

VIKTOR ORBÁN'S FIFTH GOVERNMENT ITS IMPLICATIONS FOR INVESTORS

Key takeaways from the restructuring of the Orbán Government following the 2022 parliamentary elections

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Following a landslide victory in the country's recent parliamentary elections, the new Fidesz-KDNP supermajority of the Hungarian National Assembly approved Prime Minister Viktor Orbán's proposed Government on 24th May, voting his fifth Cabinet of Ministers into office.

The fifth Orbán Government takes office following a major restructuring of the government structure. There is a clear focus on fixing the country's ailing economy, as Hungary faces multiple internal and external challenges, not least the economic and social impact of Russia's war against Ukraine.

Below, Aretera takes a deeper look at the results of the government restructuring, the likely government priorities, Hungary's political landscape, as well as possible implications for investors.

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POST-ELECTION LANDSCAPE

On 24th May, the ruling Fidesz-KDNP supermajority of the Hungarian National Assembly approved the ministerial composition of the new Hungarian government, voting Prime Minister Viktor Orbán's fifth (and fourth consecutive) Government into office.

The formation of the fifth Orbán Cabinet comes after the right-wing Fidesz-KDNP alliance, which has been in power since 2010, scored a landslide victory in the country's latest parliamentary elections on 3rd April¹. While the ruling bloc was largely expected to win, Fidesz performed considerably better than expected, receiving the absolute majority of the popular vote and more than two-thirds of parliamentary seats in Hungary's unicameral legislature, by winning in 87 of the 106 electoral districts.

Hungary's ideologically diverse moderate opposition parties, led by opposition candidate for Prime Minister Péter Márki-Zay, a centre-right small-town mayor, suffered a crushing defeat on 3rd April. The multi-party moderate opposition ran on a joint ticket (called United for Hungary) for the first time since 2010, however, their alliance massively underperformed pre-election polls: the opposition lost at least 850,000 votes compared to the 2018 elections.

Besides the two electoral blocs, the far-right and anti-vaccination Our Homeland party, which is ideologically closer to the ruling bloc than to the rest of the opposition, was the only formation that managed to pass the 5% threshold to enter parliament. Most opposition MPs voted against the new government, while others stayed away from the vote.

THE COMPOSITION OF THE HUNGARIAN PARLIAMENT

Party/Alliance	Number of MPs	Affiliation
Fidesz-Hungarian Civic Alliance (right-wing populist, Eurosceptic conservative)	117	Government
Christian Democratic People's Party (KDNP – right-wing populist, Eurosceptic conservative)	18	Government
Democratic Coalition (DK – centre-left, pro-EU)	15	Opposition
Momentum Movement (centrist-liberal, pro-EU)	10	Opposition
Hungarian Socialist Party (MSZP – centre-left, pro-EU)	10	Opposition
Jobbik (far-right-turned conservative, centre-right, socio-populist)	10	Opposition
Párbeszéd (Dialogue – green-leftist, pro-EU)	6	Opposition
Our Homeland (MHM – far-right, pro-Kremlin, anti-vaccination)	6	Opposition
Hungary's Green Party (LMP – green-centrist, pro-EU)	5	Opposition
Independents	1	Opposition
National Self-Government of Hungarian Germans (ethnic local government)	1	Confidence and supply
Total	199	

¹ See [here](#) for our overview of the 2022 Hungarian parliamentary elections held on 3 April

KEY TAKEAWAYS FROM THE RESTRUCTURING

Viktor Orbán's new Government enters office following a major restructuring by the Prime Minister. In addition to realigning several responsibility areas to different ministries, the new government includes three new ministries, as well as two new ministers without portfolio. Below, we provide an introduction to the new government and the headline results of the reshuffling:

