

GOVERNMENT RESTRUCTURING UNDERWAY IN HUNGARY

Key takeaways from the first major restructuring of the fifth Orbán Government

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EXECUTIVE SUMMARY

Government restructuring is underway in Hungary after last week's announcement confirming the resignation of Technology and Industry Minister László Palkovics and the subsequent dissolution of his ministry, the TIM, effective from 1st December.

The responsibilities of the TIM will be transferred to Hungary's economic development, construction and investment, as well as culture and innovation ministries, while the government will also set up an energy ministry; a policy decision Palkovics reportedly disagreed with, leading to his resignation. The new energy ministry will be led by former business executive Csaba Lantos.

Accompanied by the resignation of other, lower-ranking government officials, the dissolution of the Ministry of Technology and Industry marks the first major government restructuring in Hungary since Prime Minister Viktor Orbán formed his fifth government in May. However, it is unlikely to be the last, with other sweeping changes rumoured to be in the offing.

Below, we provide further insight into the ongoing government restructuring and its implications for international businesses.

This memo will cover:

-  the impacts of the reshuffling on policy areas and ministries,
-  the new composition of the fifth Orbán Government,
-  the key political and public policy takeaways from the restructuring,
-  a short-term outlook on Hungary's current affairs and its economy.

ENERGY CRISIS LEADS TO CABINET SHAKE-UP

On 14th November, the Hungarian government – following a week of media speculation – officially confirmed the resignation of Technology and Industry Minister László Palkovics, as well as the subsequent dissolution of his Ministry, the TIM.

As confirmed by Minister of the Prime Minister's Office (PMO) Gergely Gulyás, the government will set up a separate Energy Ministry, headed by Csaba Lantos, the former Deputy CEO of OTP, Hungary's largest commercial bank, and the former President of energy firm MET Holding. On the advice of Economic Development Minister Márton Nagy, Hungarian Prime Minister Viktor Orbán – largely in the wake of Europe's energy crisis – decided to set up a ministry dedicated solely to energy policy, which Palkovics allegedly disagreed with, leading to his resignation and the dissolution of the TIM. Palkovics, who has held several state secretarial and ministerial roles in consecutive Orbán Governments, will continue as the CEO of the N7 National Defence Industry & Innovation Holding Company, an SOE supervised by the Ministry of Defence.

In line with PM Orbán's decision, Minister of the Prime Minister's Cabinet Office (PMCO) Antal Rogán will supervise the TIM until the Lantos-led Energy Ministry will be set up on 1 December. The responsibilities of the TIM will be transferred to and divided between the Economic Development Ministry, the Ministry of Construction and Investments and the Ministry of Culture and Innovation.

THE NEW COMPOSITION OF THE FIFTH ORBÁN CABINET

Revised Cabinet Structure Effective from 1 st December 2022		
Cabinet Member	Position	Portfolio/Responsibility
Viktor Orbán	Prime Minister	-
Zsolt Semjén	Deputy PM	Religion & Hungarians Abroad
János Csák	Minister	Culture, Innovation, Higher Education
Gergely Gulyás	Minister	Prime Minister's Office (PMO)
Csaba Lantos	Minister	Energy
János Lázár	Minister	Construction, Investments & Transport
István Nagy	Minister	Agriculture
Márton Nagy	Minister	Economic Development
Tibor Navracsics	Minister (without Portfolio)	EU Funds and Regional Development
Sándor Pintér	Minister	Interior
Antal Rogán	Minister	Prime Minister's Cabinet Office (PMCO)
Kristóf Szalay-Bobrovniczky	Minister	Defence
Péter Szijjártó	Minister	Foreign Affairs & Trade
Judit Varga	Minister	Justice
Mihály Varga	Minister	Finance

KEY TAKEAWAYS FROM THE NEW GOVERNMENT STRUCTURE

The dissolution of the TIM and Palkovics's subsequent resignation mark the first major government restructuring since Viktor Orbán formed his fifth – and fourth consecutive – government. Sworn in by the Hungarian parliament in May after a landslide victory of the ruling Fidesz-KDNP alliance¹ in April, the structure of the fifth Orbán Cabinet² has been widely seen as experimental, giving reason to believe that ongoing restructuring would follow.

