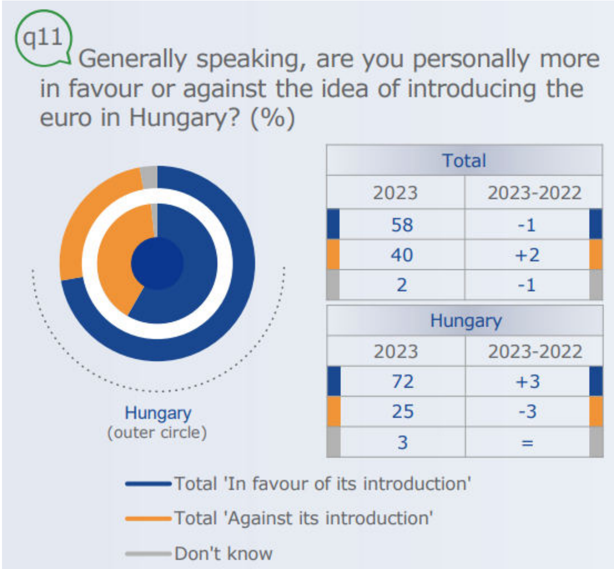

Figure 4: Opinions about introducing the euro (European Commission, 2023)

Nevertheless, there still exists the concern that there might be an abusive price setting in the context of a possible changeover, as 65% of the Hungarians expressed. (European Commission, 2023)

To sum up, when considering Hungary's economy, several findings can be made from the country's EU membership. Even though the country experienced an economic crisis after the accession, which was exacerbated by the global economic and financial crisis, the last decade has seen economic progress, growth, and convergence. The government attributes this economic success to its unconventional policies, such as spontaneous regulatory changes, nationalization, and controlled privatization. However, it could also be argued that the recovery is also due to external influences and the persistence of more orthodox elements within the fiscal framework. In spite of the promising trends, there are numerous threatening factors that could endanger Hungary's apparently constant and steady development process. Persistent problems such as for instance corruption, a lack of competitiveness, and low labor productivity are still a major challenge. Even though Hungary is on track to meet all the requirements for becoming a member of the Eurozone in the coming years and the public mostly supports a possible adoption of the euro, there is still a lack of political commitment to this changeover. (Csehi, 2020)

4.3 Implications on the Perception of Political and Economic Risk within the EU

The stance of the European Union towards Hungary and its perception of it has changed over the course of time. The accession of Hungary to the EU in 2004 was not simply viewed as a comeback to Europe, but also as the peak of the democratic changeover. In order to join the

Union, Hungary had to fulfill the Copenhagen criteria, which required a stable and well-working democracy – a significant hurdle for the Eastern Bloc countries that had begun their political transformation 15 years earlier. Now, more than another 15 years later, both Hungary's political landscape and its relationship with the EU have further developed and evolved, due to the rise of Euroscepticism in the government of Hungary and the decrease in democratic standards that has led to the emergence of an illiberal state in the EU. (Csehi, 2020)

Originally, there was widespread agreement among the major political parties on the benefits of joining the European Union. However, this consensus began to shift after the elections in 2010. The government's financial leeway became more and more limited, and the constitutional reforms implemented by the governing party resulted in significant changes. These reforms met with considerable criticism in and from the EU, which led to a noticeable change in the ruling party's stance towards the EU. Orbán's turn to Euroscepticism is visible in his rhetoric as well as in the government's political and legal measures that seek to reinforce this narrative. When the EU and the Venice Commission of the Council of Europe critiqued the new Hungarian constitution and further legislation concerning the media, the judiciary and electoral system, Orbán blamed the EU – which he referred to as 'Brussels' – of trying to force its legal norms and laws on Hungary, claiming that this was an attempt to control how the Hungarian people should govern and live themselves. (Csehi, 2020)

The impact of Hungary's illiberal policies on perceptions of political and economic risk within the European Union reflects broader concerns about the cohesion, stability and credibility of the EU. Hungary's deviations from core EU values – democratic governance, judicial independence and civil liberties – pose significant risks that go beyond national borders and create vulnerabilities across the EU. (Kelemen, 2020)
Scholars highlight Hungary's stance as a fundamental challenge to EU unity, pointing out that its illiberal policies undermine the common democratic principles that underpin EU membership (Kelemen, 2020; Sedelmeier, 2020). Hungary's opposition to judicial independence, media freedom and civil society freedoms is testing the EU's ability to enforce its values, creating a 'multi-speed union' in which member states diverge on key democratic norms. This inconsistency weakens the EU's ability to maintain a united front and effectively tackle democratic backsliding within its own ranks and increases the perception of political risk within the Union. (Pech & Kochenov, 2019)