- **An unlikely combination of powers and policy areas.** By and large, the most important structural change is the dissolution of the Ministry of Human Resources (EMMI). Often criticized for ineffectiveness by the opposition, this gigantic ministry was responsible for a vast number of social policy areas, including healthcare, science, public education, culture and social affairs, amongst much else. The EMMI will be succeeded by the Ministry of Culture and Innovation that will be responsible for a number of former EMMI policies, with several others to be assigned to other ministries. Most noteworthy, public education and healthcare have been assigned to the Ministry of Interior.
- **New and rebranded ministries.** In addition to the Ministry of Culture and Innovation, the new government includes a newly formed Construction and Investments Ministry and the Ministry of Technology and Industry, the latter being a rebranded version of the Innovation and Technology Ministry headed by László Palkovics, who will stay in government. Among the recipients of newly formed ministerial positions are former Deputy PM and Hungary's former EU Commissioner (2014-2019) Tibor Navracsics as Development and EU Funds Minister, as well as Márton Nagy, the former VP of the Hungarian National Bank, as Economic Development Minister. Both will serve as ministers without portfolio.
- **Newcomers and 'new-old' ministers.** While most cabinet members have kept their positions, the new government includes three members with no previous ministerial experience: Economic Development Minister Márton Nagy (a former central bank VP and the PM's former economic advisor), Culture and Innovation Minister János Csák and Defence Minister Kristóf Szalay-Bobrovniczky. In addition, two former members of the (second and third) Orbán Government have also returned: former Minister of the Prime Minister's Office (PMO) János Lázár (2014-2018) as Construction and Investments Minister and Tibor Navracsics as Territorial Development and EU Funds Minister. An additional key figure in the new government is former Deputy PM Minister Balázs Orbán who will serve as the PM's Political Director.
- **An economy-focused cabinet.** Of the 14 ministers of the fifth Orbán Cabinet, seven are responsible for policy areas focused on the economy and Hungary's economic recovery. The new government structure reflects the need to mitigate the economic impact of Russia's war against Ukraine and keep Hungary on an upward economic trajectory. Visibly less prioritized areas within the government structure include public education and healthcare, as well as environmental protection, with the latter assigned to the Technology and Industry Ministry.
- **A larger governmental focus on investments.** Overseeing the activities of the Hungarian Promotion and Investment Agency (HIPA), the Ministry of Foreign Affairs and Trade (MFAT) will likely continue to play the key role in courting foreign investments, in cooperation with and supported by other ministries. The newly formed Ministry of Construction and Investments – headed by former PMO Minister János Lázár – will be responsible for investment projects launched by the state, primarily in the construction sector and infrastructure.

GOVERNMENT & INVESTMENT PRIORITIES

The fifth Orbán Government has assumed office as Hungary faces challenges on multiple fronts, with Russia's war against neighbouring Ukraine being the most significant. Below, we outline the main priority areas of the new cabinet, as well as possible political scenarios:

- **Economy.** Keeping Hungary on an economic growth trajectory will be the main priority. Following a downturn in 2020, the Hungarian economy rebounded with a 7.1% GDP growth last year. While the war has dealt a severe blow to the country's growth prospects, the government, similar to the EU and the IMF, continues to expect economic expansion this year, although at a more modest, 3-4% level. As reflected by the new government structure, infrastructure, construction and the industry could be among key state spending areas.
- **State finances.** In the wake of sweeping pre-election spending, as well as the economic impact of the war, the energy crisis and skyrocketing inflation, a key task for the new cabinet will be to balance the budget, while countering the impacts of inflation. The government hopes to bring the fiscal deficit down to 4.9% of GDP this year (after a 6.8% deficit in 2020) and to 3.5% in 2023. Given Orbán has ruled out austerity measures on households, the government is considering additional taxes on multinationals, particularly (but not exclusively) in the energy sector. The Finance Ministry is expected to finalize the draft 2023 state budget by June.
- **Energy security.** Under Orbán's rule, Hungary has developed close political and economic relations with Russia, and become one of the most dependent EU countries on Russian fossil fuels². The Hungarian PM is also the most vocal critic of severing energy ties with Moscow, as well as imposing an oil embargo against the Kremlin over its actions in Ukraine. As relations between Russia and the West continue to deteriorate, the government is exploring ways of cutting dependence on Moscow, which could mean opportunities for Western energy investors. At the same time, the government is committed to continuing with the Russian-built extension of the country's sole nuclear power plant at Paks, in southern Hungary.
- **Foreign investments.** The Orbán Government has been actively focused on courting foreign investment from all possible directions, with foreign companies enjoying considerable government support for major initiatives. 2021 saw a record volume of FDI inflow worth €5.9 billion and Hungary's largest-ever FDI greenfield investment (by South Korean battery producer SK Innovation). Among the most recent investors is leading global automotive supplier KOSTAL Group, which announced the establishment of a new business services centre in Budapest on 24th May. In 2020, Asian countries overtook Germany as the leading investors in Hungary, surging from 47% to 60% of FDI from 2020 to 2021.
- **Automotive industry.** Ever since Orbán returned to power in 2010, his consecutive Governments have largely prioritized investments to Hungary's automotive sector, with the industry accounting for a considerable share in the country's GDP. Most recently, Hungary has placed special focus on electric vehicles (EVs) parts production, with the government aiming to make Hungary "a battery-producing superpower" and the third largest EV battery exporter in the EU by 2025. In recent years, HUF 2800 billion (€7.5 billion) has been invested in EV battery production by 20 (mostly Asian) companies, with more than 10% of the money [provided by the government](#) in some form of investment support.