In addition to Palkovics, others leaving the Orbán Government include State Secretary for Transportation Policy Dávid Vitézy, State Secretary for Defence Policy and Military Development Gáspár Maróth, and Szilvia Fekete, the Deputy State Secretary for Defence Industry and Procurement, with other lower-ranking government officials likely to be added to this list. Vitézy is rumoured to be a possible Fidesz candidate to run for Budapest Lord Mayor in Hungary's 2024 local elections, although he has repeatedly rejected this in the past.

In addition, the restructuring will add several responsibility areas to Economic Development Minister Márton Nagy, as well as to Construction and Investments Minister János Lázár and (temporarily) to Antal Rogán, Minister of the Prime Minister's Cabinet Office (PMCO), all of whom are already among the most influential members of the Orbán Cabinet.

Economic Development Minister Nagy, who has so far served as Minister without Portfolio, has already emerged as the primary cabinet member when it comes economic policy decision-making, while the responsibilities of the Rogán-led PMCO, the primary task of which is government communications, have steadily grown in recent months. The PMCO also supervises an unlikely combination of responsibility areas, including digital policies, certain aspects of defence policy, Hungary's civilian secret services, tourism and the government's public image.

János Lázár served as Minister of the Prime Minister's Office between 2014 and 2018 but was left without a ministerial role after the 2018 election, leading to speculation that he had lost political influence. However, PM Orbán invited him back into the government in May as Construction and Investments Minister, with his Ministry now also supervising transport and public transportation.

MORE DETAILS TO FOLLOW

Industry-related portfolios such as the labour market and industrial development, which once belonged to the Palkovics-led TIM, are expected to be assigned to the Economic Development Ministry. Given the lack of a separate environment and climate ministry, portfolios related to environmental protection, climate change, the circular economy, green transition and sustainable development are likely to be moved to the soon-to-be-established Ministry of Energy.

However, the government is yet to clarify the exact responsibility areas, including that of incoming Energy Minister Lantos, who reportedly hopes to invest more in wind energy production, an area restricted by the Orbán Government for years. It is also yet to be seen whether Lantos will supervise Hungary's controversial Rosatom-backed nuclear power plant extension in the city of Paks, currently being managed by Foreign Affairs and Trade Minister Péter Szijjártó.

¹ See [here](#) for Aretera's overview of the Hungarian parliamentary elections from April 2022

² See [here](#) for Aretera's overview of the formation of the fifth Orbán Cabinet from May 2022

The restructuring, which the Orbán Cabinet wants to conclude in two weeks, is likely to cause interruptions and/or additional challenges for businesses in their outreach to government officials. Engagement with government stakeholders will be further complicated by the fact that Hungary's unique cabinet structure also includes numerous overlapping responsibilities. Of the 13 ministries, seven will be dealing with issues related to economic policy making from 1st December.

LOOKING AHEAD

The partial restructuring of the Orbán Cabinet comes as Hungary is braced for an economic downturn. Recent data from the country's statistical office KSH [shows](#) that while the Hungarian economy grew by a respectable 4.1% year-on-year in the third quarter, the country is likely heading into technical recession, with third-quarter GDP slowing by 0.4% in comparison with the second quarter. Inflation in Hungary is among the highest in the European bloc, while the value of the country's national currency, the Forint, has significantly deteriorated in recent months.

With Hungary among the economically most impacted countries by Russia's war against Ukraine, the economic fallout has forced the ruling Fidesz party to introduce sectoral windfall taxes³ across a number of industries, austerities⁴ on the SME sector, as well as to reverse price caps on household energy prices by limiting discounts to below-average energy consumption. These policies were followed by additional austerity measures in recent months. The government argues that the EU's sanctions policy against Russia over Ukraine – or at least part of it – should be reversed to ease the economic situation; a position unlikely to gain further support among EU member states.

All this comes as the European Commission and the Council of the EU are yet to greenlight cohesion funds and post-pandemic recovery funding for Hungary, blocked over rule-of-law and corruption concerns from Brussels. The government in Budapest has made a vast number of concessions and vowed to take a stand against corruption and in support of strengthening the independence of the judiciary. However, it remains to be seen if and when the EU will unblock the funds, especially in light of Hungary's decision to block joint EU financial aid to war-torn Ukraine. At the same time, our baseline scenario assumes that Hungary will receive at least part of the cohesion and/or the recovery funds dedicated to the country. A settlement between Budapest and Brussels would positively impact Hungary's outlook and economic stability in the short term.

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³ See [here](#) for Aretera's overview of sectoral windfall taxes in Hungary from May 2022

⁴ See [here](#) for Aretera's overview of recent austerity policies in Hungary from July 2022