Moreover, the limited effectiveness of mechanisms such as Article 7 underscores the EU's difficulties in enforcing compliance. Academic critics point out that Hungary's open defiance of EU norms could embolden other states with similar tendencies and set a precedent for resistance to EU intervention. This not only increases the risk of democratic erosion in other member states, but also weakens the EU's credibility both internally and on the international stage. (Blauberger & Kelemen, 2017; Pech & Scheppele, 2017)

The economic nationalism in Hungary, which is characterized by the selective enforcement of EU economic standard and preferential treatment of domestic companies, leads to regulatory inconsistencies that challenge the EU single market (Blauberger & Kelemen, 2017). By allowing Hungarian companies to operate under different regulatory conditions, Hungary is threating the EU's core principle of creating a level playing field. This divergence not only raises concerns about market fragmentation, but also deters FDI, as investors see regulatory instability and favoritism as risks to market predictability and fairness. (Blauberger & Kelemen, 2017; Orenstein & Bugaric, 2020)

The impact of Hungarian policy extends beyond the country's borders and influences the perception of investors in Central and Eastern European countries that are closely linked to the Hungarian economy. Scholars argue that inconsistencies within the EU single market can affect investor confidence, ultimately impacting economic growth across the region. This fragmentation, coupled with Hungary's reluctance to fully integrate into the EU's financial systems, could lead to wider economic instability within the EU. (Grieß, 2024; Kaiser, 2024)

5. The EU's Response and Challenges

The European Union has adopted proactive measures to address concerns about governance and respect for democratic principles. Over the course of the pre-accession phase, it actively promoted compliance through the Copenhagen criteria required for accession, which concern access to justice, democracy, and the prevention of corruption. These issues, that were previously regarded as internal matters by the member states, were slowly incorporated into the accession policy of the EU. This approach has been acknowledged as being amongst the strongest foreign policy mechanisms of the EU ever, since the attractive prospect of membership is used as a strong motivator and incentive for the implementation of reforms. (Neuwahl & Kovacs, 2021)

Prior to the significant enlargement in 2004, it was considered advisable to revise the Treaties to introduce a separate mechanism for sanctions in relation to serious breaches of the rule of law, in addition to the fundamental values already mentioned: This led to Article 7 of the

Treaty on European Union. In spite of the presence of Article 7 as a sanctioning mechanism, the EU has faced significant challenges in implementing it. A number of circumstances explain the European Union's reluctance to react in this area. The reluctance stems from several factors, including the initial limitations of available mechanisms, the opposition from member states like Hungary, the claim that such issues fall within national jurisdiction, and the recognition of national identity as a core EU value outlined in the Lisbon Treaty. (Neuwahl & Kovacs, 2021; Sedelmeier 2016)

The limitations of Article 7 underscore the challenges in sanctioning illiberal democracies within the EU. For instance, Article 7 TEU allows the European Council to suspend specific rights of a member state that violates democratic principles outlined in Article 2 TEU, including voting rights or, potentially, budgetary funds. Nonetheless, deploying Article 7 has proven difficult due to the high voting thresholds required, which necessitate unanimity in the European Council and a two-thirds majority in the European Parliament. This complexity discourages member states from initiating Article 7 proceedings, fearing that failure could imply the absence of any infringement rather than a lack of political support (Sedelmeier, 2016). For example, Orbán publicly declared that Hungary would not support sanctions against Poland, signaling the protective alliances among illiberal governments within the EU. (Sedelmeier, 2016; Pech & Scheppele, 2017)