² See [here](#) for our overview of Russia's war against Ukraine and its impact for CEE

- **Securing post-pandemic recovery funds.** The government is yet to secure billions of Euros in post-pandemic recovery funding from Brussels, which the European Commission – the top EU executive body – continues to block over concerns of endemic corruption around the allocation of EU-funded contracts. Including former (Fidesz-nominated) EU Commissioner Tibor Navracsics in the new government – as Territorial Development and EU Funds Minister – suggests Orbán is aiming for a compromise with the EU, with Minister Navracsics having pledged to negotiate the unblocking of the recovery funds by the end of the year. In a recent letter to the Commission, the PM also hinted at the possibility endorsing the bloc's oil embargo against Russia if the Commission releases the recovery funds for Hungary.
- **Preventing the loss of EU funds.** Hungary became the first target of the EU's much-debated rule-of-law conditionality mechanism, a new sanctions instrument that links the disbursement of EU funds to upholding democracy and the rule of law. Hungary has been locked in a long-running dispute with EU institutions over alleged democratic backsliding, and the months-long procedure could lead to the loss of EU funding under the EU's 2021-2027 budget (MFF), of which Hungary is a major beneficiary.
- **Cool relations with Brussels.** However, the primary focus of the EU is keeping its unity against Russian aggression and with the Orbán Government enjoying a strong mandate, this could prevent the Commission from imposing heavy sanctions on Budapest. Debates over democracy could push EU-Hungary relations to a new low, however despite Orbán's Eurosceptic policies, a Brexit-like departure attempt remains widely unlikely.

THE COMPOSITION OF THE NEW CABINET

Cabinet Member	Position	Portfolio/Responsibility
Viktor Orbán	Prime Minister	-
Zsolt Semjén	Deputy Prime Minister, Minister (without Portfolio)	Religion, Church Diplomacy and Hungarians Abroad
János Csák	Minister	Culture and Innovation
Gergely Gulyás	Minister	Prime Minister's Office
János Lázár	Minister	Construction and Investments
István Nagy	Minister	Agriculture
Márton Nagy	Minister (without Portfolio)	Economic Development
Tibor Navracsics	Minister (without Portfolio)	Territorial Development and EU Funds
László Palkovics	Minister	Technology and Industry
Sándor Pintér	Minister	Interior
Antal Rogán	Minister	Prime Minister's Cabinet
Kristóf Szalay-Bobrovniczky	Minister	Defence
Péter Szijjártó	Minister	Foreign Affairs and Trade
Judit Varga	Minister	Justice
Mihály Varga	Minister	Finance

A NEW GOVERNMENT & A NEW PRESIDENT

The formation of the new government comes shortly after Katalin Novák, Hungary's new President, was inaugurated on 14th May, succeeding two-term President János Áder. Prior to her election as President for a five-year term, Novák served as Fidesz's VP and was responsible for the party's foreign relations, in addition to having served as Family Affairs Minister in the fourth Orbán Cabinet.

A lawyer and economist by profession, Novák entered office as Hungary's first female President with years-long political experience. Given her experience in foreign affairs, President Novák – although holding a largely ceremonial role – will play a key role in Hungarian diplomacy, particularly given Hungary's often troubled relations with its Western partners.

Novák is regarded as one of Orbán's closest confidants, suggesting she will likely minimize political disputes with the Fidesz-led parliament around newly approved legislative programs. As its first major policy initiative, the Fidesz-KDNP majority voted to amend the Hungarian constitution, allowing the government to impose a state of emergency over wars in neighbouring countries, a bill that was heavily criticized by the opposition, but which President Novák has quickly signed into law. Shortly afterwards, PM Orbán announced a new state of emergency, effective from 25th May, allowing his government to suspend existing laws by government decrees under a special legal order. The government is expected to follow up with a series of anti-crisis measures in the coming weeks.

CONCLUSIONS

Sworn in on 24th May, Viktor Orbán's fifth Government entered office following a major restructuring by the Hungarian Prime Minister. His new government, which consists of 14 ministers, including three newcomers and two previous cabinet members in key positions, will primarily be focused on preventing a looming recession and mitigating the impacts of Russia's war against Ukraine.

In the wake of the devastating defeat of the moderate opposition, the legislative cycle of the ruling Fidesz-KDNP supermajority will be largely uninterrupted, allowing the government to pursue its political and policy objectives without interruption. Besides the economy, ensuring Hungary's energy security and securing crucial funding from the EU will be among the main challenges.

The government will also be heavily focusing on attracting new foreign investments, particularly to Hungary's automotive sector and EV battery industry, an area that has seen considerable growth in recent years due to increased government emphasis and support as Hungary aims to become one of the largest EV battery producers in the EU.

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