Due to the raise of illiberal practices across the European Union, foremost in Hungary, it has become urgent to confront this issue by enhancing and modifying the instruments of the EU in order to prevent or minimize the democratic backsliding. Since a judicialization of the safeguards is improbable, the institutions of the EU can try to impact the conduct of those governments. This could work either with material sanctions or social influence (Sedelmeier, 2016). The European Commission introduced the Rule of Law Framework in 2014 as a preventive measure. This framework provides a three-stage process involving dialogue between the Commission and the member state to address potential rule of law violations before invoking Article 7. The process includes an initial assessment, followed by recommendations, and finally monitoring to ensure compliance. If these steps fail, Article 7 can be considered. The Rule of Law Framework aims to increase transparency and create accountability, but its reliance on dialogue without binding consequences has limited its effectiveness, especially in cases where illiberal leaders resist EU pressure. (Sedelmeier, 2016; Pech & Scheppele, 2017)

In addition to that, the EU has attempted to leverage a form of social pressure to influence non-compliant states. By publicly criticizing breaches of democratic principles, the EU in-tends to create reputational costs for governments engaging in illiberal practices. This social pressure mechanism is further supported by tools such as the Justice Scoreboard, which monitors judicial systems across EU member states to promote transparency and accountability. However, despite its potential, the Justice Scoreboard and similar initiatives have limited enforceability and can be less impactful against governments determined to continue their illiberal policies. (Sedelmeier, 2016)

Moreover, scholars have argued for further structural reforms to strengthen the EU's ability to address rule of law violations. Pech and Scheppele (2017) propose that EU institutions could take a more assertive stance by streamlining the Article 7 process or enhancing the European Court of Justice's role in safeguarding EU values. For instance, the ECJ could be empowered to address systemic rule of law breaches directly, which would bypass some of the political limitations inherent in Article 7. However, such proposals face significant political obstacles, as they would require members states to concede more authority to EU institutions, a prospect viewed with caution by states prioritizing national sovereignty. (Pech & Scheppele, 2017)

With regards to material sanctions, Sedelmeier argues that it is challenging to apply substantive sanctions because of the issues that are accompanied with it, which is a mix of the preferences of the member states, voting rules, and party politics. In addition to this, there exists the risk to overestimate the potential of material sanctions when applying them. He states that they are less suitable to daunt governments the more they depend on illiberal actions to stay in office. (Sedelmeier, 2016)

Those high thresholds in voting are one reason why proposals seem to be a deterrent to refer back to Article 7 since potential proponents are hesitant to hand in a formal proposal because they worry about that failure will be taken as evidence that the law has not been violated, not just that the necessary political support has not been forthcoming. Using the example of Hungary, in October 2015, the S&D group did not support the ALDE group when they wanted to start a vote against Hungary, as they had not the majority that they needed for it and were worried that Orbán would not take them seriously. (Sedelmeier, 2016)

The third barrier when utilizing Article 7 is party politics, which said that one reason why the EU has not applied sanctions to Hungary yet is because the opposition of the EPP, where Fidesz belongs to. (Sedelmeier, 2016)

As the above-mentioned obstacles have shown, it is challenging for the European Union to apply material sanctions against member states that exert and trust in the usage of illiberal practices to preserve their power. One can argue that even when those countries face the threat of being kicked out of the EU, their leaders would still continue to use those practices. For this reason, other mechanisms need to be used by the EU. (Sedelmeier, 2016)

In conclusion, the EU's approach to handling illiberal democracies highlights the tension between respecting national sovereignty and upholding democratic values within its borders. While Article 7 and the Rule of Law Framework provide mechanisms for addressing rule of law breaches, both tools are hindered by procedural challenges and political dynamics. The EU's struggle to hold illiberal member states accountable illustrates the need for a comprehensive strategy that balances punitive and persuasive measures to preserve its democratic integrity.

6. Conclusion

This thesis has delved into the political and economic repercussions of Hungary's illiberal policies on the European integration process, examining in detail how Hungary's shift under Prime Minister Viktor Orbán toward a model of 'illiberal democracy' presents significant challenges to the cohesion and integrity of the European Union. As one of the first member states to adopt policies that sharply diverge from EU norms of democracy and rule of law, Hungary serves as a case study on how internal illiberal practices can disrupt both political and economic unity within a supranational organization founded on shared liberal democratic values.

The central finding of this research is that Hungary's illiberal practices, characterized by state control over the judiciary, media, civil society, and political system, fundamentally pose a challenge for EU standards of democracy, rule of law, and respect for human rights. This conclusion addresses the primary questions, underscoring how these policies directly conflict with the EU's values and create unprecedented tensions in the European integration process.

Hungary's illiberal practices manifest through systemic changes that reshape its democratic institutions, moving towards centralized control. Under Orbán's leadership, the government has reformed the judiciary to limit its independence, restricting checks and balances that are integral to a democratic system. New media laws and the centralization of media ownership, particularly through state-linked foundations, have restricted press freedom, creating an environment where pro-government narratives dominate public discourse. In civil society, restrictive laws on NGOs, particularly those funded by foreign sources, have marginalized voices critical of the government. Electoral reforms further entrench the ruling party's power, as changes to electoral district boundaries and campaign regulations favor incumbents. Altogether, these practices illustrate an illiberal democracy, where pluralism is weakened, opposition voices are sidelined, and power is concentrated within the executive.

The research shows that Hungary's departure from democratic norms has significant implications for the European integration process, both politically and economically. Politically, Hungary's alignment with illiberal allies, in particular Poland, has created divisions within the EU, challenging the cohesion necessary for collective decision-making and reducing the effectiveness of enforcement mechanisms like Article 7. This internal discord reveals a structural vulnerability within the EU, as illiberal states can align to block sanctions or reforms aimed at addressing democratic backsliding. Hungary's resistance to EU oversight on rule of law matters calls into question the EU's ability to uphold its core values consistently across member states, weakening its image as a unified democratic entity.

Economically, Hungary's illiberal policies have undermined the principles of the single market by fostering protectionism and favoring domestic companies over foreign investments. The Orbán administration's nationalistic approach, which includes selective taxation on foreign-dominated sectors (such as retail and finance) and public sector takeovers, discourages foreign investment, creating an unpredictable business environment that contrasts with the EU's market-oriented goals. This economic nationalism risks fragmenting the single market by signaling to other states that they, too, can adopt protectionist policies without facing significant consequences from the EU. Hungary's reluctance to adopt the Euro and engage fully in EU economic frameworks further isolates it economically, reducing integration and contributing economic disparities within the Union.

Hungary's illiberal shift has elevated perceptions of both political and economic risk within the EU. Politically, Hungary's continued resistance to rule of law mechanisms diminishes trust in the EU's internal governance, as other member states and global observers witness the EU's limited capacity to enforce its democratic standards. This heightened political risk, especially concerning governance stability and adherence to democratic norms, casts doubt on the EU's resilience as a cohesive union and impacts its reputation on the global stage.

From an economic perspective, Hungary's policies create a perception of increased risk for investors, in particular in Central and Eastern Europe, where concerns about regulatory instability and political interference in economic matters are growing. The lack of consistency in enforcing rule of law standards across the Union means that businesses face varying levels of regulatory risk depending on the member state. This unpredictability can reduce investment incentives, complicate market integration, and undermine the EU's attractiveness as a stable and predictable economic bloc.

The EU's response to Hungary's illiberalism highlights the complexities of addressing democratic backsliding within aa framework that prioritizes both member state sovereignty and collective governance. Mechanism such as Article 7 proceedings and the rule of law mechanism have been invoked in attempts to cub Hungary's democratic decline, but they have encountered significant challenges. Article 7, for instance, requires a unanimous vote among member states for penalties, a threshold that Hungary's allies, especially Poland, have leveraged to block action. This procedural limitation exposes a critical weakness in the EU's capacity to respond to internal threats to democracy, as political alliances among member states undermined enforcement efforts. Similarly, the rule of law mechanism, while symbolically significant, has had limited success in compelling compliance, as Hungary continues to frame EU interventions as violations of national sovereignty.

The findings of this thesis underscore the urgency for the EU to reassess its mechanisms for safeguarding democracy within its borders. The persistence of illiberal practices in Hungary and their disruptive effects on the European integration process reveal that current tools are insufficient to address internal challenges to EU values effectively. The EU could consider several strategic reforms, such as revisions Article 7 to lower the unanimity requirement or developing a new, independent body dedicated to monitoring and enforcing rule of law standards across member states. Enhanced cooperation with civil society organizations and independent watchdogs within member states could also support the EU's efforts, providing on-the-ground insights and promoting a grassroots defense of democratic norms.

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